

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PENNSYLVANIA**

**Financial Report**

**December 31, 2012**

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PENNSYLVANIA**

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**BOROUGH OF CHALFONT  
BUCKS COUNTY, PENNSYLVANIA**

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## **Independent Auditor's Report**

To the Borough Council  
Borough of Chalfont  
Chalfont, Pennsylvania

### **Report on the Financial Statements**

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 December 31, 2012, and for the year then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough's primary government as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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

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



## **Opinion**

In our opinion, the financial statements referred to above 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, 2012, 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.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required information on pages 3 through 12 and 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Chalfont, Pa.  
April 10, 2013

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

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, 2012. Please read it in conjunction with the Borough's financial statements, which begin on page 13.

**FINANCIAL HIGHLIGHTS**

- Chalfont Borough's net position increased \$207,741 or 2.1%, as a result of this year's operations.
- The total cost of all Chalfont Borough's programs for the year ended December 31, 2012, was \$2,289,865 compared to \$2,039,866 for 2011.

**USING THIS REPORT**

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13-14) 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 Position 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 deferred outflows, and liabilities and deferred inflows 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 position and changes in them. The Borough's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows) provide a measurement of the Borough's financial health, or financial position. Over time, increases or decreases in net position 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, 2012**

**USING THIS REPORT** (Continued)

**Reporting Significant Funds**

The fund financial statements begin on page 15 and provide detailed information about the most significant funds, 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 Position 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 Position and Changes in Fiduciary Net Position on pages 21 and 22. 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 Position provides an overview of Chalfont Borough's assets, deferred outflows, liabilities, deferred inflows, and net position. 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, 2012**

**THE BOROUGH AS A WHOLE (Continued)**

**Table 1**  
**Net Position**

Account	2012	2011	\$ Change	% Change
Capital Assets	\$ 4,816,384	\$ 4,643,043	\$ 173,341	3.73
Current and Other Assets	<u>5,463,117</u>	<u>5,430,312</u>	<u>32,805</u>	0.60
		10,073,355\$1		
Total Assets	<u>10,279,501</u>	<u>0,073,355.00</u>	<u>206,146</u>	2.05
Long-Term Liabilities	158,814	152,169	6,645	4.37
Other Liabilities	<u>164,820</u>	<u>173,060</u>	<u>(8,240)</u>	(4.76)
Total Liabilities	<u>323,634</u>	<u>325,229</u>	<u>(1,595)</u>	(0.49)
Net Position				
Invested in Capital Assets, Net of Related Debt	4,674,104	4,503,833	170,271	3.78
Restricted	4,619,893	4,577,515	42,378	0.93
Unrestricted	<u>661,870</u>	<u>666,778</u>	<u>(4,908)</u>	(0.74)
Total Net Position	<u>\$ 9,955,867</u>	<u>\$ 9,748,126</u>	<u>\$ 207,741</u>	2.13

The total net position of the Borough shown above is approximately \$10.0 million. Net position increased by 2.13% in 2012.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

**THE BOROUGH AS A WHOLE** (Continued)

**Table 2**  
**Change in Net Position**

Account	2012	2011	\$ Change	% Change
<b>Program Revenues</b>				
General Government	\$ 486,216	\$ 320,754	\$ 165,462	51.59
Police	90,476	86,389	4,087	4.73
Fire	34,218	58,566	(24,348)	(41.57)
Code Enforcement	27,135	31,713	(4,578)	(14.44)
Planning and Zoning	4,210	1,126	3,084	273.89
Highway Maintenance	236,237	124,847	111,390	89.22
Traffic Signals	1,153	952	201	21.11
Parks and Recreation	57,855	570,480	(512,625)	(89.86)
<b>General Revenues</b>				
Real Estate Taxes	648,016	619,049	28,967	4.68
Transfer Taxes	53,296	69,375	(16,079)	(23.18)
Earned Income Taxes	646,091	610,224	35,867	5.88
Local Services Tax	41,694	44,142	(2,448)	(5.55)
Grants and Contributions	11,079	2,951	8,128	275.43
Interest and Rents	309,807	380,963	(71,156)	(18.68)
Sale of Capital Assets	(149,877)	12,779	(162,656)	(1,272.84)
Miscellaneous	0	398	(398)	(100.00)
<b>Total Revenues (Forwarded)</b>	<b>\$ 2,497,606</b>	<b>\$ 2,934,708</b>	<b>\$(437,102)</b>	<b>(14.89)</b>

(Table 2 continues on the next page.)

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

**THE BOROUGH AS A WHOLE (Continued)**

**Table 2**  
**Change in Net Position**

Account	2012	2011	\$ Change	% Change
<b>Total Revenues (Forwarded)</b>	<u>\$ 2,497,606</u>	<u>\$ 2,934,708</u>	<u>\$(437,102)</u>	(14.89)
<b>Program Expenses</b>				
Legislative	6,716	8,100	(1,384)	(17.09)
Executive	278,573	358,094	(79,521)	(22.21)
Finance and Tax Collection	82,937	12,193	70,744	580.20
Professional Services	151,916	121,870	30,046	24.65
General Government	329,919	216,727	113,192	52.23
Police	886,099	759,847	126,252	16.62
Fire	142,173	168,333	(26,160)	(15.54)
Code Enforcement	57,024	63,713	(6,689)	(10.50)
Planning and Zoning	6,032	2,624	3,408	129.88
Highway Maintenance	260,558	262,419	(1,861)	(0.71)
Snow and Ice Removal	13,639	20,041	(6,402)	(31.94)
Traffic Signals & Street Lighting	5,722	4,045	(1,677)	(41.86)
Parks and Recreation	<u>68,557</u>	<u>37,950</u>	<u>30,607</u>	80.65
<b>Total Expenses</b>	<u>2,289,865</u>	<u>2,035,956</u>	<u>253,909</u>	12.47
<b>Changes in Net position</b>	<u>\$ 207,741</u>	<u>\$ 898,752</u>	<u>\$(691,011)</u>	(76.89)

