

East Fallowfield Township, Pennsylvania

Financial Report
December 31, 2009

East Fallowfield Township, Pennsylvania

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Fallowfield Township, Pennsylvania, as of and for the year ended December 31, 2009, 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, 2009, 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.

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
July 25, 2011

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

This section of the 2009 East Fallowfield Township annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2009. 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, 2009 totaled \$10,550,250, a decrease of \$25 from 2008. Net Assets were comprised of capital assets, net of depreciation, in the amount of \$8,921,399, and unrestricted current assets consisting of cash and accounts receivable, net of liabilities totaling \$1,628,851.

During 2009 the Township's total revenue was \$2,955,311 and was \$25 less than expenses that totaled \$2,955,336, Revenue increased by \$163,182 from 2008. The increase, however, was principally due to the inflow of grant revenue that increased by \$389,316 and fees for Township services that increased by \$42,465. Revenue generated from all other sources decreased in aggregate by \$268,599 and can be attributed to the impact of the economic recession on resident's earned income taxes, real estate transfer taxes, and permit fees, three primary sources of revenue to the Township.

Township expenses in 2009 increased by \$156,222 from 2008. The Township was able to effectuate significant reductions in controllable expenditures totaling \$81,290 that included the cost of code enforcement, general government salaries, sanitation costs, and culture and recreation spending. Uncontrollable costs for public safety, however, consisting of expenses for the Police Department and highway maintenance during inclement weather, increased by \$237,512.

On the legally enacted budgetary basis, the Township's General Fund ended the fiscal year with a decrease in fund balance of \$34,955 compared to a decrease in fund balance of \$231,201 in 2008. The significant turnaround was the result of prudent planning for anticipated reduced revenues in 2009 from the impact of the economic recession and reducing spending where practical and feasible.

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.

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 is 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 cultural and recreation. Earned income taxes, grants, and charges for municipal services finance most of the Township's activities.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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.

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENT-WIDE STATEMENTS

The Township's total net assets were \$10,550,275 and \$10,550,250 on December 31, 2008 and 2009, respectively. The decrease of \$25 was comprised of an increase in cash and accounts receivable of \$215,214, a \$14,158 reduction in current and noncurrent liabilities, and a \$229,397 reduction in the net book value of capital assets. The decrease in capital assets was solely due to the annual depreciation of the capital assets. The following table presents condensed financial information comparing Net Assets as of December 31, 2008 and 2009:

	Net Assets December 31,	
	Governmental Activities 2008	2009
Assets		
Current and other assets	\$ 1,587,879	\$ 1,803,093
Capital assets, net	9,150,796	8,921,399
Total assets	10,738,675	10,724,492
Liabilities		
Current and other liabilities	166,810	161,617
Noncurrent liabilities	21,590	12,625
Total liabilities	188,400	174,242
Net Assets		
Invested in capital assets	9,150,796	8,921,399
Unrestricted	1,399,479	1,628,851
Total net assets	\$ 10,550,275	\$ 10,550,250

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENT-WIDE STATEMENTS (Continued)

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 the trash fees.

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 2008 to 2009:

	Governmental Activities	
	2008	2009
Revenues		
Program revenues:		
Charges for services	\$ 1,067,475	\$ 1,109,940
Operating grants and contributions	363,740	338,103
Capital grants and contributions	62,500	451,816
General revenues:		
Taxes	1,050,195	930,509
Other revenue	158,222	124,943
Gain on sale of capital assets	6,997	-
Fees for water connections	83,000	-
Total revenues	<u>2,792,129</u>	<u>2,955,311</u>
Expenses		
General government	460,741	446,515
Public safety	971,015	1,064,164
Codes	90,921	44,192
Public works - sanitation	580,173	565,851
Public works - highways	432,905	577,268
Culture and recreation	40,910	27,949
Unallocated depreciation	222,449	229,397
Total expenses	<u>2,799,114</u>	<u>2,955,336</u>
Change in net assets	<u>\$ (6,985)</u>	<u>\$ (25)</u>

During 2009 the Township's total revenue was \$2,955,311 and increased by \$163,182 from 2008. The increase was due to greater revenue from charges for trash services of \$42,465 and significant greater capital grant revenues totaling \$389,316. Revenue generated from all other sources decreased in aggregate by \$268,599 and can be attributed to the impact of the economic recession on three primary sources of revenue to the Township; resident's earned income taxes, real estate transfer taxes, and permit fees.

