

**BOROUGH OF CHALFONT
BUCKS COUNTY, PENNSYLVANIA**

Financial Report

December 31, 2009

**BOROUGH OF CHALFONT
BUCKS COUNTY, PENNSYLVANIA**

Contents

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis (Unaudited)	3-11
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Net Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Fiduciary Net Assets - Pension Trust Funds	19
Statement of Changes in Fiduciary Net Assets - Pension Trust Funds	20
Notes to Financial Statements	21-45

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA**

Contents

	Page
Required Supplementary Information	
Schedule of Funding Progress	46
Schedule of Contributions from Employers and Other Contributing Entities	47
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	48
Notes to Schedules of Budget to Actual Comparison	49
Other Supplementary Information	
Combining Balance Sheet - Nonmajor Governmental Funds	50-51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	52-53

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Independent Auditor's Report

Honorable Borough Council
Borough of Chalfont
Chalfont, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Chalfont, Bucks County, Pennsylvania, as of and for the year ended December 31, 2009, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Chalfont, Bucks County, 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.

Management's Discussion and Analysis and the required supplementary information, listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management and the pension plan administrator and actuary regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



We performed our audit to form an opinion on the financial statements that collectively comprise the Borough of Chalfont, Bucks County, Pennsylvania, basic financial statements. The accompanying supplementary information listed in the table of contents is presented for additional analysis and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Dunlap & Associates, P.C.
DUNLAP & ASSOCIATES, P.C.

Chalfont, Pa.
May 3, 2010

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

Our discussion and analysis of Chalfont Borough's financial performance provides an overview of the Borough's financial activities for the year ended December 31, 2009. Please read it in conjunction with the Borough's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Chalfont Borough's net assets increased \$105,063 or 1.26%, as a result of this year's operations.
- The total cost of all Chalfont Borough's programs for the year ended December 31, 2009, was \$1,975,553 compared to \$1,910,607 for 2008.
- In 2004 Chalfont Borough entered into a seven-year capital lease for a street sweeper in the amount of \$142,825. The year 2009 is the fifth year of that lease.

USING THIS REPORT

This report consists of a series of financial statements. The statement of Net Assets and the Statement of Activities (on pages 12-14) provide information about the activities of Chalfont Borough as a whole and present a longer-term view of the Borough's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how the Borough's services were financed in the short-term as well as what remains for future spending. Fund financial statements also report Chalfont Borough's operations in more detail than the government-wide statements by providing information about the Borough's major funds. The remaining statements provide financial information about activities for which the Borough acts solely as a trustee or agent for the benefit of those outside the government.

Reporting on Chalfont Borough as a Whole

The statement of Net Assets and Statement of Activities report information about the Borough as a whole and about its activities in a way that helps answer the question of whether or not the Borough is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the Borough's net assets and changes in them. The Borough's net assets (the difference between assets and liabilities) provide a measurement of the Borough's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the Borough's financial health is improving or deteriorating.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

USING THIS REPORT (Continued)

Reporting Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the most significant fund, not Chalfont Borough as a whole. Some funds are required to be established by State law. However, the Borough Council established many other funds to help it control or manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grant, and other money.

Chalfont Borough's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the Borough's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are described in a reconciliation at the end of fund financial statements.

The Borough as a Trustee

Chalfont Borough is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for escrow deposits received from developers, businesses, and individuals for legal and engineering fees. All of the Borough's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the Borough's other financial statements because the Borough cannot use these assets to finance its operations. Chalfont Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE BOROUGH AS A WHOLE

The Statement of Net Assets provides an overview of Chalfont Borough's assets, liabilities, and net assets. Over time this statement will provide a good indicator of the Borough's fiscal health.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

Table 1
Net Assets

Account	2009	2008	\$ Change	% Change
Capital Assets	\$ 3,411,872	\$ 3,477,462	\$ (65,590)	(1.89)
Current and Other Assets	5,317,862	5,286,789	31,073	0.59
Total Assets	<u>8,729,734</u>	<u>8,764,251</u>	<u>(34,517)</u>	<u>(0.39)</u>
Long-Term Liabilities	184,727	234,422	(49,695)	(21.20)
Other Liabilities	131,946	221,831	(89,885)	(40.52)
Total Liabilities	<u>316,673</u>	<u>456,253</u>	<u>(139,580)</u>	<u>(30.59)</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,220,594	3,233,577	(12,983)	(0.40)
Restricted	4,500,132	4,345,901	154,231	3.58
Unrestricted	692,335	728,520	(36,185)	(4.97)
Total Net Assets	<u>\$ 8,413,061</u>	<u>\$ 8,307,998</u>	<u>\$ 105,063</u>	<u>1.26</u>

The total net assets of the Borough shown above are approximately \$8.4 million. Net assets increased by 1.26% in 2009.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

Table 2
Change in Net Assets

Account	2009	2008	\$ Change	% Change
Program Revenues				
General Government	\$ 103,858	\$ 90,828	\$ 13,030	14.35
Police	70,355	71,446	(1,091)	(1.53)
Fire	36,140	35,741	399	1.12
Code Enforcement	38,925	50,261	(11,336)	(22.55)
Planning and Zoning	12,858	14,258	(1,400)	(9.82)
Highway Maintenance	105,052	146,700	(41,648)	(28.39)
Traffic Signals	19,490	2,074	17,416	839.73
Street Lighting	0	1,150	(1,150)	(100.00)
Parks and Recreation	31,724	39,850	(8,126)	(20.39)
General Revenues				
Real Estate Taxes	536,630	552,813	(16,183)	(2.93)
Transfer Taxes	60,156	104,658	(44,502)	(42.52)
Earned Income Taxes	607,052	600,879	6,173	1.03
Local Services Tax	44,584	38,141	6,443	16.89
Grants & Contributions	1,000	28,075	(27,075)	(96.44)
Interest and Rents	409,706	435,834	(26,128)	(5.99)
Sale of Capital Assets	0	(304)	304	(100.00)
Miscellaneous	3,086	6,884	(3,798)	(55.17)
Total Revenues (Forwarded)	\$ 2,080,616	\$ 2,219,288	\$(138,672)	(6.25)

(Table 2 continues on the next page.)

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

Table 2
Change in Net Assets

Account	2009	2008	\$ Change	% Change
Total Revenues (Forwarded)	\$ 2,080,616	\$ 2,219,288	\$(138,672)	(6.25)
Program Expenses				
Legislative	6,933	11,614	(4,681)	(40.30)
Executive	314,618	279,062	35,556	12.74
Finance and Tax Collection	12,569	12,390	179	1.44
Professional Services	150,552	112,733	37,819	33.55
General Government	195,357	205,761	(10,404)	(5.06)
Police	736,745	740,304	(3,559)	(0.48)
Fire	142,062	118,647	23,415	19.74
Code Enforcement	61,876	74,974	(13,098)	(17.47)
Planning and Zoning	1,677	4,332	(2,655)	(61.29)
Highway Maintenance	293,955	270,819	23,136	8.54
Snow and Ice Removal	30,857	20,691	10,166	49.13
Traffic Signals	9,834	35,539	(25,705)	(72.33)
Street Lighting	3,218	5,568	(2,350)	(42.21)
Parks and Recreation	15,300	18,173	(2,873)	(15.81)
Total Expenses	1,975,553	1,910,607	64,946	3.40
Changes in Net Assets	\$ 105,063	\$ 308,681	\$(203,618)	(65.96)

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

Revenue Overview

In 2009 the general millage remained unchanged at 9.75 mills, the fire tax at 1.25 mills was unchanged, and the ambulance at .50 mills was unchanged. Total revenues decreased 6.25% or \$138,672 from the prior year due to a poor national economy.