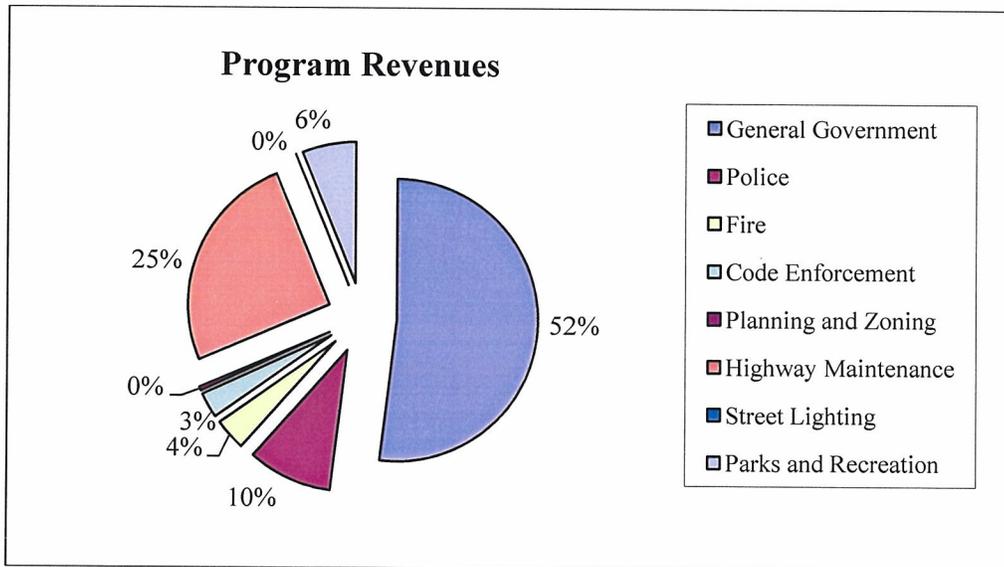
**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

**THE BOROUGH AS A WHOLE** (Continued)

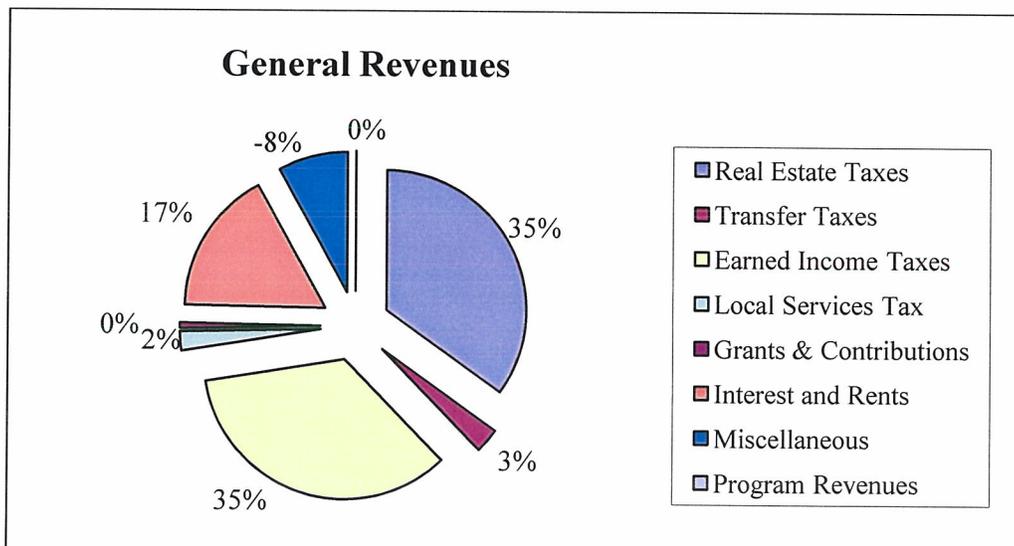
**Revenue Overview**

In 2012 the general millage increased by 0.50 to 11.75 mills, the fire tax at 1.25 mills was unchanged, and the ambulance at 0.50 mills was unchanged. Total revenues decreased 14.89% or \$(437,102) from the prior year. This decline in revenue is due to the fact that the Borough received less grant revenue in 2012, and also recognized at loss on the disposal of capital assets.