Township expenses in 2009 increased by \$156,222 from 2008. The Township was able to effectuate significant reductions in controllable expenditures totaling \$81,290 that included the cost of code enforcement, general government salaries, sanitation costs, and culture and recreation spending. Uncontrollable costs for public safety, however, consisting of expenses for the Police Department and highway maintenance during inclement weather, increased by \$237,512.

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.

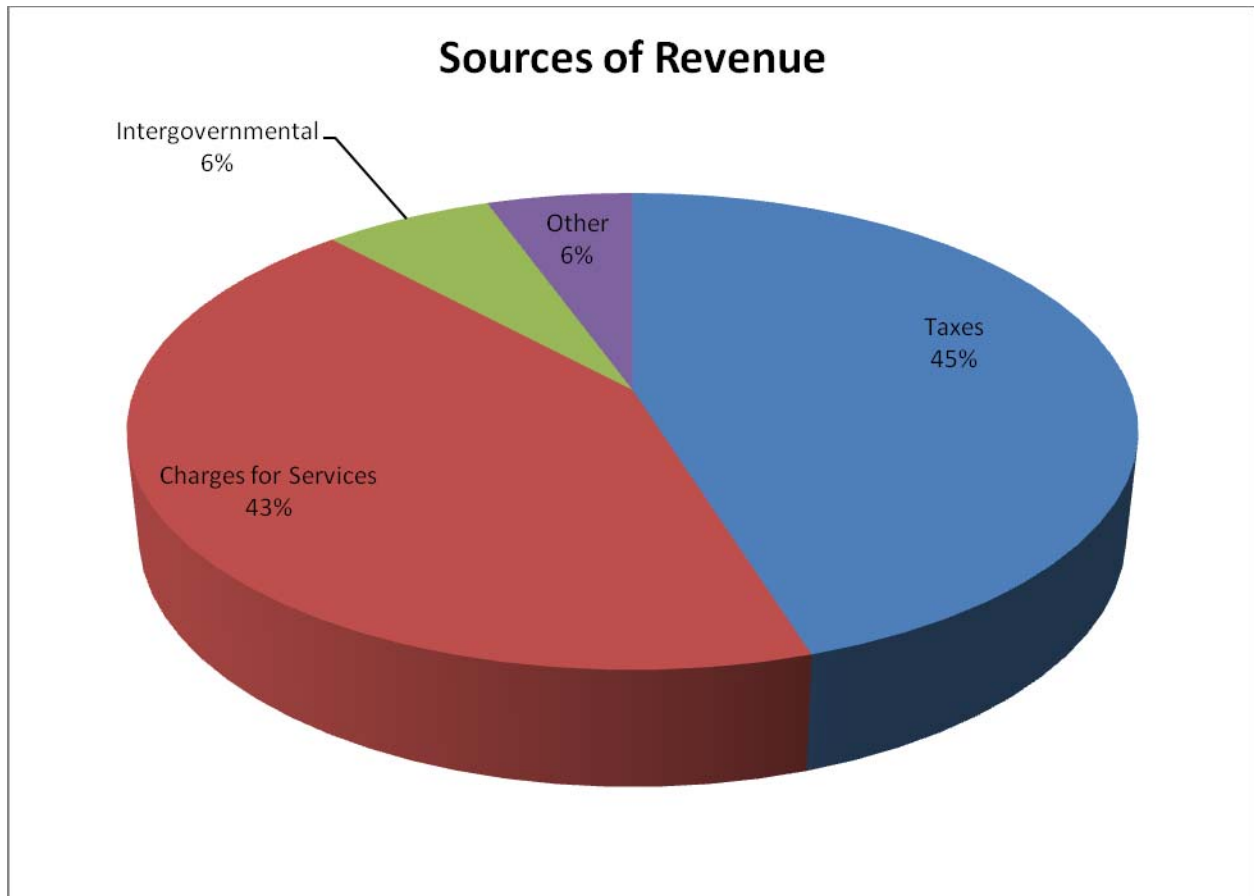
General Fund

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 a decrease in fund Balance of \$34,955 compared to a decrease in fund balance of \$231,201 in 2008. The significant turnaround was the result of planning for anticipated reduced revenues from the impact of the economic recession and reducing spending where practical and feasible. The following table compares the actual revenues and expenditures for 2008 and 2009:

