

**BOROUGH OF CHALFONT
BUCKS COUNTY, PENNSYLVANIA**

Financial Report

December 31, 2014

**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, 2014, 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, 2014, 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 52 through 56 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 7, 2015

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

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, 2014. Please read it in conjunction with the Borough's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Chalfont Borough's net position increased \$487,918 or 5.05%, as a result of this year's operations.
- The total cost of all Chalfont Borough's programs for the year ended December 31, 2014, was \$2,502,509 compared to \$2,516,201 for 2013.

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, 2014

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, 2014

THE BOROUGH AS A WHOLE (Continued)

Table 1
Net Position

Account	2014	2013	\$ Change	% Change
Capital Assets	\$ 5,491,886	\$ 4,763,297	\$ 728,589	15.30
Current and Other Assets	5,488,969	5,232,577	256,392	4.90
Total Assets	<u>10,980,855</u>	<u>9,995,874</u>	<u>984,981</u>	9.85
Long-Term Liabilities	661,666	172,817	488,849	282.87
Other Liabilities	177,592	169,378	8,214	4.85
Total Liabilities	<u>839,258</u>	<u>342,195</u>	<u>497,063</u>	145.26
Net Position				
Invested in Capital Assets, Net of Related Debt	5,117,769	4,662,478	455,291	9.77
Restricted	4,445,523	4,243,437	202,086	4.85
Unrestricted	<u>578,305</u>	<u>747,764</u>	<u>(169,459)</u>	(22.66)
Total Net Position	<u>\$10,141,597</u>	<u>\$ 9,653,679</u>	<u>\$ 487,918</u>	5.05

The total net position of the Borough shown above is approximately \$10.1 million. Net position increased by 5.05% in 2014.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE BOROUGH AS A WHOLE (Continued)

Table 2
Change in Net Position

Account	2014	2013	\$ Change	% Change
Program Revenues				
General Government	\$ 125,456	\$ 141,875	\$ (16,419)	(11.57)
Police	100,526	86,693	13,833	15.96
Fire	39,746	36,902	2,844	7.71
Code Enforcement	40,470	42,083	(1,613)	(3.83)
Planning and Zoning	36,225	6,259	29,966	478.77
Highway Maintenance	142,829	310,149	(167,320)	(53.95)
Traffic Signals	2,830	492	2,338	475.20
Parks and Recreation	164,683	113,235	51,448	45.43
Community Development	29,435	0	29,435	0.00
General Revenues				
Real Estate Taxes	753,989	751,013	2,976	0.40
Transfer Taxes	98,496	107,474	(8,978)	(8.35)
Earned Income Taxes	689,220	769,418	(80,198)	(10.42)
Local Services Tax	46,653	30,242	16,411	54.27
Grants and Contributions	0	15,826	(15,826)	(100.00)
Interest and Rents	645,963	(249,893)	895,856	(358.50)
Sale of Capital Assets	23,841	4,475	19,366	432.76
Miscellaneous	50,065	47,770	2,295	4.80
Total Revenues (Forwarded)	\$ 2,990,427	\$ 2,214,013	\$ 776,414	35.07

(Table 2 continues on the next page.)

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE BOROUGH AS A WHOLE (Continued)

Table 2
Change in Net Position

Account	2014	2013	\$ Change	% Change
Total Revenues (Forwarded)	<u>\$ 2,990,427</u>	<u>\$ 2,214,013</u>	<u>\$ 776,414</u>	35.07
Program Expenses				
Legislative	8,538	5,885	2,653	45.08
Executive	299,303	279,889	19,414	6.94
Finance and Tax Collection	113,343	106,240	7,103	6.69
Professional Services	111,615	122,579	(10,964)	(8.94)
General Government	241,812	262,981	(21,169)	(8.05)
Police	1,028,625	959,016	69,609	7.26
Fire	146,880	138,545	8,335	6.02
Code Enforcement	59,935	71,012	(11,077)	(15.60)
Planning and Zoning	0	562	(562)	(100.00)
Highway Maintenance	352,432	464,923	(112,491)	(24.20)
Snow and Ice Removal	40,361	21,945	18,416	83.92
Traffic Signals & Street Lighting	6,846	13,612	(6,766)	(49.71)
Parks and Recreation	63,384	69,012	(5,628)	(8.16)
Community Development	29,435	0	29,435	0.00
Total Expenses	<u>2,502,509</u>	<u>2,516,201</u>	<u>(13,692)</u>	(0.54)
Changes in Net position	<u>\$ 487,918</u>	<u>\$ (302,188)</u>	<u>\$ 790,106</u>	(261.46)

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE BOROUGH AS A WHOLE (Continued)

Revenue Overview

In 2014, the general millage remained at 13.75 mills, and the fire tax at 1.25 mills and the ambulance at 0.50 mills were unchanged as well. Total revenues increased 35.07% or \$776,414 from the prior year. This increase in revenue is due to the fact that the Borough had a large unrealized gain on Borough investments.