**Figure 1**



**Figure 2**



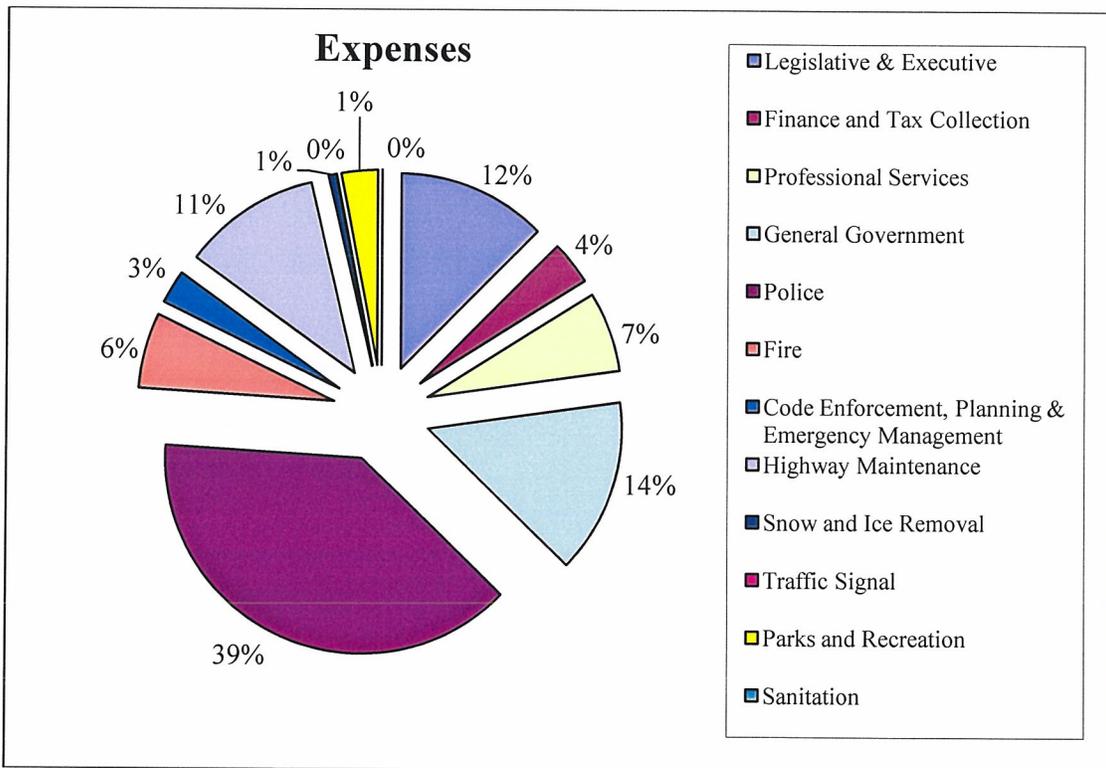
**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Management's Discussion and Analysis (Unaudited)  
Year Ended December 31, 2012**

**THE BOROUGH AS A WHOLE** (Continued)

**Expense Overview**

Total expenses in all categories were \$2,289,865. The largest areas of expense were Police and General Government. Expenses increased \$253,909 or 12.26% from the prior year.

**Figure 3**



**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

**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 Advanced Disposal to provide for trash pickup for Chalfont Borough residents. Advance Disposal bills and collects for this service. In 2012 the contract cost was \$350.00 per household per year. 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 separated from the Chalfont Fire Company several years ago 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. Additionally, Council approved distributing 25% of Local Services Tax receipts to the EMS and 25% to the Chalfont Fire Company. 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.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended December 31, 2012**

**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 help balance the budget.

**Other Funds**

This category includes Fire Tax, Liquid Fuels, Recreation, Equipment and Grant Funds. Each of these funds had routine and unremarkable results during 2012.

**Pension Plans**

Fulltime Borough employees are also members of the Police or Non-Uniformed pension plans. The Borough's pension investments advisor is Univest Municipal Pension Services. The Police Pension Plan is 79% 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. Six employees participate in the plan.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Borough has \$4,674,104 invested in Capital Assets, Net of Related Debt. Infrastructure assets acquired prior to January 1, 2004, 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 is the repaving of the outbound lane of Lindenfield Parkway in 2013.

Additionally, the Borough has received approval on approximately \$1.3 million in grants from federal, state, and local governmental units. These grants will be used to fund the construction of crosswalks, curbing, and sidewalks, and other capital projects. Construction on some of these projects began in 2012 and will be completed by 2014.

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.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Management's Discussion and Analysis (Unaudited)  
Year Ended December 31, 2012**

**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 Position**  
**December 31, 2012**

**Assets**

Current Assets

Cash	\$ 550,914
Investments	4,479,903
Grants and Other Receivables	111,534
Taxes Receivable	311,074
Prepaid Expenses	3,455
Total Current Assets	<u>5,456,880</u>

Noncurrent Assets

Net Capital Assets	<u>4,816,384</u>
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**Total Assets**

10,273,264

**Deferred Outflows of Resources**

Accumulated Decrease in Value of Hedging Derivative	<u>6,237</u>
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**Liabilities**

Current Liabilities

Current Portion of General Obligation Note Payable	15,000
Current Portion of Obligations Under Capital Lease	26,461
Accounts Payable and Accrued Expenses	106,515
Escrow Deposits	11,054
Total Current Liabilities	<u>159,030</u>

Noncurrent Liabilities

General Obligation Note Payable	78,000
Obligations Under Capital Lease	22,819
Compensated Absences	51,758
Fair Value of Interest Rate Swap	6,237
Total Noncurrent Liabilities	<u>158,814</u>

**Total Liabilities**

317,844

**Deferred Inflows of Resources**

Deferred Rental Receipts	<u>5,790</u>
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**Net Position**

Invested in Capital Assets, Net of Related Debt	4,674,104
Restricted for	
Capital Projects	4,493,970
Other Purposes	125,923
Unrestricted	<u>661,870</u>
<b>Total Net Position</b>	<u>\$ 9,955,867</u>

See Notes to Financial Statements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Statement of Activities**  
**Year Ended December 31, 2012**