Figure 1

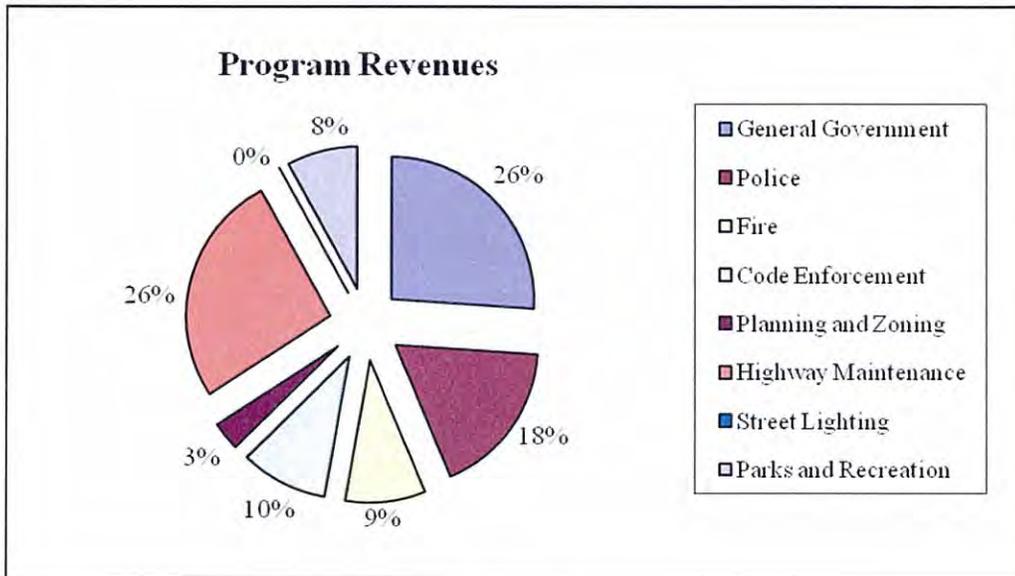
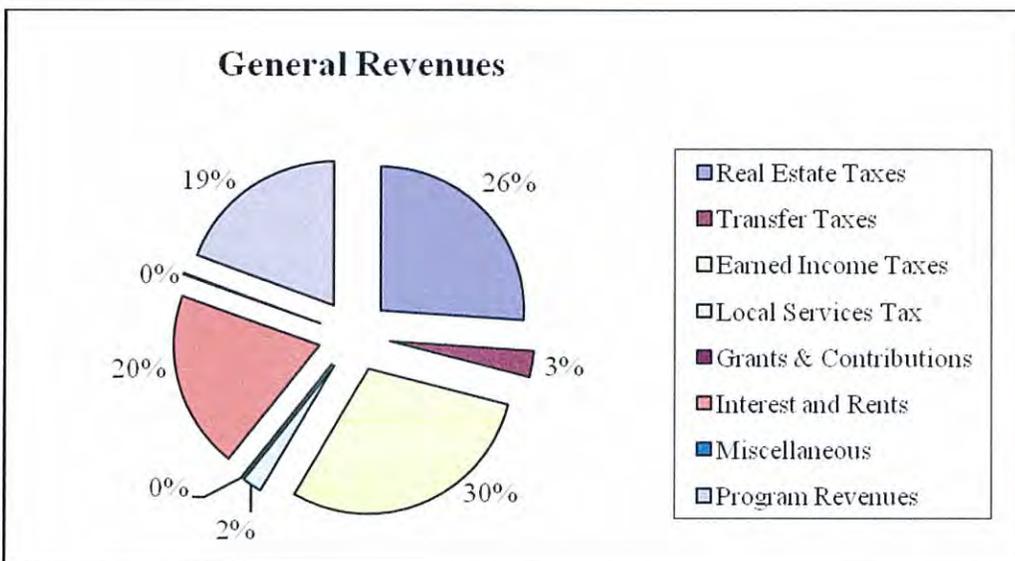


Figure 2

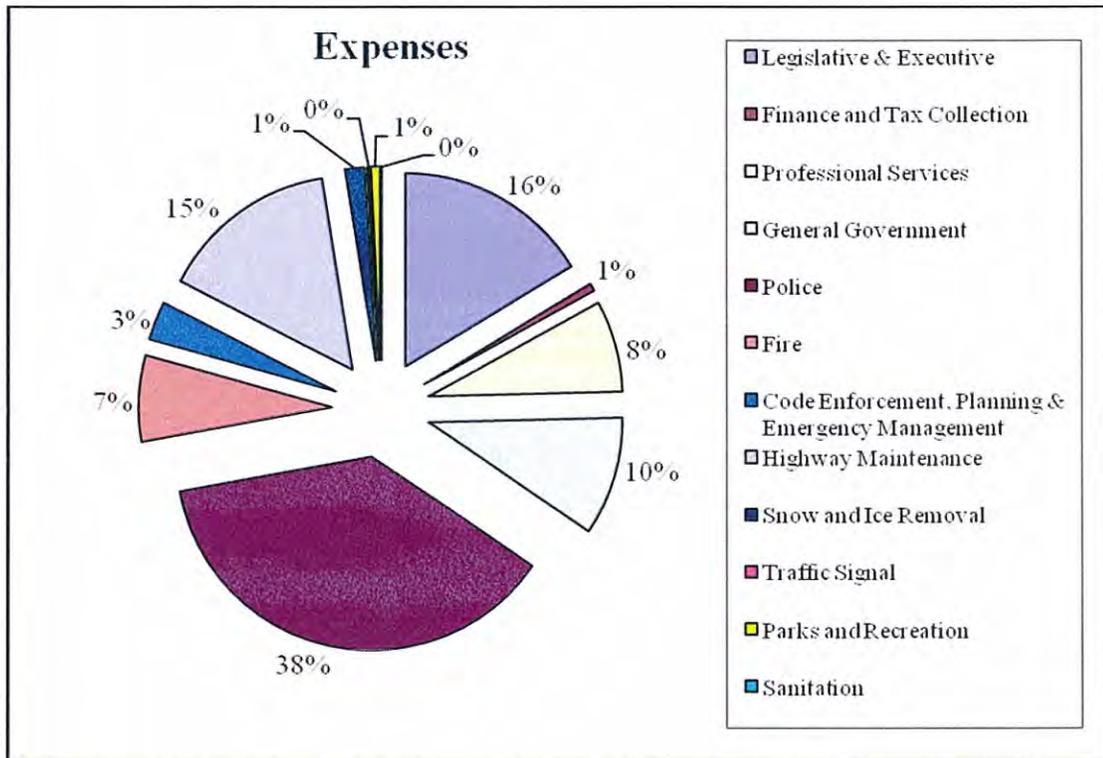


**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009**

Expense Overview

Total expenses in all categories were \$1,975,553. The largest areas of expense were Police and General Government. Expenses increased \$64,946 or 3.40% from the prior year due to rising costs.

Figure 3



BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

ITEMS OF GENERAL INTEREST

Water

Residents and businesses of the Borough are served by Aqua Pennsylvania.

Waste Water

Residents and businesses of the Borough are principally served by the Chalfont New Britain Township Joint Sewer Authority (CNBTJSA) and on-lot sewage disposal systems. The Council appoints three members of the six-member Board of the CNBTJSA. The CNBTJSA operates as a separate business entity. The Borough has no financial or management control of the sewer authorities other than that noted above.