	2008	2009	Variance
Revenues			
Taxes	\$ 970,103	\$ 1,049,547	\$ 79,444
Licenses and permits	113,546	107,753	(5,793)
Fines and forfeits	26,742	12,785	(13,957)
Interest earned	9,386	2,748	(6,638)
Intergovernmental revenues	170,478	148,571	(21,907)
Charges for services	884,510	997,968	113,458
Miscellaneous revenues	9,813	4,931	(4,882)
Total revenues	2,184,578	2,324,303	139,725
Expenditures			
General government	500,272	445,037	(55,235)
Public safety	971,282	1,054,246	82,964
Codes	90,921	44,192	(46,729)
Public works - sanitation	580,173	565,851	(14,322)
Public works - highways	313,299	358,341	45,042
Culture and recreation	52,990	20,752	(32,238)
Total expenditures	2,508,937	2,488,419	(20,518)
Other Financing Sources (Uses)			
Refund of prior year expenditures	-	187,500	187,500
Transfer of excess refund	-	(58,339)	(58,339)
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	93,158	129,161	36,003
Net change in fund balance	(231,201)	(34,955)	\$ 196,246
Fund balance, beginning	508,321	277,120	
Fund balance, ending	\$ 277,120	\$ 242,165	

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS (Continued)

Annual budgeting for the General Fund is based on four primary sources of revenue. The following chart illustrates each source's contribution by percentage. Earned income taxes and real estate transfer taxes contributed 45% of the General Fund's total revenues. Fees generated from trash collection contributed 43%. These two sources combined to contribute 88% of the General Fund's revenue. Revenues from "other" sources total 6% and included interest earnings, inter-fund transfers, and fines. Intergovernmental revenues accounted for the remaining 6% of the General Fund's revenue.



General Fund Budgeted Revenues

The 2009 revenues from taxes were \$160,453 less than budgeted due to the downturn in the housing market, which resulted in lower than budgeted real estate transfer tax revenues. Charges for services was \$56,274 higher than budgeted, primarily due to trash revenues that were \$108,000 higher than budgeted and a \$65,000 decrease in actual building permit revenues from the budgeted amount. The other revenues were relatively consistent with the overall budget projections.

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS (Continued)

General Fund Budgeted Expenditures

Departmental expenditures were under-budget for several work areas in 2009. General Government, Public Safety, Sanitation and Culture and Recreation were over-budget during the year. Final expenditures were \$35,475 under the budget. Overall, the result of last year's operations was a decrease in fund balance of \$34,955.

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2009

	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,210,000	\$ 1,210,000	\$ 1,049,547	\$ (160,453)
Licenses and permits	81,000	81,000	107,753	26,753
Fines and forfeits	30,000	30,000	12,785	(17,215)
Interest earned	30,000	30,000	2,748	(27,252)
Intergovernmental revenues	125,000	125,000	148,571	23,571
Charges for services	941,694	941,694	997,968	56,274
Miscellaneous revenues	27,200	27,200	4,931	(22,269)
Total revenues	<u>2,444,894</u>	<u>2,444,894</u>	<u>2,324,303</u>	<u>(120,591)</u>
Expenditures				
General government	418,870	418,870	445,037	(26,167)
Public safety	1,024,124	1,024,124	1,054,246	(30,122)
Codes	89,800	89,800	44,192	45,608
Public works - sanitation	553,000	553,000	565,851	(12,851)
Public works - highways	417,900	417,900	358,341	59,559
Culture and recreation	20,200	20,200	20,752	(552)
Total expenditures	<u>2,523,894</u>	<u>2,523,894</u>	<u>2,488,419</u>	<u>35,475</u>
Excess (deficiency) of revenues over expenditures	<u>(79,000)</u>	<u>(79,000)</u>	<u>(164,116)</u>	<u>(85,116)</u>
Other financing sources (uses)				
Other	79,000	79,000	129,161	50,161
Total other financing sources (uses)	<u>79,000</u>	<u>79,000</u>	<u>129,161</u>	<u>50,161</u>
Net change in fund balance	-	-	(34,955)	(34,955)
Fund balance, January 1,	-	-	277,120	277,120
Fund balance, December 31,	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,165</u>	<u>\$ 242,165</u>