Functions/Programs	Expenses	Program Revenue			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities</b>					
<b>General Government</b>					
Legislative	\$ 6,716	\$ 0	\$ 0	\$ 0	\$ (6,716)
Executive	278,573	0	0	0	(278,573)
Finance and Tax Collection	82,937	28,379	0	0	(54,558)
Professional Services	151,916	0	0	0	(151,916)
General Government	329,919	81,369	72,099	304,369	127,918
<b>Public Safety</b>					
Police	886,099	33,154	57,322	0	(795,623)
Fire	142,173	2,030	32,188	0	(107,955)
Code Enforcement	57,024	27,135	0	0	(29,889)
Planning and Zoning	6,032	4,210	0	0	(1,822)
<b>Highways</b>					
Highway Maintenance	260,558	400	114,213	121,624	(24,321)
Snow and Ice Removal	13,639	0	0	0	(13,639)
Traffic Signals and Street Lighting	5,722	1,153	0	0	(4,569)
<b>Parks and Recreation</b>	68,557	0	24,521	33,334	(10,702)
<b>Total Governmental Activities</b>	<b>\$ 2,289,865</b>	<b>\$ 177,830</b>	<b>\$ 300,343</b>	<b>\$ 459,327</b>	<b>(1,352,365)</b>
		<b>General Revenues</b>			
		<b>Taxes</b>			
					648,016
					53,296
					646,091
					41,694
					11,079
					309,807
					(149,877)
					<u>1,560,106</u>
					207,741
					<u>9,748,126</u>
					<u>\$ 9,955,867</u>

See Notes to Financial Statements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2012**

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Grant Fund</u>
<b>Assets</b>			
Cash	\$ 412,503	\$ 0	\$ 0
Investments	0	4,479,903	0
Grants and Other Receivables	7,454	0	104,080
Taxes Receivable	307,578	0	0
Due from (to) Other Funds	105,357	(1,917)	(104,080)
	<u>832,892</u>	<u>(1,917)</u>	<u>(104,080)</u>
<b>Total Assets</b>	<b>\$ 832,892</b>	<b>\$ 4,477,986</b>	<b>\$ 0</b>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 80,090	\$ 0	\$ 0
Accrued Wages and Payroll Withholdings	17,302	0	0
Due to Other Governments	8,483	0	0
Escrow Deposits	11,054	0	0
<b>Total Liabilities</b>	<b>116,929</b>	<b>0</b>	<b>0</b>
 <b>Deferred Inflows of Resources</b>			
Deferred Tax and Rental Receipts	154,626	0	0
	<u>154,626</u>	<u>0</u>	<u>0</u>
 <b>Fund Balances</b>			
Restricted	0	0	0
Committed	0	4,477,986	0
Unassigned	561,337	0	0
<b>Total Fund Balances</b>	<b>561,337</b>	<b>4,477,986</b>	<b>0</b>
 <b>Total Liabilities and Fund Balances</b>	<b>\$ 832,892</b>	<b>\$ 4,477,986</b>	<b>\$ 0</b>

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 138,411	\$ 550,914
0	4,479,903
0	111,534
3,496	311,074
640	0
<u>\$ 142,547</u>	<u>\$ 5,453,425</u>

\$ 640	\$ 80,730
0	17,302
0	8,483
0	11,054
640	117,569

2,837	157,463
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80,695	80,695
58,375	4,536,361
0	561,337
139,070	5,178,393

<u>\$ 142,547</u>	<u>\$ 5,453,425</u>
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**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**December 31, 2012**

Total Governmental Fund Balances	\$ 5,178,393
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 \$1,541,523.	4,816,384
Other Long-Term Assets Are Not Available to Pay Current Period Expenditures, and Therefore Are Deferred in the Funds.	
Taxes Receivable	151,673
Prepaid Expenses	3,455
Accumulated Decrease in the Fair Value of Interest Rate Swap	6,237
Long-Term Liabilities Are Not Due and Payable in the Current Period, and Therefore Are Not Reported in the Funds.	
General Obligation Note Payable	(93,000)
Obligations Under Capital Lease	(49,280)
Compensated Absences	(51,758)
Fair Value of Interest Rate Swap	(6,237)
Net Assets of Governmental Activities	<u>\$ 9,955,867</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, 2012**

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Grant Fund</u>
<b>Revenues</b>			
Taxes	\$ 1,338,758	\$ 0	\$ 0
Intergovernmental	141,638	0	519,840
Fines, Licenses and Permits	113,813	0	0
Charges for Services	64,017	0	0
Investment Income and Rents	269,945	31,246	0
Miscellaneous	0	0	0
Total Revenues	<u>1,928,171</u>	<u>31,246</u>	<u>519,840</u>
<b>Expenditures</b>			
General Government	569,995	0	79,038
Public Safety	980,222	0	0
Public Works	240,187	0	0
Parks and Recreation	8,168	0	0
Debt Service - Principal	7,399	0	0
Debt Service - Interest	613	0	0
Capital Expenditures	20,591	0	440,952
Miscellaneous Governmental	50,383	0	0
Total Expenditures	<u>1,877,558</u>	<u>0</u>	<u>519,990</u>
Net Change in Fund Balances	50,613	31,246	(150)
<b>Fund Balances</b>			
Beginning of Year	<u>510,724</u>	<u>4,446,740</u>	<u>150</u>
End of Year	<u>\$ 561,337</u>	<u>\$ 4,477,986</u>	<u>\$ 0</u>

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 83,990	\$ 1,422,748
84,798	746,276
0	113,813
0	64,017
815	302,006
24,473	24,473
<u>194,076</u>	<u>2,673,333</u>
0	649,033
83,331	1,063,553
1,731	241,918
12,143	20,311
29,199	36,598
5,169	5,782
66,836	528,379
0	50,383
<u>198,409</u>	<u>2,595,957</u>
(4,333)	77,376
<u>143,403</u>	<u>5,101,017</u>
<u>\$ 139,070</u>	<u>\$ 5,178,393</u>