Sanitation

In June 2009, the Borough contracted with Chest-Mont Disposal, LLC to provide for trash pickup for Chalfont Borough residents. Chest-Mont bills and collects for this service. In 2009 the contract cost was \$330.00 per household per year with a 3.0% annual increase over the three-year contract with two one-year extensions. Household trash is picked up once a week on Friday. Residents may dispose of six bags of trash and yard waste per pick up, plus one bulk item per week. The recycling pickup day is every Friday, plus there are one spring and three fall leaf collection days.

Fire and Ambulance

Residents and businesses of the Borough are served by the Chalfont Fire Company, Dublin Fire Company, Warrington Fire Company, Doylestown Fire Company, and Hilltown Fire Company in designated districts. There are mutual aid agreements and central dispatching throughout the area. The Chalfont Ambulance has separated from the Chalfont Fire Company and is now called Chalfont Emergency Medical Services (EMS). The EMS provides ambulance services, as do Central Bucks Ambulance, Warrington Ambulance, VMSC, and Hilltown QRS. Chalfont Fire Company receives 1.25 mills Fire Protection Tax, and Chalfont EMS receives .50 mills for protection services. The Borough had no other financial or management control of the fire companies or ambulance services.

Public Facilities

The Borough owns eight neighborhood parks along with scattered open space parcels. The Borough municipal building is located on Main Street and houses both administration and police operations. The original building was built in 1925, with an addition built in 1997, and is generally in good condition. The public works department is located at 500 North Main Street and has several serviceable garages and storage buildings.

ANALYSIS OF INDIVIDUAL FUNDS

Capital Reserve Fund

This fund was set up a number of years ago to account for funds set aside for capital projects. In 2001, the Borough sold its water department to Philadelphia Suburban Water, now called Aqua Pennsylvania. The proceeds of approximately \$4.2 million were put into this fund to be used for capital improvements. Currently the Borough is using the interest from this money to balance the budget.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2009

ANALYSIS OF INDIVIDUAL FUNDS (Continued)

Other Funds

This category includes Fire Protection and State Highway Aid Funds. Each of these funds had routine and unremarkable results during 2009.

Pension Plans

Fulltime Borough employees are also members of the Police or Non-Uniformed pension plans. The Borough's pension investments advisor is Trollinger Consulting Group. The Police Pension Plan is 80% funded actuarially. The Borough is eligible for Act 205 assistance in the form of State aid.

The Borough also furnishes an IRS Section 457 deferred compensation retirement plan to its employees. Seven employees participate in the plan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Borough has \$3,220,594 invested in Capital Assets, Net of Related Debt. Infrastructure assets acquired prior to January 1, 2003, and the related accumulated depreciation and depreciation expense are not included in this report.

Discussion of Future Plans

The Borough plans a reconstruction streets program every other year. The next scheduled project in 2010 would be the repaving of Deerpath Road.

Additionally, the Borough has received approval on \$1,897,226 from federal, state and local governmental units. These grants will be used to fund the construction of crosswalks, curbing, and sidewalks, two pedestrian bridges, and other capital projects. Construction on these projects is expected to begin in 2010 and be completed by 2012.

While specific sites have to be finalized, it is expected that additional open space land will be acquired or controlled under the land preservation programs and development agreements. In certain cases donors of conservation easements or land can receive personal income tax credits for the value of their donation. The Borough will pursue such donations in the coming years in addition to its other preservation efforts.

CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT TEAM

This Management Discussion and Analysis is intended to provide our citizens, taxpayers, customers, investors and creditors with a general, plain English overview of important financial matters. For questions on the Discussion and Analysis, please contact Borough Manager/Borough Treasurer, Melissa Shafer at 215-822-7295.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Net Assets
December 31, 2009

Assets

Current Assets

Cash	\$ 658,091
Investments	4,360,033
Accounts Receivable	663
Taxes Receivable	262,421
Prepaid Expenses	3,823
Escrow Deposits	32,831
Total Current Assets	5,317,862

Noncurrent Assets

Net Capital Assets	3,411,872
Total Assets	8,729,734

Liabilities

Current Liabilities

Current Portion of Obligations Under Capital Lease	33,672
Accounts Payable and Accrued Expenses	98,274
Total Current Liabilities	131,946

Noncurrent Liabilities

General Obligation Note Payable	119,000
Obligations Under Capital Lease	38,606
Compensated Absences	27,121
Total Noncurrent Liabilities	184,727

Total Liabilities	316,673
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Net Assets

Invested in Capital Assets, Net of Related Debt	3,220,594
Restricted for:	
Capital Projects	4,374,436
Other Purposes	125,696
Unrestricted	692,335
Total Net Assets	\$ 8,413,061

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Activities
Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government				
Legislative	\$ 6,933	\$ 0	\$ 0	\$ 0
Executive	314,618	0	0	0
Finance and Tax Collection	12,569	27,631	0	0
Professional Services	150,552	0	0	0
General Government	195,357	63,492	12,735	0
Public Safety				
Police	736,745	34,409	35,946	0
Fire	142,062	2,135	34,005	0
Code Enforcement	61,876	38,925	0	0
Planning and Zoning	1,677	12,858	0	0
Highways				
Highway Maintenance	293,955	3,133	101,919	0
Snow and Ice Removal	30,857	0	0	0
Traffic Signals	9,834	1,840	0	17,650
Street Lighting	3,218	0	0	0
Parks and Recreation	15,300	0	21,724	10,000
Total Governmental Activities	\$ 1,975,553	\$ 184,423	\$ 206,329	\$ 27,650

General Revenues

Taxes

Real Estate Taxes

Real Estate Transfer Taxes

Earned Income Taxes

Local Services Taxes

Grants and Contributions

Investment Income and Rents

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets, Beginning of Year, Restated

Net Assets, End of Year

See Notes to Financial Statements.

Net (Expense)
Revenue and
Changes in Net
Assets

Governmental
Activities

\$ (6,933)
(314,618)
15,062
(150,552)
(119,130)

(666,390)
(105,922)
(22,951)
11,181

(188,903)
(30,857)
9,656
(3,218)
16,424

(1,557,151)

536,630
60,156
607,052
44,584
1,000
409,706
3,086

1,662,214

105,063

8,307,998

\$ 8,413,061

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Balance Sheet
Governmental Funds
December 31, 2009

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 517,304	\$ 0	\$ 140,787	\$ 658,091
Investments	0	4,360,033	0	4,360,033
Accounts Receivable	663	0	0	663
Taxes Receivable	261,612	0	809	262,421
Escrow Deposits	32,831	0	0	32,831
Due from (to) Other Funds	1,497	0	(1,497)	0
Total Assets	\$ 813,907	\$ 4,360,033	\$ 140,099	\$ 5,314,039
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 56,953	\$ 0	\$ 0	\$ 56,953
Accrued Wages and Payroll Taxes	41,321	0	0	41,321
Deferred Revenue	171,102	0	809	171,911
Total Liabilities	269,376	0	809	270,185
 Fund Balances				
Unreserved, reported in				
General Fund	544,531	0	0	544,531
Special Revenue Funds	0	0	124,887	124,887
Capital Projects Funds	0	4,360,033	14,403	4,374,436
Total Fund Balances	544,531	4,360,033	139,290	5,043,854
 Total Liabilities and Fund Balances	 \$ 813,907	 \$ 4,360,033	 \$ 140,099	 \$ 5,314,039

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2009

Total Governmental Fund Balances	\$ 5,043,854
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 Not Reported in Funds, Net of Accumulated Depreciation of \$1,130,744.	3,411,872
Other Long-Term Assets Are Not Available to Pay Current Period Expenditures, and Therefore Are Deferred in the Funds	
Taxes Receivable	171,911
Prepaid Expenses	3,823
Long-Term Liabilities Are Not Due and Payable in the Current Period, and Therefore Are Not Reported in the Funds	
General Obligation Note Payable	(119,000)
Obligations Under Capital Lease	(72,278)
Compensated Absences	(27,121)
Net Assets of Governmental Activities	<u>\$ 8,413,061</u>