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS (Continued)

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 2009, subsidies received totaled \$189,533. Liquid Fuels Fund expenses totaled \$216,995. As of December 31, 2009, the Liquid Fuels Fund had a fund balance of \$241,016.

Capital Projects Fund

The Township maintains a Capital Projects Fund for the purpose of funding acquisitions of capital assets. During 2009, there was nominal activity in the Capital Projects Fund, exclusive of earned interest in the amount of \$3,312. As of December 31, 2009, the fund balance of the Capital Projects Fund amounted to \$574,832.

Parks and Recreation Fund

The Township maintains a Park 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. During 2009, the Parks and Recreation Fund received \$251,816 of grant funding and \$42,000 of "in lieu of" funding. Grant proceeds pertained principally to reimbursement for expenditures made in prior years for the expansion and improvement of the East Fallowfield Community Park. As of December 31, 2009 the fund balance of the Parks and Recreation Fund was \$354,959.

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

CAPITAL ASSETS

As of December 31, 2009, the Township had \$8,921,399 of value in a broad range of Capital Assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net decrease of \$229,397 in value from 2008 that is attributed solely to the annual depreciation for the assets.

The following schedule delineates the ending value of Capital Assets for the period ending December 31, 2009 and changes in each capital asset category:

	Beginning Balance	Increases	Decreases	Ending Balance
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	704,538	-	-	704,538
Machinery and equipment	221,655	-	-	221,655
Total capital assets	10,453,227	-	-	10,453,227
Accumulated depreciation				
Park improvements	7,799	15,598	-	23,397
Building and improvements	136,048	12,884	-	148,932
Infrastructure	540,890	107,614	-	648,504
Vehicles	506,800	69,826	-	576,626
Machinery and equipment	110,894	23,475	-	134,369
Total accumulated depreciation	1,302,431	229,397	-	1,531,828
Capital assets, net	\$ 9,150,796	\$ (229,397)	\$ -	\$ 8,921,399

THE TOWNSHIP'S FUTURE

The economy remains stagnant, with increasing unemployment. Revenues which continue to be inconsistent and lower than budgeted have left the Township with a decrease in fund balance for 2009, despite holding expenditures to below budgeted amounts. In 2010 the Township saw a continued leveling of earned income tax revenues, real estate transfer taxes and interest income. Our challenge will be to manage expenses in order to provide the same levels of service to our residents.

THE TOWNSHIP'S FUTURE (Continued)

In December 2007, the country began experiencing the longest recession since World War II. While most recessions last a year, it was not until 18 months later on September 19, 2010, that the National Bureau of Economic Research (NBER) advised that the recession had ended. Many economists, however, cautioned that that recovery would be slow and extend for many years. In September 2010, Federal Reserve Chair Bernanke advised that the annual core inflation rate (which excludes the volatile energy and food costs) increased by only .8%. This was the lowest 12-month increase since March 1961. He warned of the possibility of deflation with a cycle of slow growth, stagnant falling prices and high unemployment. A recent report released by the Center on Budget and Policy Priorities stated that, "At least 46 states struggled to close shortfalls when adopting budgets for the current fiscal year" (years beginning July 1, 2010). The report noted that states faced sharply constrained budgets in 2011 and that most states balanced the budget gaps with a combination of spending cuts and revenue increases. Governor Rendell's Executive Budget Overview for the 2011 Budget, for the Commonwealth of Pennsylvania advised that Pennsylvania's future economic performance would be largely dependent on job growth. On a positive note, Pennsylvania's job losses have been lower than the national average and decreases have been less dramatic than those experienced in surrounding states of New Jersey, Delaware, and Ohio. In addition, the Pennsylvania Department of Revenue, after many years of declining sales and use taxes, is projecting growth of 6% in 2010-2011 based on higher projected consumer spending.