**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, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ 77,376
 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 \$528,379 Exceeded Depreciation Expense of \$244,829 and Disposal of Capital Assets with a Book Value of \$149,877 in the Current Year.	
	133,673
 Revenues in the Statement of Activities That Do Not Provide Current Financial Resources Are Not Reported As Revenues in the Funds.	
Taxes Receivable	(33,651)
 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.	
	36,598
 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	183
Compensated Absences	(14,239)
Change in Fair Value of Interest Rate Swap	<u>7,801</u>
 Change in Net Assets of Governmental Activities	 <u><u>\$ 207,741</u></u>

See Notes to Financial Statements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Statement of Fiduciary Net Position**  
**Pension Trust Funds**  
**December 31, 2012**

**Assets**

Cash	\$ 10,706
Investments	1,143,118
Prepaid Pension Benefit	2,510
Contributions Receivable	<u>15,148</u>
 Total Assets	 1,171,482

**Liabilities**

0

**Net Position**

Held in Trust for Pension Benefits	<u><u>\$ 1,171,482</u></u>
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See Notes to Financial Statements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Statement of Changes in Fiduciary Net Position**  
**Pension Trust Funds**  
**Year Ended December 31, 2012**

<b>Additions</b>	
Contributions	
Employer (Borough)	\$ 15,148
Plan Members	26,145
State	71,522
Total Contributions	<u>112,815</u>
Investment Income	
Net-Depreciation in Fair Value of Investments	109,601
Less Investment Expense	<u>10,287</u>
Net Investment Income	<u>99,314</u>
Total Additions	<u>212,129</u>
<b>Deductions</b>	
Benefits	30,125
Refund of Plan Member Contributions	10,766
Administrative Expense	7,400
Total Deductions	<u>48,291</u>
Increase in Net Position	163,838
Net Position, Held in Trust	
Beginning of Year	<u>1,007,644</u>
End of Year	<u><u>\$ 1,171,482</u></u>

See Notes to Financial Statements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**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.

The Borough's statements are prepared in compliance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant aspects of 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 focus on major funds in the fund financial statements.

**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, 2012**

**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 Position 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, 2012**

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

**C. Basis of Accounting (Continued)**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

Net position should be reported as restricted when constraints placed on net position 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 position restricted for other purposes result from special revenue funds and the restrictions on their net position 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, 2012**

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

**C. Basis of Accounting (Continued)**

**GOVERNMENTAL FUNDS (Continued)**

**General Fund** - The General Fund is the general operating fund of the Borough and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Description</u>	<u>Major Fund?</u>
Liquid Fuels	Accounts for revenues and expenditures of state liquid fuels grant funds	No
Fire Tax	Accounts for revenues and expenditures of fire protection tax funds	No
Recreation	Accounts for tax money received for recreational activities	No

**Capital Projects Funds**

Capital projects funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

<u>Fund</u>	<u>Description</u>	<u>Major Fund?</u>
Capital Reserve	Accounts for financial resources to be used for the acquisition and construction of capital assets and facilities	Yes
Equipment	Accounts for funds received for the purchase of equipment	No
Grant	Accounts for grant revenues and the related expenditures for various Borough projects	Yes

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

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

**C. Basis of Accounting (Continued)**

**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.

**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, statement of revenues, expenditures, and changes in fund balances as revenue (governmental activities), and on the statement of changes in fiduciary net position (fiduciary funds).

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

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

**G. Interfund Transactions**

As a result of its operations, the Borough has a variety of transactions between funds. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2012, appropriate interfund receivables or payables have been established.

**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 a 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 Position. 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.

Classifications	Years
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, 2012**

**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 each year 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. Upon retirement or termination, accumulated vacation leave is paid at 100% of the respective employee's pay rate.

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 each year depending on their length of continuous service, and vacation time can be taken to the next year, but must be used within 120 days. 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 \$51,758 for vested sick and vacation pay at December 31, 2012.

**K. Equity Classifications**

**Government-Wide Statements**

Equity is classified as net position and displayed in three components:

1. **Invested in capital assets, net of related debt** - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted net position** - Consists of net assets with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or b) law through constitutional provisions or enabling legislation.
3. **Unrestricted net position** - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

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

**K. Equity Classifications (Continued)**

**Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

Nonspendable – includes amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be kept intact. The Borough did not have any nonspendable fund balances at December 31, 2012.

Restricted – includes amounts that are restricted for specific purposes by constitutional provisions, enabling legislation, or externally imposed constraints.

Committed – includes amounts that can only be used for specific purposes with constraints that are established by a formal action of the Borough Council. The constraint can only be changed or removed by another formal action of the Council. The Borough's fund balance policy requires passage of a Resolution or an Ordinance by the Council in order to set aside funds as Committed.

Assigned – includes amounts that are constrained by the Borough's intent to be used for specific purposes, but are neither restricted nor committed. Assigned balances include all remaining government fund amounts, other than the General Fund, that are not classified as nonspendable, restricted or committed, and are intended for a specific purpose. The intent is expressed by the Council, or an individual to whom the Council has designated authority. The Borough's fund balance policy grants this authority to the Borough Manager Finance Director, as well as the Borough Council. The Borough did not have any assigned fund balances at December 31, 2012.

Unassigned – this amount is the residual classification for the General Fund, and any negative fund balances in other governmental funds. Other governmental funds cannot report any positive unassigned amounts.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts, then unassigned amounts.