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2009

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 1,157,873	\$ 0	\$ 82,996	\$ 1,240,869
Intergovernmental	128,880	0	84,375	213,255
Fines, Licenses and Permits	98,257	0	0	98,257
Charges for Services	86,166	0	0	86,166
Investment Income and Rents	298,647	110,358	701	409,706
Miscellaneous Revenues	2,936	0	21,874	24,810
Total Revenues	<u>1,772,759</u>	<u>110,358</u>	<u>189,946</u>	<u>2,073,063</u>
Expenditures				
General Government	533,137	0	0	533,137
Public Safety	861,452	0	85,176	946,628
Highways	283,764	0	7,604	291,368
Parks and Recreation	3,496	0	7,573	11,069
Debt Service - Principal	66,200	0	21,209	87,409
Debt Service - Interest	2,864	0	7,591	10,455
Capital Expenditures	10,324	0	22,090	32,414
Miscellaneous Governmental	55,416	25	0	55,441
Total Expenditures	<u>1,816,653</u>	<u>25</u>	<u>151,243</u>	<u>1,967,921</u>
Excess (Deficiency) of Revenues Over Expenditures	(43,894)	110,333	38,703	105,142
Other Financing Sources (Uses) Transfers In (Out)	<u>(5,715)</u>	<u>0</u>	<u>5,715</u>	<u>0</u>
Net Change in Fund Balances	(49,609)	110,333	44,418	105,142
Fund Balances				
Beginning of Year	<u>594,140</u>	<u>4,249,700</u>	<u>94,872</u>	<u>4,938,712</u>
End of Year	<u>\$ 544,531</u>	<u>\$ 4,360,033</u>	<u>\$ 139,290</u>	<u>\$ 5,043,854</u>

See Notes to Financial Statements.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Reconciliation of the Net Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended December 31, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ 105,142
 Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because	
Governmental Funds Report Capital Outlays As Expenditures. However, in the Statement of Activities, the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives as Depreciation Expense. This Is the Amount By Which Capital Outlays of \$32,414 Was Exceeded by Depreciation Expense of \$132,806.	(100,392)
Revenues in the Statement of Activities That Do Not Provide Current Financial Resources Are Not Reported As Revenues in the Funds.	7,553
Repayments of Note Payable Principal and Lease Obligations Are Expenditures in the Governmental Funds, but the Repayments Reduce Liabilities in the Statement of Net Assets.	87,409
Some Expenses Reported in the Statement of Activities Do Not Require the Use of Current Financial Resources, and Therefore Are Not Reported As Expenditures in Governmental Funds:	
Prepaid Expenses	(1,278)
Compensated Absences	6,629
	6,629
Change in Net Assets of Governmental Activities	\$ 105,063

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Fiduciary Net Assets
Pension Trust Funds
December 31, 2009

Assets

Investments	\$ 805,356
Contributions Receivable	<u>15,276</u>
Total Assets	820,632

Liabilities

0

Net Assets

Held in Trust for Pension Benefits	<u><u>\$ 820,632</u></u>
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See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
December 31, 2009

Additions	
Contributions	
Employer (Borough)	\$ 15,307
Plan Members	17,272
State	53,176
Total Contributions	<u>85,755</u>
Investment Income	
Net Appreciation in Fair Value of Investments	122,546
Less Investment Expense	<u>7,839</u>
Net Investment Income	<u>114,707</u>
Total Additions	<u>200,462</u>
Deductions	
Benefits	34,625
Insurance Premiums	3,600
Administrative Expense	<u>2,660</u>
Total Deductions	<u>40,885</u>
Increase in Net Assets	159,577
Net Assets, Held in Trust	
Beginning of Year	<u>661,055</u>
End of Year	<u><u>\$ 820,632</u></u>

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

1. Summary of Significant Accounting Policies

The Borough of Chalfont was incorporated in 1901 in Bucks County, Pennsylvania. In 1976, the Borough elected to be governed under provisions of a Home Rule Charter. The Borough operates under a council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, culture - recreation, public improvements, planning and zoning, and general and administrative services. For financial reporting purposes, in accordance with Government Accounting Standards Board (GASB) Statement 14, the Borough includes all funds that are part of the financial reporting entity.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Borough's overall financial position and changes in financial position.
- Financial statements prepared using full accrual accounting for all of the Borough's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

A. Reporting Entity

The Borough of Chalfont and the Township of New Britain have joined to form the Chalfont-New Britain Joint Sewer Authority. The Authority is governed by a six-member board. Members of the board are appointed equally by the governing boards of the Borough and the Township, with three members from each municipality.

The Authority's governing board is solely responsible for all decisions made in the operation of the Authority. Additionally, the Authority is responsible for all its financial transactions and neither the Borough nor the Township has authorization to approve any such transactions.

Based upon the above factors, it has been concluded that the Borough has no oversight responsibility for the Authority. Accordingly, the Authority's financial statements have been excluded from the reporting entity.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The accounts of the Borough 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 balance, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three generic fund types and two broad fund categories as described in Note 1C.

C. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Fiduciary funds are also excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Borough.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Borough. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

Governmental funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. General property and other taxes, and investment earnings are recorded as earned (when they are measurable and available). The Borough considers property and earned income taxes as available if they are collected 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service and other long-term obligations which are recognized when paid.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

GOVERNMENTAL FUNDS (Continued)

The major governmental funds are as follows:

General Fund - This is the Borough's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Reserve Fund - This is a Capital Projects Fund that is used to account for financial resources to be used for the acquisition and construction of capital assets and facilities.

The non-major governmental funds are as follows:

Special Revenue Funds

Fire Tax Fund - Accounts for revenues and expenditures of fire protection tax funds.

Recreation Fund - Accounts for revenues and expenditures of donations for recreational activities.

Liquid Fuels Fund - Accounts for revenues and expenditures of state liquid fuels grant funds.

Capital Projects Funds

Equipment Fund - Accounts for revenues and expenditures for funds received for equipment purchases.

Grant Fund - Accounts for grant revenues and the related expenditures for various Borough projects.

FIDUCIARY FUNDS

The Borough currently has two fiduciary funds, which consist of two pension trust funds (Police and Non-Uniform). These funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Pension Trust Funds are custodial in nature and do not involve measurement of results of operations. The accrual basis of accounting is used to recognize receivables and payables.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The following procedures are used by the Borough in establishing budgetary data, which is reflected in the financial statements.

1. The Borough prepares and advertises a proposed budget at least ten days before the budget is adopted.
2. Public hearings are conducted to obtain comments from taxpayers regarding the proposed budget.
3. The budget is formally adopted by the Council members prior to December 31.
4. Amendments may be approved by the Council during the year.

E. Cash Equivalents

For reporting purposes, the Borough considers all money market funds and certificates of deposit with maturities of three months or less to be cash equivalents.

F. Investments

Investments in debt and equity securities with readily determinable fair market values are recorded at fair value, as required by Government Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Realized and unrealized gains and losses are recorded in the statement of activities, combined statement of revenues, expenditures, and changes in fund balances as revenue (governmental activities), and on the statement of changes in fiduciary net assets (fiduciary funds).

G. Interfund Transactions

As a result of its operations, the Borough affects a variety of transactions between funds. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2009, appropriate interfund receivables or payables have been established.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

H. Allowance for Uncollectible Accounts

No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Borough is permitted to lien the resident's property if the resident does not remit payment.

I. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Infrastructure costs incurred prior to January 1, 2003, have not been and are not required to be capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is shown below.

<u>Classifications</u>	<u>Years</u>
Land and Park Improvements	20
Buildings and Improvements	10-40
Vehicles	5-10
Machinery and Equipment	3-10
Furniture	10
Infrastructure	20-40

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

J. Compensated Absences

Borough uniformed employees accumulate vacation and sick time in accordance with their contract. Uniformed employees can earn up to four weeks of vacation time depending on their years of service. Uniformed employees may carry over five unused vacation days per year, which must be used within 90 days of the next calendar year.

Uniformed employees are entitled to up to 72 hours of sick leave per year. Sick time can be carried over and accumulated from year to year. Upon retirement or resignation, the employee is paid at a 50% rate for accumulated sick time. Once a year, uniformed employees have the option of requesting that the Borough buy back all unused sick time from the prior year, to be paid at 50% of their base hourly rate.

The Borough's vacation policy for non-uniformed employees encourages the use of all vacation days during the calendar year. Non-uniformed employees can earn up to four weeks vacation depending on their length of continuous service, and vacation time can be accumulated from year to year, but must be used within 120 days of the next calendar year. Upon retirement or termination, accumulated vacation leave is paid at 100% of the respective employee's pay rate.

Full time non-uniformed employees are entitled to up to 72 hours of sick leave per year. Part-time employees receive sick leave on a pro-rated basis. Sick time can be carried forward and accumulated from year to year; however, no payment for sick time is made upon termination.

The Borough is liable to employees in the amount of \$27,121 for vested sick and vacation pay at December 31, 2009.

K. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

2. Cash and Investments

Cash and investments as of December 31, 2009, are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	\$ 658,091
Investments	4,360,033
Statement of Fiduciary Net Assets:	
Investments	<u>805,356</u>
 Total Cash and Investments	 <u>\$ 5,823,480</u>

Cash and investments as of December 31, 2009, consist of the following:

Cash on Hand	\$ 550
Deposits with Financial Institutions	657,541
Investments	<u>5,165,389</u>
 Total Cash and Investments	 <u>\$ 5,823,480</u>

A. Cash Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Borough's deposits may not be returned. The Borough does not have a deposit policy for custodial credit risk; however, all Borough deposits are entirely insured or collateralized under a pooled asset program to secure public deposits, in accordance with Act 72 of the Commonwealth of Pennsylvania. As of December 31, 2009, \$264,180 of the Borough's bank balance of \$662,965 was uninsured, but collateralized by securities held by the bank or by its trust department or agent but not in the Borough's name.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

2. Cash and Investments (Continued)

B. Investments

At December 31, 2009, the Borough's investments consisted of the following:

Governmental Funds:	
Asset-Backed Securities	
Federal Home Loan Mortgage Association	\$ 2,153,339
Federal National Mortgage Association	1,431,582
Government National Mortgage Association	499,675
Money Market Funds	275,437
	<u>4,360,033</u>
Fiduciary Funds:	
Mutual Funds	792,695
Money Market Funds	12,661
	<u>805,356</u>
Total Investments	<u>\$ 5,165,389</u>

Investments Authorized by the Borough's Home Rule Charter

The Borough's Home Rule Charter authorizes the Borough to invest governmental funds in the following:

1. Direct obligations of the United States government, including United States treasury bills.
2. Obligations of the United States government agencies or instrumentalities backed by the full faith and credit of the United States.
3. Direct obligations of the Commonwealth of Pennsylvania.
4. Obligations of any agency or instrumentalities of the Commonwealth of Pennsylvania backed by the full faith and credit of the Commonwealth.
5. Obligations of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

2. Cash and Investments (Continued)

B. Investments (Continued)

Investments Authorized by the Borough's Home Rule Charter (Continued)

6. Deposits in savings accounts, or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approval collateral as provided by law therefore shall be pledged by the depository.
7. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured. However, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent (20%) of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent (20%) of an institution's assets minus liabilities.
8. Money market funds insured by any of the Federal or State sponsored insurance agencies mentioned in #6 or #7, or a private insurance company offering comparable coverage.
9. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for Borough funds listed in #1 through #6.
10. Any investment authorized by 20 Pa.C.S. Ch. 73 (relating to fiduciaries investments) shall be an authorized investment for any pension or retirement fund.
11. In certain commercial paper under the terms and conditions set forth in Act No. 53 of 1973 of the General Assembly of the Commonwealth of Pennsylvania, as amended. (53 P.S. S. 5410 *et seq.*)
12. Not more than twenty percent (20%) of the above-mentioned instruments may mature or become payable in any one calendar year.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

2. Cash and Investments (Continued)

B. Investments (Continued)

Investments Authorized by the Borough's Home Rule Charter (Continued)

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practices and state statutes.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough's investments, which consist of asset-backed securities (governmental funds) and open-end mutual funds (fiduciary funds), are not subject to custodial credit risk because they do not involve a transferable financial instrument. The Borough's money market funds and certificates of deposit are SIPC and FDIC insured, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating organizations such as Moody's Investor Services (Moody's) and Standard & Poor's (S&P). The Borough does not currently have a policy with regard to credit risk. As of December 31, 2009, the Borough's investments were rated as shown on the next page.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

2. Cash and Investments (Continued)

B. Investments (Continued)

Credit Risk (Continued)

	<u>Fair Value</u>	<u>Rating</u>
Governmental Funds		
Deposits		
PLGIT	\$ 99,570	AAA
Investments		
Federal Home Loan Mortgage Association	2,153,339	AAA
Federal National Mortgage Association	<u>1,431,582</u>	AAA
Total Exposed to Credit Risk	<u>\$ 3,684,491</u>	
U.S. Government Guaranteed*		
Government National Mortgage Association	<u>\$ 499,675</u>	
Not Rated**	<u>\$ 275,437</u>	
Fiduciary Funds		
Not Rated**	<u>\$ 792,695</u>	

* Composed of U.S. government and agency obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk.

** Not rated securities consist of mutual funds, money market funds, and certificates of deposit.

Concentration of Credit Risk

The investment policy of the Borough contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than securities explicitly guaranteed by the U.S. government, mutual funds, and external investment pools) that represent 5% or more of total entity investment are as follows:

Federal Home Loan Mortgage Association	\$2,153,339
Federal National Mortgage Association	\$1,431,582

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

2. Cash and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. The Borough does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

All of the Borough's asset backed securities have remaining maturity dates of greater than 10 years. The maturities range from the year 2023 to 2039 and are highly sensitive to interest rate risk. The remainder of the Borough's investments have maturity dates, if any, of one year or less.

3. Property Taxes

Real estate taxes are levied on March 1, based on assessed values established by the Bucks County Board of Assessments. Real property in the Borough was originally assessed at \$47,579,940 for 2009. Property taxes attach as an enforceable lien on property as of January 15 of the following year. The Borough receives all tax collections through its tax collector.

The Borough is permitted to levy up to 30 mills of assessed property valuation for general government purposes and 3 mills for fire protection purposes. In 2009, the Borough's tax rate was 9.75 mills for general governmental purposes, 1.25 mills for fire protection purposes, and 0.5 mills for ambulance services.