It is 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, 2009

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,364,393
Receivables:	
Taxes receivable, net	201,158
Intergovernmental	160,053
Other	57,468
Prepaid items	20,021
Total current assets	<u>1,803,093</u>
Capital Assets	
Land	3,050,001
Other capital assets, net of depreciation	5,871,398
Total capital assets, net	<u>8,921,399</u>
Total assets	<u>10,724,492</u>
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	72,939
Escrow fund payable	44,673
Accrued payroll	32,671
Payroll deductions and withholdings	11,334
Total current liabilities	<u>161,617</u>
Noncurrent Liabilities	
Compensated absences	12,625
Total noncurrent liabilities	<u>12,625</u>
Total liabilities	<u>174,242</u>
Net Assets	
Invested in capital assets	8,921,399
Unreserved	1,628,851
Total net assets	<u>\$ 10,550,250</u>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Statement of Activities

Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
General government	\$ 446,515	\$ 31,561	\$ 6,745	\$ -	\$ (408,209)
Public safety	1,064,164	39,866	118,406	-	(905,892)
Codes	44,192	205,487	-	-	161,295
Public works - sanitation	565,851	791,026	23,419	-	248,594
Public works - highways	577,268	-	189,533	-	(387,735)
Culture and recreation	27,949	42,000	-	451,816	465,867
Unallocated depreciation expense	229,397	-	-	-	(229,397)
Total governmental activities	\$ 2,955,336	\$ 1,109,940	\$ 338,103	\$ 451,816	(1,055,477)
General revenues					
Taxes:					
					752,429
					163,596
					14,484
					107,753
					7,486
					9,704
					<u>1,055,452</u>
					(25)
					<u>10,550,275</u>
					<u>\$ 10,550,250</u>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Balance Sheet - Governmental Funds
December 31, 2009

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
Assets					
Cash	\$ 429,406	\$ 574,832	\$ 52,234	\$ 307,921	\$ 1,364,393
Receivables:					
Earned income tax	182,936	-	-	-	182,936
Local services tax	970	-	-	-	970
Real estate transfer tax	17,252	-	-	-	17,252
Trash fees	55,068	-	-	-	55,068
Intergovernmental	-	-	160,053	-	160,053
Other	2,400	-	-	-	2,400
Prepaid items	20,021	-	-	-	20,021
Due from other funds	1,134	-	29,480	146,200	176,814
Total assets	\$ 709,187	\$ 574,832	\$ 241,767	\$ 454,121	\$ 1,979,907
Liabilities and Fund Balances					
Liabilities					
Due to other funds	\$ 122,325	\$ -	\$ -	\$ 99,162	\$ 221,487
Accounts payable and accrued liabilities	72,188	-	751	-	72,939
Accrued payroll	32,671	-	-	-	32,671
Payroll deductions and withholdings	11,334	-	-	-	11,334
Deferred revenue	228,504	-	-	-	228,504
Total liabilities	467,022	-	751	99,162	566,935
Fund Balances					
Reserved for:					
Prepaid items	20,021	-	-	-	20,021
Unreserved, reported in:					
General fund	222,144	-	-	-	222,144
Special revenue funds	-	-	241,016	354,959	595,975
Capital projects fund	-	574,832	-	-	574,832
Total fund balances	242,165	574,832	241,016	354,959	1,412,972
Total liabilities and fund balances	\$ 709,187	\$ 574,832	\$ 241,767	\$ 454,121	\$ 1,979,907

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Reconciliation of Total Governmental Fund
Balances to Net Assets of Governmental Activities
December 31, 2009