The Borough does not currently have a formal minimum fund balance policy.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

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

**L. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**2. Cash and Investments**

Cash and investments as of December 31, 2012, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash	\$ 550,914
Investments	4,479,903
Statement of Fiduciary Net Position:	
Cash	10,706
Investments	<u>1,143,118</u>
Total Cash and Investments	<u>\$ 6,184,641</u>

Cash and investments as of December 31, 2012, consist of the following:

Cash on Hand	\$ 550
Deposits with Financial Institutions	561,070
Investments	<u>5,623,021</u>
Total Cash and Investments	<u>\$ 6,184,641</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, 2012, \$281,596 of the Borough's bank balance of \$577,068 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, 2012**

**2. Cash and Investments (Continued)**

**B. Investments**

At December 31, 2012, the Borough's investments consisted of the following:

Governmental Funds:	
Asset-Backed Securities	
Federal Home Loan Mortgage Association	\$ 1,770,039
Federal National Mortgage Association	1,826,420
Government National Mortgage Association	418,066
Money Market Funds	465,378
	<u>4,479,903</u>
Fiduciary Funds:	
Fixed Income Mutual Funds	309,450
Equity Mutual Funds	810,606
Money Market Funds	23,062
	<u>1,143,118</u>
Total Investments	<u>\$ 5,623,021</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, 2012**

**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, 2012**

**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, 2012, the Borough's investments were rated as shown on the next page.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**2. Cash and Investments (Continued)**

**B. Investments (Continued)**

**Credit Risk (Continued)**

	<u>Fair Value</u>	<u>Rating</u>
Governmental Funds		
Federal Home Loan Mortgage Association	\$ 1,770,039	AAA
Federal National Mortgage Association	<u>1,826,420</u>	AAA
Total Exposed to Credit Risk	<u>\$ 3,596,459</u>	
U.S. Government Guaranteed*		
Government National Mortgage Association	<u>\$ 418,066</u>	
Not Rated**	<u>\$ 465,378</u>	
Fiduciary Funds		
Not Rated**	<u>\$ 1,143,118</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	\$1,770,039
Federal National Mortgage Association	\$1,826,420
Government National Mortgage Association	\$418,066

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**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 2042 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 \$48,593,640 for 2012. 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 2012, the Borough's tax rate was 11.75 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, 2012**

**4. Capital Assets**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 1/1/12	Additions	Disposals	Balance 12/31/12
<b>Assets Not Being Depreciated</b>				
Land	\$ 821,450	\$ 0	\$ 0	\$ 821,450
Conservation Easements	173,000	0	0	173,000
<b>Depreciable Assets</b>				
Land and Park Improvements	1,075,255	203,443	2,370	1,276,328
Buildings and Improvements	1,126,710	137,844	165,960 **	1,098,594
Vehicles	515,984	42,347 *	0	558,331
Machinery and Equipment	173,625	10,122	10,639	173,108
Furniture	15,670	0	4,038	11,632
Infrastructure	2,071,173	174,291	0	2,245,464
<b>Total at Historical Cost</b>	<u>5,972,867</u>	<u>568,047</u>	<u>183,007</u>	<u>6,357,907</u>
<b>Less Accumulated Depreciation</b>				
Land and Park Improvements	174,237	53,465	517	227,185
Buildings and Improvements	387,960	44,838	18,084	414,714
Vehicles	317,988	41,655	0	359,643
Machinery and Equipment	118,858	13,442	10,622	121,678
Furniture	10,562	1,073	3,907	7,728
Infrastructure	320,219	90,356	0	410,575
<b>Total Accumulated Depreciation</b>	<u>1,329,824</u>	<u>244,829</u>	<u>33,130</u>	<u>1,541,523</u>
<b>Total Net Capital Assets</b>	<u>\$ 4,643,043</u>	<u>\$ 323,218</u>	<u>\$ 149,877</u>	<u>\$ 4,816,384</u>

\* Includes \$39,668 of equipment acquired through a capital lease.

\*\* Includes \$136,356 of pre-construction design costs for a new police/public works building in prior years, a project which was abandoned in 2012.

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 142,887
Police	13,311
Highway Maintenance	40,535
Parks and Recreation	48,096
<b>Total Depreciation Expense</b>	<u>\$ 244,829</u>

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**5. Long-Term Note**

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

Balance at January 1, 2012	\$ 108,000
Payment	<u>(15,000)</u>
Balance at December 31, 2012	<u>\$ 93,000</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 (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 at 3.745% (see Note 13). Principal payments are due on June 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 15,000	\$ 3,202	\$ 18,202
2014	15,000	2,640	17,640
2015	15,000	2,078	17,078
2016	18,000	1,517	19,517
2017	15,000	899	15,899
2018	<u>15,000</u>	<u>281</u>	<u>15,281</u>
	<u>\$ 93,000</u>	<u>\$ 10,617</u>	<u>\$ 103,617</u>

Interest expense was \$3,764 for the year.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**6. Obligations under Capital Lease**

The Borough entered into two lease agreements for the acquisition of a police vehicle and public works truck. Monthly lease payments of \$1,203 and \$1,300 for the police vehicle and public works truck are due through the years 2013 through 2015. At December 31, 2011, the capitalized cost of the leased equipment was \$82,324, and accumulated depreciation was \$5,588. At December 31, 2012, future lease payments are due as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 29,073
2014	14,440
2015	9,626
	<u>53,139</u>
Less Interest Portion	<u>(3,859)</u>
	<u>\$ 49,280</u>

**7. Fund Balance Classifications**

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Restricted for:				
Fire and Ambulance	\$ 0	\$ 0	\$ 659	\$ 659
Highway Improvements	0	0	80,036	80,036
	<u>0</u>	<u>0</u>	<u>80,695</u>	<u>80,695</u>
Committed for:				
Capital Expenditures	0	4,477,986	15,984	4,493,970
Recreation	0	0	42,391	42,391
	<u>0</u>	<u>4,477,986</u>	<u>58,375</u>	<u>4,536,361</u>
Unassigned	<u>561,337</u>	<u>0</u>	<u>0</u>	<u>561,337</u>
Total Fund Balances	<u>\$ 561,337</u>	<u>\$ 4,477,986</u>	<u>\$ 139,070</u>	<u>\$ 5,178,393</u>

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**8. Interfund Transactions**

Interfund transactions are as follows:

Purpose	Receivable Fund	Payable Fund	Amount
<b>Due to/from</b>			
Tax Revenue Received	Fire Tax	General	\$640
Investment Income	General	Capital Reserve	\$1,917
Grant Project Expenditures	General	Grant	\$104,080

**9. 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.

**10. 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 \$91,614 have been made to the station to date. Of the improvements, \$66,084 was funded by the Community Development Block Grants received in prior years.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**11. 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.