The Borough bills and collects its own property taxes, as well as property taxes for Bucks County attributable to Borough residents.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

4. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 1/1/09	Additions	Disposals	Balance 12/31/09
Assets Not Being Depreciated				
Land	\$ 821,450	\$ 0	\$ 0	\$ 821,450
Conservation Easements	173,000	0	0	173,000
Depreciable Assets				
Land and Park Improvements	182,512	0	0	182,512
Buildings and Improvements	903,939	10,324	0	914,263
Vehicles	465,124	34,803	0	499,927
Machinery and Equipment	174,504	6,000	0	180,504
Furniture	16,498	0	0	16,498
Infrastructure	1,738,372	16,090	0	1,754,461
Total at Historical Cost	4,475,399	67,217	0	4,542,615
Less Accumulated Depreciation				
Land and Park Improvements	133,195	4,714	0	137,909
Buildings and Improvements	330,004	22,721	0	352,725
Vehicles	256,492	39,220	0	295,712
Machinery and Equipment	115,717	12,050	0	127,767
Furniture	9,756	1,034	0	10,790
Infrastructure	152,773	53,067	0	205,840
Total Accumulated Depreciation	997,937	132,806	0	1,130,743
Total Net Capital Assets	\$ 3,477,462	\$ (65,589)	\$ 0	\$ 3,411,872

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 79,160
Police	13,643
Highway Maintenance	35,772
Parks and Recreation	4,231
Total Depreciation Expense	\$ 132,806

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

5. Long-Term Note

The Borough's General Long-Term Note changed during the year as follows:

Balance at January 1, 2009	\$ 170,000
Payment	<u>(51,000)</u>
Balance at December 31, 2009	<u>\$ 119,000</u>

2008 General Obligation Note

On July 15, 2008, the Borough issued a General Obligation Note in the amount of \$170,000 through the Delaware Valley Regional Finance Authority. The interest rate on this note was both fixed and variable. In 2009, the Borough made additional principal payments, paying off the variable portion of the note. Additionally, the Borough executed a fixed rate swap agreement, which fixed its interest rate for 70% of the note proceeds (see Note 12). Principal payments are due on July 25 of each year as shown below. The note was issued for the purpose of replacing the Meadowbrook Lane culvert and was issued as non-electoral debt. The Borough has pledged its full faith, credit, and taxing power, and is required to include in its budget for each year the amount of debt service on the note which will be payable in such fiscal year. The debt service requirements are as follows:

Year	Principal	Interest	Total Debt Service
2010	\$ 0	\$ 4,580	\$ 4,580
2011	11,000	4,369	15,369
2012	15,000	3,868	18,868
2013	15,000	3,291	18,291
2014	15,000	2,714	17,714
2015-2018	<u>63,000</u>	<u>4,907</u>	<u>67,907</u>
	<u>\$ 119,000</u>	<u>\$ 23,729</u>	<u>\$ 142,729</u>

Interest expense was \$5,870 for the year.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

6. Obligations under Capital Lease

The Borough entered into two lease agreements for the acquisition of a street sweeper and a police vehicle. Monthly lease payments of \$2,018 and \$1,066 for the sweeper and police vehicle are due through the year 2011 and 2012, respectively. The capitalized cost of the leased equipment is \$177,728, and accumulated depreciation is \$76,403 at December 31, 2009. At December 31, 2009, future lease payments are due as follows:

Year	Amount
2009	\$ 37,009
2010	36,778
2011	3,198
	76,985
Less Interest Portion	(4,707)
	\$ 72,278

7. Interfund Transactions

Interfund transactions are as follows:

Purpose	Receivable Fund	Payable Fund	Amount
Due to/from			
Tax Revenue Received	Fire Tax	General	\$35
Operating Expenses Paid	General	Liquid Fuels	\$1,532
Transfer			
For Capital Improvements	Equipment	General	\$5,715

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

8. Fiduciary Funds - Deferred Compensation Fund

The Borough has a deferred compensation plan, which is available to its employees. The Plan, which is designed under the provisions of Section 457 of the Internal Revenue Code, permits employees to make voluntary salary reduction contributions, which are excluded from federal taxable income.

Prior to 1998, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights were (until paid or made available to the employee or other beneficiary) solely the property and rights of the Borough (without being restricted to the provisions of benefits under the Plan), subject to the claims of the Borough's general creditors. Participants' rights under the Plan were equal to those of general creditors of the Borough in an amount equal to the fair market value of the deferred account for each participant.

During 1998, the Borough amended the Plan in accordance with recent IRS amendments of IRC Section 457(g). As a result of the amendment, assets of the Plan are now placed in trust for the exclusive benefit of participants and their beneficiaries. IRC Section 457(g) states that the Borough no longer owns the amounts deferred by employees, including the related earnings thereon. Accordingly, the assets and the corresponding liability for the compensation deferred by Plan participants, including earnings, are no longer reported in the financial statements of the Borough.

9. Lease

The Borough leases certain land and building known as the Chalfont Railroad Station from the Southeastern Pennsylvania Transportation Authority (SEPTA). Under the terms of the lease agreement, which began in August 1990, the Borough is liable for minimum lease payments of \$1 annually. The lease extends until cancelled, with notice, by either party. Leasehold improvements totaling \$72,594 have been made to the station to date. Of the improvements, \$56,100 was funded by the Community Development Block Grants received in prior years.

10. Chalfont Borough Police Pension Plan

A. Plan Description

The Chalfont Borough Police Pension Plan is a single employer public employee retirement system (PERS) established by the Borough to provide pension benefits for its full-time police officers. The Plan is controlled by the provisions of a resolution dated December 18, 1990. Assets are held separately and may only be used for the payment of benefits to members of the Plan. The PERS Plan is part of the Borough's financial reporting entity and is included in the Borough's financial report as a pension trust fund.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

10. Chalfont Borough Police Pension Plan (Continued)

A. Plan Description (Continued)

Additional disclosures required by GASB Statement No. 25 are contained in a separate financial report of the Plan prepared by the Plan actuary. A copy of the Plan financial statement can be obtained at the Borough office.

At January 1, 2009, the date of the most recent actuarial valuation, participants in the Plan consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	
Police	1
Current employees:	
Vested	2
Non-vested	<u>3</u>
Total	<u>6</u>

The Plan provides retirement benefits to participating employees. Retirement benefits vest after 12 years of service. Employees who retire at or after age 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final-average salary. Final-average salary is the employee's average salary, excluding overtime, over the last 3 years of credited service.

The Plan also provides certain death and disability benefits to participating employees who have met retirement eligibility requirements and to their dependents when the cause of death or disability is employment related. The amount and/or duration of these benefits depends upon the circumstances of the death or disability.

Participating employees can be required to contribute 5% of their salary to the Plan. For the year 2009, members contributed 5% of their salary to the Plan. If a participating employee leaves covered employment of the Borough, other than due to employment-connected death or disability, before 12 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or to a designated beneficiary.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

10. Chalfont Borough Police Pension Plan (Continued)

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions, if required, to the Plan are recognized when due, in accordance with Act 205. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. The authority to manage the Plan's assets has been delegated to Flagship Capital Management.

Investments at December 31, 2009, consisted of the mutual funds valued at \$557,123.

Individual investments comprising greater than 5% of the Plan's net assets at December 31, 2009, consisted of the following:

	<u>Fair Value</u>
Loomis Sayles Investment Grade	\$83,041
MFS Research Bond	\$55,233
TCW Total Return Bond	\$41,180
Aston Optimum Mid Cap	\$32,011
Eagle Mid Cap Stock	\$30,455
Jensen Portfolio	\$30,267
Jennison 20/20 Focus	\$29,021
Rydex NASDAQ 100	\$28,995
Goldman Sachs Growth Opp	\$28,828
John Hancock Small Cap Intrinsic	\$28,598
Legg Mason Special Investment	\$28,425
Pimco Total Return	\$27,901

C. Funding Policy

The Borough's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Borough's Police employee group as a whole has tended to remain level as a percentage of annual covered payroll. The employer's contribution rate for normal cost is determined using the entry age normal actuarial funding method.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

10. Chalfont Borough Police Pension Plan (Continued)

D. Annual Pension Cost and Net Pension Obligation

In 1998, the Borough adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This statement sets forth provisions for recognizing annual pension cost and a net pension obligation or asset. In adopting this statement, the net pension asset was calculated in accordance with GASB 27. No asset or liability was reflected prior to implementation of GASB 27.