Total fund balances - governmental funds	\$ 1,412,972
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 \$1,531,828.	8,921,399
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.	(12,625)
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.	57,188
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>171,316</u>
Total net assets - governmental activities	<u>\$ 10,550,250</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, 2009

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
Revenues					
Taxes					
Earned income	\$ 871,467	\$ -	\$ -	\$ -	\$ 871,467
Real estate transfer	163,596	-	-	-	163,596
Local services	14,484	-	-	-	14,484
Total taxes	1,049,547	-	-	-	1,049,547
Licenses and permits	107,753	-	-	-	107,753
Fines and forfeits	12,785	-	-	-	12,785
Interest	2,748	3,312	719	707	7,486
Intergovernmental revenues	148,571	-	189,533	251,816	589,920
Charges for services					
Trash fees	733,838	-	-	-	733,838
Building permits	131,034	-	-	-	131,034
Road and commercial permits	74,453	-	-	-	74,453
Fee in lieu	-	-	-	42,000	42,000
Other	58,643	-	-	-	58,643
Miscellaneous revenues	4,931	-	4,500	12,773	22,204
Total revenues	2,324,303	3,312	194,752	307,296	2,829,663
Expenditures					
General government	445,037	704	-	-	445,741
Public safety	1,054,246	-	-	-	1,054,246
Codes	44,192	-	-	-	44,192
Public works - sanitation	565,851	-	-	-	565,851
Public works - highways	358,341	-	216,995	-	575,336
Culture and recreation	20,752	-	-	7,197	27,949
Total expenditures	2,488,419	704	216,995	7,197	2,713,315
Excess (deficiency) of revenues over expenditures	(164,116)	2,608	(22,243)	300,099	116,348
Other financing sources (uses)					
Refund of prior year expenditures	187,500	-	-	-	187,500
Transfer of excess refund - parks and recreation fund	(58,339)	-	-	58,339	-
Total other financing sources (uses)	129,161	-	-	58,339	187,500
Net change in fund balances	(34,955)	2,608	(22,243)	358,438	303,848
Fund balance, January 1	277,120	572,224	263,259	(3,479)	1,109,124
Fund balance, December 31	\$ 242,165	\$ 574,832	\$ 241,016	\$ 354,959	\$ 1,412,972

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, 2009

Total net change in fund balances - governmental funds	\$ 303,848
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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 depreciation exceeds capital outlays in the period.

Capital outlays	\$ -	
Depreciation expense	<u>(229,397)</u>	(229,397)

Because some earned income taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred earned income tax revenues decreased by this amount this year. (101,405)

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. 8,965

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. 17,964

Change in net assets of governmental activities	<u><u>\$ (25)</u></u>
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See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Statement of Assets and Liabilities - Agency Fund
December 31, 2009

	Agency
Assets	
Cash and cash equivalents	\$ 355,216
Contractor receivables	205,568
Due from other funds	<u>132,535</u>
Total assets	<u><u>\$ 693,319</u></u>
Liabilities	
Contractor deposits	\$ 236,212
Due to other funds	87,862
Deposits held for West Chester Road	195,643
Reserved for escrow liabilities	<u>173,602</u>
Total liabilities	<u><u>\$ 693,319</u></u>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Notes to Financial Statements

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 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:

East Fallowfield Township, Pennsylvania

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (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

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

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, 2009, 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

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, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 3,050,001	\$ -	\$ -	\$ 3,050,001
Total capital assets, not being depreciated	3,050,001	-	-	3,050,001
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	704,538	-	-	704,538
Machinery and equipment	221,655	-	-	221,655
Total capital assets, being depreciated	7,403,226	-	-	7,403,226
Less accumulated depreciation for:				
Park improvements	7,799	15,598	-	23,397
Building and improvements	136,048	12,884	-	148,932
Infrastructure	540,890	107,614	-	648,504
Vehicles	506,800	69,826	-	576,626
Machinery and equipment	110,894	23,475	-	134,369
Total accumulated depreciation	1,302,431	229,397	-	1,531,828
Total capital assets being depreciated, net	6,100,795	(229,397)	-	5,871,398
Governmental activities capital assets, net	\$ 9,150,796	\$ (229,397)	\$ -	\$ 8,921,399

Note 3. Interfund Receivables and Payable

Interfund receivable and payable balances of each individual fund as of December 31, 2009 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	\$ 122,325
Liquid Fuels Fund	29,480	-
Escrow Fund	132,535	87,862
Parks and Recreation Fund	146,200	99,162
	\$ 309,349	\$ 309,349

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

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 \$12,779 to the plan in 2009.