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, 2011, 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>4</u>
Total	<u>7</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 2012, 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, 2012**

**11. 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 Plan's assets are managed by TCG Investment Advisory, Inc.

Investments at December 31, 2012, consisted of mutual funds valued at \$778,444.

Individual investments comprising greater than 5% of the Plan's net assets at December 31, 2012, consisted of the following:

	<u>Fair Value</u>
PIMCO Income	\$46,935
PIMCO Investment Grade Corp.	\$70,009
Prudential Total Return Bond	\$62,303
Delaware Corporate Bond	\$70,151
Principal MidCap Blend	\$39,241
WF Adv Growth	\$39,156

**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, 2012**

**11. 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 2012, the Borough's annual pension cost of \$57,322 was equal to the Borough's required and actual contributions.

The annual required contribution for 2012 was determined as part of the January 1, 2011, 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 Obligation
12/31/10	\$41,981	100%	\$0
12/31/11	\$53,387	100%	\$0
12/31/12	\$57,322	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)
2011	\$731,105	\$927,762	78.8%	\$196,657	\$472,343	41.6%

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, 2012**

**11. Chalfont Borough Police Pension Plan (Continued)**

**E. Funding Status and Funding Progress (Continued)**

Valuation Date	1/1/11
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	18 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 50.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**12. 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 Plan's assets are managed by TCG Investment Advisory, Inc.

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 \$29,353 to the plan, of which \$14,200 was funded by state-shared revenues.

**BOROUGH OF CHALFONT  
BUCKS COUNTY, PA  
Notes to Financial Statements  
December 31, 2012**

**12. 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, 2012, in the amount of \$364,674 consisted entirely of mutual funds.

Individual investments comprising greater than 5% of the Plan's net assets at December 31, 2012, consisted of the following:

	<u>Fair Value</u>
Blackrock Large Cap Fund	\$35,183
Eagle Series Mid Cap	\$37,567
Eagle Series Small Cap Growth	\$30,028
Thornburg International Value Fund	\$46,660
Pimco Real Return Fund	\$67,909
Nationwide Investor Destinations Conservative Fund	\$41,253
Nationwide Investor Destinations Mod Aggr Svc	\$21,549

**13. Derivative Instruments and Hedging Activities**

As described in Note 5, the Borough entered into a fixed rate swap agreement. 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 the \$170,000 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 3.745% over the remaining term of the loan. The counterparty involved in this swap agreement has received an A+ credit rating from Standard and Poor's.

With the execution of the fixed rate swap agreement and in accordance with GASB 53, "Accounting and Reporting for Derivative Instruments", the Borough accounts for the interest rate swap as a hedging derivative. The swap agreement has been determined to be effectively hedged under both the consistent critical terms and quantitative methods standards of GASB 53. As such, the change in fair value of the swap agreement has been reflected as a deferred outflow of resources in the Statement of Net Position. The change in the market value of the interest rate swap in favor of the Authority as of December 31, 2012, was as follows:

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**13. Derivative Instruments and Hedging Activities (Continued)**

Fair Market Value at December 31, 2011	\$ (7,801)
Increase in Market Value	<u>1,564</u>
Fair Market Value at December 31, 2012	<u>\$ (6,237)</u>

**14. 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.

**15. 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.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**16. 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. At December 31, 2012, five years remain to be paid, or approximately \$30,000.

**Government Grants**

As of December 31, 2012, the Borough had received several commitments from various government agencies for grants totaling approximately \$1.3 million. A summary of the grants and their purposes is as follows:

- Federal Safe Routes to School Grant in the amount of \$719,734 to install curbing, crosswalks, and sidewalks. This project commenced in 2012 and accordingly, the Borough recognized grant income of \$88,491.
- Automated Red Light Enforcement Grant in the amount of \$70,000 to fund a firehouse traffic signal and a train track pedestrian crossing. This project commenced in 2012 and accordingly, the Borough recognized grant income of \$33,133.
- DVRFA Transportation and Community Development Initiative Grant in the amount of \$75,000 for downtown revitalization and transit-oriented design planning. This project commenced in 2012 and accordingly, the Borough recognized grant income of \$60,513.
- DCNR Community Conservation Partnership Program in the amount of \$173,749 for the restoration of a park. This grant requires a 50% match. It is anticipated that this project will begin in 2014.
- Congestion Mitigation and Air Quality Grant in the amount of \$230,400. Construction is to begin in 2014.

Management expects to receive the majority of these funds in 2013 and 2014, with completion of all projects in 2014.