For 2009, the Borough's annual pension cost of \$35,946 was equal to the Borough's required and actual contributions.

The annual required contribution for 2009 was determined as part of the January 1, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5%. The unfunded actuarial accrued liability is being amortized on a closed level dollar basis.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/07	\$44,886	100%	\$0
12/31/08	\$40,939	100%	\$0
12/31/09	\$35,946	100%	\$0

E. Funding Status and Funding Progress

(1)	(2)	(3)	(4)	(5)	(6)	
Valuation January 1st	Actuarial Value of Assets	Accrued Actuarial Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Actuarial Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Actuarial Liability as % of Payroll (4)/(5)
2009	\$606,948	\$755,740	80.3%	\$148,792	\$352,285	42.2%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation follows.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

10. Chalfont Borough Police Pension Plan (Continued)

E. Funding Status and Funding Progress (Continued)

Valuation Date	1/1/09
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	20 Years
Asset Valuation Method	130% of Fair Value
Actuarial Assumptions	
Investment Rate of Return	7.25%
Projected Salary Increases	5%

F. Historical Trend Information

Historical trend information designed to provide information about progress made in accumulating sufficient assets to pay benefits when due is presented on page 46.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

11. Borough of Chalfont Non-Uniform Pension Plan

A. Plan Description

The Borough of Chalfont Non-Uniform Pension Plan (the Plan) was established by the Borough to provide pension benefits for its full-time, non-uniformed employees. The Plan is a single-employer PERS. Assets are held separately and may only be used for the payment of benefits to members of the Plan. The Borough has contracted with professional agencies for the investment and administrative activities with respect to the Plan.

The PERS Plan is part of the Borough's reporting entity and is included in the Borough's financial report as a pension trust fund.

Additional disclosures required by GASB Statement No. 25 are contained in a separate financial report of the Plan prepared by the Plan actuary. A copy of the Plan's financial statement can be obtained at the Borough Office.

The Plan is a defined contribution plan. In a defined contribution plan, the benefits to be received by an employee depend solely on the amount contributed to the participant's account and related returns on investments of those contributions.

The Borough has made the Plan available to all full-time, non-uniformed employees.

Each year the Borough will contribute into the Plan for each eligible participant, an amount equal to 8% of their total compensation, using State Aid received from the Commonwealth of Pennsylvania. To the extent that these fundings are not adequate to cover the Borough's obligation to the Plan, the Borough would then be required to contribute.

In addition to the Borough contribution made to the participant's account, their account will be credited annually with the pro rata share of the investment earnings or losses of the Plan. Participants who terminate for reasons other than death, disability, or retirement would not share in the allocations of contributions, earnings, or losses for the Plan year in which they terminate.

Retirement age is 65 years old with 10 years of service under the Plan.

Employees are fully vested after five years of service. Amounts forfeited by employees who leave prior to five years of service are allocated to the remaining Plan participants.

The Borough made contributions of \$32,536, \$17,230 of which were funded by state-shared revenues.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

11. Borough of Chalfont Non-Uniform Pension Plan (Continued)

B. Significant Accounting Policies and Plan Asset Matters

The Borough's financial statements of the Plan's activity are included in the Borough's financial report as a pension trust fund. The Plan's financial statements are presented on the accrual basis of accounting.

Investments at December 31, 2009, in the amount of \$248,233 consisted entirely of mutual funds of \$235,572 and money market funds of \$12,661.

Individual investments comprising greater than 5% of the Plan's net assets at December 31, 2009, consisted of the following:

	Fair Value
Blackrock Large Cap Fund	\$26,564
Eagle Series Mid Cap	\$26,777
Eagle Series Small Cap Growth	\$19,003
Thornburg International Value Fund	\$34,168
Pimco Real Return Fund	\$51,575
Nationwide Investor Destinations Conservative Fund	\$35,536
Morley Stable Value Fund	\$17,498

12. Derivative Instruments and Hedging Activities

2008 General Obligation Note

As described in Note 6, the Borough entered into a fixed rate swap agreement. The agreement applies to 70% of the total balance due. The purpose of this agreement is to hedge the risk of change in the interest rates and to assist the Borough in stabilizing the cash flow requirements needed to service 90% (or \$153,000) of the \$170,000 on the 2008 General Obligation Note (also defined as the "notional amount"). The interest rate swap agreement ends on the date concurrent with the final payment of the loan.

Under the interest rate swap agreement, the Borough is required to make monthly interest payments at the fixed interest rate of 3.59% over the remaining term of the loan.

With the execution of the fixed rate swap agreement and in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Borough will account for the interest rate swap as a cash flow hedge. The market value of the interest rate swap in favor of the Authority as of December 31, 2009, was \$5,593.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009

13. Risk Management

The Borough is exposed to various kinds of loss related to limited torts; theft of, and damage to and destruction of assets; errors and omissions; and natural disasters for which the Borough carries commercial insurance.

a. Health Care Coverage

The Borough participates in the Delaware Valley Health Insurance Trust (DVHIT). DVHIT is a regional risk sharing pool providing health insurance benefits to employees and dependents of participating municipalities.

b. Workers' Compensation Coverage

The Borough participates in the Delaware Valley Workers' Compensation Trust to provide workers' compensation benefits to its employees.

c. Insurance Coverage

The Borough contracts with a commercial insurance company to provide commercial, liability and bonding coverage for the Borough.

Management believes the above coverages are sufficient to preclude any significant uninsured losses to the Borough. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded insurance coverage.

14. Contingencies

The Borough is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above-noted proceedings cannot be predicted due to the insurance coverage maintained by the Borough, management feels that any settlement of judgment not covered by insurance would not materially affect the financial condition of the Borough.

15. Commitments

Retirement Severance

In 2007, the Borough's bookkeeper retired after 30 plus years of service. In recognition of her long-time service to the Borough, the Borough agreed to pay her one year's base salary of \$55,000 over a ten year period (i.e., \$5,500 per year). At December 31, 2009, eight years remain to be paid, for a grand total of \$44,000.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2009**

15. Commitments (Continued)

Government Grants

As of December 31, 2009, the Borough had received several commitments from various government agencies for grants totaling approximately \$1.9 million. A summary of the grants and their purposes is as follows:

- Federal Safe Routes to School Grant in the amount of \$719,405 to install curbing, crosswalks, and sidewalks.
- Pennsylvania Community Transportation Initiative Grant of \$463,734 and Bucks County Municipal Open Space Program Grant of \$97,687 for a new trail system through two Borough parks that will connect with a pedestrian bridge.
- Hometown Streets Grant of \$412,000 to construct two bridges and a trail system.
- Community Development Block Grant of \$194,400 to fund ADA improvements to curb ramps and the renovation of the ADA entrance ramp at Borough Hall.
- Community Development Block Grant of \$10,000 to fund the roof replacement of the Chalfont Train Station.

Management expects to receive the majority of these funds in 2010 and 2011, with completion of all projects in 2012.

In conjunction with one of the projects above, the Borough has signed an agreement with a contractor for the construction of the Lindenfield pedestrian bridge for \$384,000.

16. Subsequent Events

Management has evaluated subsequent events through May 3, 2010, the date which the financial statements were available to be issued.