Police Pension Plan: The Township sponsors a defined benefit plan for police. As of December 31, 2009, 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, 2009, 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	1	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, 2009 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	<u>\$ 54,675</u>
Contributions made	<u>\$ 54,695</u>
Valuation Date	January 1, 2007
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	15 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 Pension Cost (APC)	Police % Contributed	Non-Uniform % Contributed
2007	\$ 40,625	\$ 14,791	100.0	100.0
2008	46,428	9,746	100.0	100.0
2009	54,675	12,779	100.0	100.0

Funded Status and Funding Progress: The following is funded status information as of January 1, 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	\$ 603,798	\$ 660,682	\$ 56,884	91.39%	\$ 460,707	12.35%

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 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.

East Fallowfield Township, Pennsylvania

Notes to Financial Statements

Note 5. Cash (Continued)

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 \$1,719,609 and the corresponding bank balance was \$1,898,436. Of the bank balance, \$503,624 was covered by federal depository insurance, and \$1,394,812 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 January 1, 2009	Additions	Retirements	Balance December 31, 2009
\$ 21,590	\$ 37,709	\$ (46,674)	\$ 12,625

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.

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.

East Fallowfield Township, Pennsylvania

Notes to Financial Statements

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

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

Excess of Expenditures over Appropriations: For the year ended December 31, 2009, expenditures exceeded the budget in General Fund – General Government in the amount of \$26,167, General Fund – Public Safety in the amount of \$30,122, General Fund – Public Works Sanitation in the amount of \$12,851, and General Fund – Culture and Recreation in the amount of \$552. 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.

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. Subsequent Events

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 reflected a liability in the amount of \$21,400 as of December 31, 2009. The amount was paid during 2010.

East Fallowfield Township, Pennsylvania

Notes to Financial Statements

Note 11. Subsequent Events (Continued)

Subsequent to year end, the Pennsylvania Auditor General conducted a compliance audit of the Township's Non-Uniform Pension Plan. The audit report noted that the Township had not remitted the appropriate amounts to the Non-Uniform Pension Plan during the year ended December 31, 2008 and had received an overpayment of State Aid due to incorrect certification of pension data for the years ended December 31, 2009 and 2010. During 2011, the amount of \$1,998, plus interest was paid to the Non-Uniform Pension Plan and the amounts of \$3,437 and \$3,353 were paid to the Commonwealth of Pennsylvania for the overpayment of the 2009 and 2010 State Aid, respectively.

East Fallowfield Township, Pennsylvania
 Required Supplementary Information
 Schedule of Pension Funding Progress - Police Pension Plan
 Six Years Ended December 31, 2009

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)
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%
2009	603,798	660,682	56,884	91.39%	460,707	12.35%

* 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, 2009

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 19,745	100%
2005	19,154	100%
2006	25,400	100%
2007	40,625	100%
2008	46,428	100%
2009	54,675	100%

East Fallowfield Township, Pennsylvania

Notes to Required Supplementary Information – Police Pension Plan

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

Actuarial Valuation Date:	January 1, 2009
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar Closed
Remaining Amortization Period:	16 years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	4.5%*