**17. Recent Accounting Pronouncements Issued, Not Yet Effective**

GASB Statement No. 67, Financial Reporting for Pension Plans, will be effective for the Borough for the year ending December 31, 2014. The objective of this statement is to improve financial reporting of governmental pension plans through enhanced note disclosure and required supplementary information. This statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Notes to Financial Statements**  
**December 31, 2012**

**17. Recent Accounting Pronouncements Issued, Not Yet Effective (Continued)**

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, will be effective for the Borough for the year ending December 31, 2015. The objective of this statement is to require recognition of the entire net pension liability, a more comprehensive measure of pension expense, and to further expand note disclosure and required supplementary information. This statement replaces the requirements of GASB Statement #27, Accounting for Pensions by State and Local Governmental Employers.

The Borough Council and management have not yet determined the effect these Statements will have on the Borough's financial statements.

**18. Subsequent Events**

Management has evaluated subsequent events through April 10, 2013, the date which the financial statements were available to be issued.

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**December 31, 2012**  
**(Unaudited)**

	(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)
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%
2011	\$731,105	\$927,762	78.8%	\$196,657	\$472,343	41.6%

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, 2011. 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, 2012**  
**(Unaudited)**

<u>Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contribution</u>	<u>State Aid</u>	<u>Contributions as a % of ARC</u>
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%
2010	\$41,981	\$0	\$41,981	100.0%
2011	\$53,387	\$0	\$53,387	100.0%
2012	\$57,322	\$0	\$57,322	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, 2012**

	<u>Original Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 1,239,550	\$ 1,338,758	\$ 99,208
Intergovernmental	144,806	141,638	(3,168)
Fines, Licenses and Permits	101,700	113,813	12,113
Charges for Services	85,400	64,017	(21,383)
Investment Income and Rents	283,500	269,945	(13,555)
Miscellaneous	3,000	0	(3,000)
Total Revenues	<u>1,857,956</u>	<u>1,928,171</u>	<u>70,215</u>
<b>Expenditures</b>			
General Government	608,731	569,995	38,736
Public Safety	980,587	980,222	365
Highways	265,855	240,187	25,668
Parks and Recreation	8,533	8,168	365
Debt Service - Principal	80,000	7,399	72,601
Debt Service - Interest	0	613	(613)
Capital Expenditures	20,500	20,591	(91)
Miscellaneous Governmental	63,750	50,383	13,367
Total Expenditures	<u>2,027,956</u>	<u>1,877,558</u>	<u>150,398</u>
Excess (Deficiency) of Revenues Over Expenditures	(170,000)	50,613	220,613
Other Financing Sources (Uses) Operating Transfers In (Out)	<u>120,000</u>	<u>0</u>	<u>(120,000)</u>
Net Change in Fund Balances	(50,000)	50,613	100,613
<b>Fund Balances</b>			
Beginning of Year	<u>50,000</u>	<u>510,724</u>	<u>460,724</u>
End of Year	<u>\$ 0</u>	<u>\$ 561,337</u>	<u>\$ 561,337</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, 2012**

**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 2012 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, 2012**

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
<b>Assets</b>			
Cash	\$ 0	\$ 80,036	\$ 42,391
Taxes Receivable	3,496	0	0
Due from (to) Other Funds	640	0	0
	<u>640</u>	<u>0</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$ 4,136</u></b>	<b><u>\$ 80,036</u></b>	<b><u>\$ 42,391</u></b>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 640	\$ 0	\$ 0
	<u>640</u>	<u>0</u>	<u>0</u>
<b>Deferred Inflows of Resources</b>			
Deferred Tax and Rental Receipts	2,837	0	0
	<u>2,837</u>	<u>0</u>	<u>0</u>
<b>Fund Balances</b>			
Restricted	659	80,036	0
Committed	0	0	42,391
	<u>659</u>	<u>80,036</u>	<u>42,391</u>
<b>Total Fund Balances</b>	<b><u>659</u></b>	<b><u>80,036</u></b>	<b><u>42,391</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 4,136</u></b>	<b><u>\$ 80,036</u></b>	<b><u>\$ 42,391</u></b>

<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 15,984	\$ 138,411
0	3,496
<u>0</u>	<u>640</u>
<u>\$ 15,984</u>	<u>\$ 142,547</u>
<u>\$ 0</u>	<u>\$ 640</u>
<u>0</u>	<u>2,837</u>
0	80,695
15,984	58,375
<u>15,984</u>	<u>139,070</u>
<u>\$ 15,984</u>	<u>\$ 142,547</u>

**BOROUGH OF CHALFONT**  
**BUCKS COUNTY, PA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2012**

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
<b>Revenues</b>			
Taxes	\$ 83,990	\$ 0	\$ 0
Intergovernmental Revenue	0	84,798	0
Investment Income and Rents	0	501	231
Miscellaneous	0	0	24,473
Total Revenues	<u>83,990</u>	<u>85,299</u>	<u>24,704</u>
<b>Expenditures</b>			
Public Safety	83,331	0	0
Public Works	0	1,731	0
Parks and Recreation	0	0	12,143
Debt Service - Principal	0	29,199	0
Debt Service - Interest	0	5,169	0
Capital Expenditures	0	42,674	17,894
Total Expenditures	<u>83,331</u>	<u>78,773</u>	<u>30,037</u>
Net Change in Fund Balances	659	6,526	(5,333)
<b>Net Assets</b>			
Beginning of Year	<u>0</u>	<u>73,510</u>	<u>47,724</u>
End of Year	<u>\$ 659</u>	<u>\$ 80,036</u>	<u>\$ 42,391</u>

<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 0	\$ 83,990
0	84,798
83	815
0	24,473
<u>83</u>	<u>194,076</u>
0	83,331
0	1,731
0	12,143
0	29,199
0	5,169
6,268	66,836
<u>6,268</u>	<u>198,409</u>
(6,185)	(4,333)
<u>22,169</u>	<u>143,403</u>
<u>\$ 15,984</u>	<u>\$ 139,070</u>