17. Restatement of Beginning Net Assets

During the year it was noted that capital assets acquired in 2007 and 2008 had been inadvertently left off of the capital asset listing and depreciation schedule. Accordingly, beginning net assets in the government wide statements have been restated as follows:

Net Assets, December 31, 2008	\$ 8,274,134
Capital Assets Acquired 2007-2008	36,735
Accumulated Depreciation through December 31, 2008	<u>(2,871)</u>
Net Assets, December 31, 2008, Restated	<u>\$ 8,307,998</u>

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Funding Progress
December 31, 2009
(Unaudited)

Valuation January 1st	(1) Actuarial Value of Assets	(2) Accrued Actuarial Liability	(3) Percentage Funded (1)/(2)	(4) Unfunded (assets in excess of) Accrued Actuarial Liability (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded (assets in excess of) Actuarial Liability as % of Payroll (4)/(5)
1999	\$385,214	\$281,737	136.7%	\$(103,477)	\$217,689	(47.5)%
2001	\$423,383	\$336,371	125.8%	\$(87,012)	\$259,861	(33.4)%
2003	\$521,003	\$537,492	96.9%	\$16,489	\$230,235	7.2%
2005	\$497,296	\$581,025	85.6%	\$83,729	\$319,330	26.2%
2007	\$588,364	\$632,621	93.0%	\$44,257	\$343,950	13.1%
2009	\$606,948	\$755,740	80.3%	\$148,792	\$352,285	42.2%

The actuarial accrued liability measure was determined as part of the calculation to determine the actuarially determined contribution requirement that was made at January 1, 2009. The entry age normal funding method was used to calculate the actuarial accrued liability. Significant actuarial assumptions include:

- A rate of return on the investment of present and future assets of 7.25% per year.
- Projected salary increases of 5% per year compounded annually, attributable to inflation.

Isolated analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the Borough's police public employee retirement systems (PERS) funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Contributions from Employers and Other Contributing Entities
December 31, 2009
(Unaudited)

<u>Calendar Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contribution</u>	<u>State Aid</u>	<u>Contributions as a % of ARC</u>
2001	\$34,589	\$0	\$34,589	100.0%
2002	\$31,961	\$0	\$31,961	100.0%
2003	\$28,317	\$0	\$28,317	100.0%
2004	\$24,417	\$0	\$24,417	100.0%
2005	\$36,493	\$0	\$36,493	100.0%
2006	\$40,067	\$0	\$40,067	100.0%
2007	\$44,886	\$0	\$44,886	100.0%
2008	\$40,939	\$0	\$40,939	100.0%
2009	\$35,946	\$0	\$35,946	100.0%

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended December 31, 2009

	<u>Original Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,178,785	\$ 1,157,873	\$ (20,912)
Intergovernmental	719,836	128,880	(590,956)
Fines, Licenses and Permits	77,400	98,257	20,857
Charges for Services	85,000	86,166	1,166
Investment Income and Rents	311,800	298,647	(13,153)
Miscellaneous	3,700	2,936	(764)
Total Revenues	<u>2,376,521</u>	<u>1,772,759</u>	<u>(603,762)</u>
Expenditures			
General Government	548,184	533,137	15,047
Public Safety	830,781	861,452	(30,671)
Highways	315,735	283,764	31,971
Parks and Recreation	11,430	3,496	7,934
Debt Service - Principal	15,000	66,200	(51,200)
Debt Service - Interest	2,000	2,864	(864)
Capital Expenditures	614,041	10,324	603,717
Miscellaneous Governmental	66,350	55,416	10,934
Total Expenditures	<u>2,403,521</u>	<u>1,816,653</u>	<u>586,868</u>
Excess (Deficiency) of Revenues Over Expenditures	(27,000)	(43,894)	(16,894)
Other Financing Sources (Uses) Operating Transfers In (Out)	<u>(23,000)</u>	<u>(5,715)</u>	<u>17,285</u>
Net Change in Fund Balances	(50,000)	(49,609)	391
Fund Balances			
Beginning of Year	<u>50,000</u>	<u>594,140</u>	<u>544,140</u>
End of Year	<u>\$ 0</u>	<u>\$ 544,531</u>	<u>\$ 544,531</u>

See Notes to Schedules of Budget to Actual Comparisons.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Schedules of Budget to Actual Comparisons
December 31, 2009

1. Basis of Presentation

The Borough has prepared the Schedule of Budget to Actual Comparisons using the same format as the Statement of Revenues, Expenditures, and Changes in Fund Balances.

The Borough did not amend its 2009 budget as originally adopted and, therefore, is presenting its original and final budget in one column for each fund presented.

BOROUGH OF CHALFONT
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2009

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
Assets			
Cash	\$ 0	\$ 99,570	\$ 26,814
Taxes Receivable	809	0	0
Due from (to) Other Funds	35	(1,532)	0
Total Assets	<u>\$ 844</u>	<u>\$ 98,038</u>	<u>\$ 26,814</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 0	\$ 0	\$ 0
Deferred Revenue	809	0	0
Total Liabilities	<u>809</u>	<u>0</u>	<u>0</u>
 Fund Balances			
Unreserved, Reported in			
Special Revenue Funds	35	98,038	26,814
Capital Project Funds	0	0	0
Total Fund Balances	<u>35</u>	<u>98,038</u>	<u>26,814</u>
 Total Liabilities and Fund Balances	 <u>\$ 844</u>	 <u>\$ 98,038</u>	 <u>\$ 26,814</u>

<u>Grant Fund</u>	<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 150	\$ 14,253	\$ 140,787
0	0	809
0	0	(1,497)
<u>150</u>	<u>\$ 14,253</u>	<u>\$ 140,099</u>
0	\$ 0	\$ 0
0	0	809
<u>0</u>	<u>0</u>	<u>809</u>
0	0	124,887
150	14,253	14,403
<u>150</u>	<u>14,253</u>	<u>139,290</u>
<u>\$ 150</u>	<u>\$ 14,253</u>	<u>\$ 140,099</u>

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2009

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
Revenues			
Taxes	\$ 82,996	\$ 0	\$ 0
Intergovernmental Revenue	0	84,375	0
Investment Income and Rents	0	474	85
Miscellaneous Revenues	0	0	21,724
Total Revenues	<u>82,996</u>	<u>84,849</u>	<u>21,809</u>
Expenditures			
Public Safety	85,176	0	0
Public Works	0	7,604	0
Parks and Recreation	0	0	7,573
Debt Service - Principal	0	21,209	0
Debt Service - Interest	0	7,591	0
Capital Expenditures	0	6,090	0
Total Expenditures	<u>85,176</u>	<u>42,494</u>	<u>7,573</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,180)	42,355	14,236
Other Financing Sources (Uses) Transfers In (Out)	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(2,180)	42,355	14,236
Net Assets			
Beginning of Year	<u>2,215</u>	<u>55,683</u>	<u>12,578</u>
End of Year	<u>\$ 35</u>	<u>\$ 98,038</u>	<u>\$ 26,814</u>

<u>Grant Fund</u>	<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 0	\$ 0	\$ 82,996
0	0	84,375
0	142	701
150	0	21,874
<u>150</u>	<u>142</u>	<u>189,946</u>
0	0	85,176
0	0	7,604
0	0	7,573
0	0	21,209
0	0	7,591
0	16,000	22,090
<u>0</u>	<u>16,000</u>	<u>151,243</u>
150	(15,858)	38,703
<u>0</u>	<u>5,715</u>	<u>5,715</u>
150	(10,143)	44,418
<u>0</u>	<u>24,396</u>	<u>94,872</u>
<u>\$ 150</u>	<u>\$ 14,253</u>	<u>\$ 139,290</u>