*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, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Earned income	\$ 845,000	\$ 845,000	\$ 871,467	\$ 26,467
Real estate transfer	360,000	360,000	163,596	(196,404)
Local services	5,000	5,000	14,484	9,484
Total taxes	<u>1,210,000</u>	<u>1,210,000</u>	<u>1,049,547</u>	<u>(160,453)</u>
Licenses and permits	81,000	81,000	107,753	26,753
Fines and forfeits	30,000	30,000	12,785	(17,215)
Interest earned	30,000	30,000	2,748	(27,252)
Intergovernmental revenues	125,000	125,000	148,571	23,571
Charges for services				
Trash fees	610,694	610,694	733,838	123,144
Building permits	270,000	270,000	131,034	(138,966)
Road and commercial permits	-	-	74,453	74,453
Other	61,000	61,000	58,643	(2,357)
Miscellaneous revenues	<u>27,200</u>	<u>27,200</u>	<u>4,931</u>	<u>(22,269)</u>
Total revenues	<u>2,444,894</u>	<u>2,444,894</u>	<u>2,324,303</u>	<u>(120,591)</u>
Expenditures				
General government	418,870	418,870	445,037	(26,167)
Public safety	1,024,124	1,024,124	1,054,246	(30,122)
Codes	89,800	89,800	44,192	45,608
Public works - sanitation	553,000	553,000	565,851	(12,851)
Public works - highways	417,900	417,900	358,341	59,559
Culture and recreation	<u>20,200</u>	<u>20,200</u>	<u>20,752</u>	<u>(552)</u>
Total expenditures	<u>2,523,894</u>	<u>2,523,894</u>	<u>2,488,419</u>	<u>35,475</u>
Excess (deficiency) of revenues over expenditures	<u>(79,000)</u>	<u>(79,000)</u>	<u>(164,116)</u>	<u>(85,116)</u>
Other financing sources (uses)				
Refund of prior year expenditures	-	-	187,500	187,500
Transfer of excess refund - park and recreation fund	-	-	(58,339)	(58,339)
Sales of capital assets	<u>79,000</u>	<u>79,000</u>	<u>-</u>	<u>(79,000)</u>
Total other financing sources (uses)	<u>79,000</u>	<u>79,000</u>	<u>129,161</u>	<u>50,161</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(34,955)</u>	<u>(34,955)</u>
Fund balance, January 1,	<u>-</u>	<u>-</u>	<u>277,120</u>	<u>277,120</u>
Fund balance, December 31,	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,165</u>	<u>\$ 242,165</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, Pennsylvania

Cash Basis Schedule of Revenues, Expenditures and Changes
in Cash Balances - Governmental Funds
Year Ended December 31, 2009

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
Revenues received					
Taxes					
Earned income	\$ 898,048	\$ -	\$ -	\$ -	\$ 898,048
Real estate transfer	177,378	-	-	-	177,378
Local services	15,637	-	-	-	15,637
Total taxes	1,091,063	-	-	-	1,091,063
Licenses and permits	107,753	-	-	-	107,753
Fines and forfeits	12,785	-	-	-	12,785
Interest	2,748	3,312	719	707	7,486
Intergovernmental revenues	180,950	-	-	251,816	432,766
Charges for services					
Trash fees	715,874	-	-	-	715,874
Building permits	131,034	-	-	-	131,034
Road and commercial permits	74,453	-	-	-	74,453
Fee in lieu	-	-	-	31,500	31,500
Other	59,641	-	-	-	59,641
Miscellaneous revenues	4,931	-	4,500	12,773	22,204
Total revenues received	2,381,232	3,312	5,219	296,796	2,686,559
Expenditures paid					
General government	410,800	704	-	-	411,504
Public safety	1,090,467	-	-	-	1,090,467
Codes	44,192	-	-	-	44,192
Public works - sanitation	565,851	-	-	-	565,851
Public works - highways	358,341	-	216,244	-	574,585
Culture and recreation	20,752	-	-	7,105	27,857
Total expenditures paid	2,490,403	704	216,244	7,105	2,714,456
Excess (deficiency) of revenues received over expenditures paid	(109,171)	2,608	(211,025)	289,691	(27,897)
Other financing sources receipts					
Refund of prior year expenditures	187,500	-	-	-	187,500
Total other financing sources receipts	187,500	-	-	-	187,500
Net change in cash balances	78,329	2,608	(211,025)	289,691	159,603
Cash balance, January 1,	351,077	572,224	263,259	18,230	1,204,790
Cash balance, December 31,	\$ 429,406	\$ 574,832	\$ 52,234	\$ 307,921	1,364,393