Figure 1

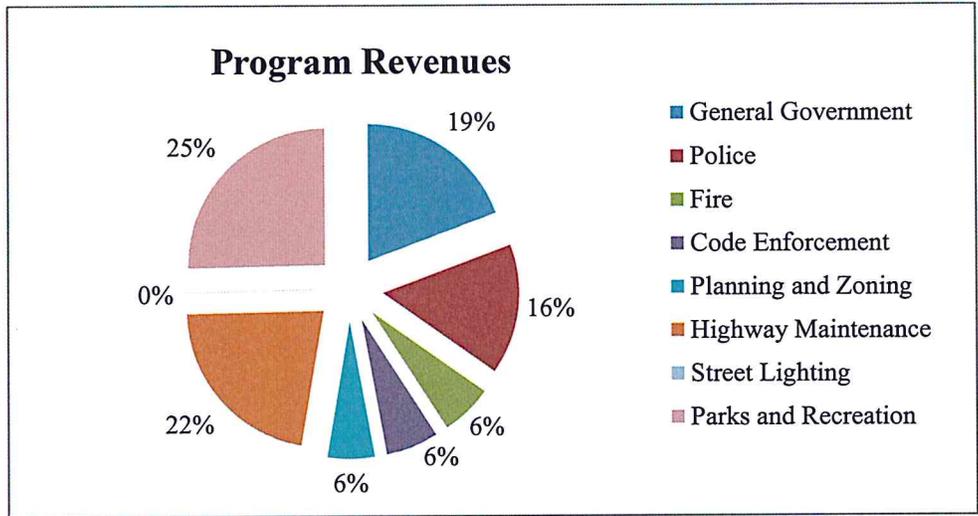
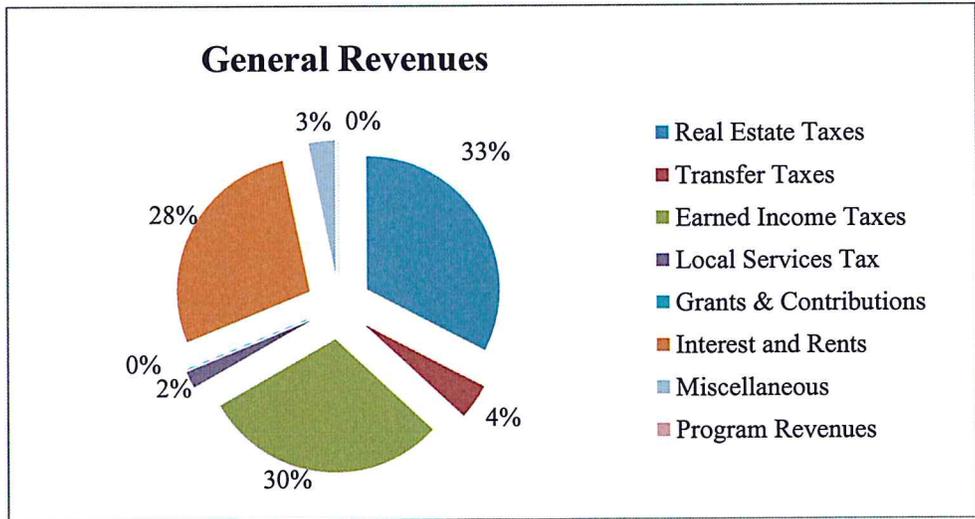


Figure 2



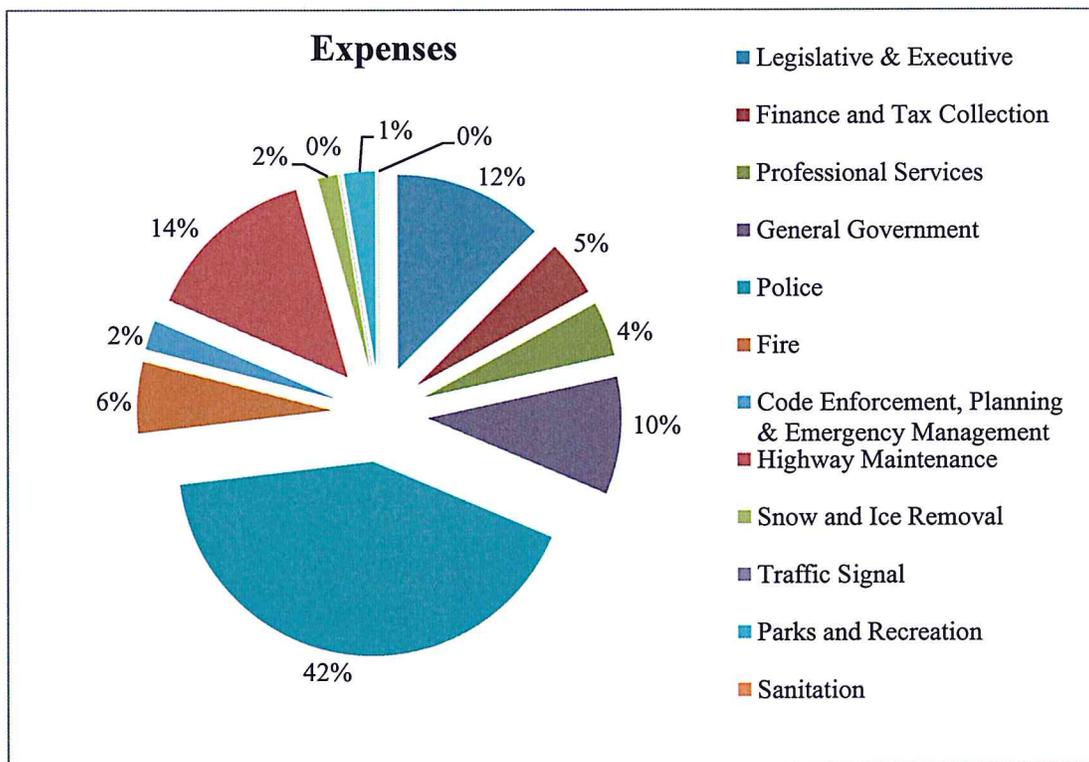
BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE BOROUGH AS A WHOLE (Continued)

Expense Overview

Total expenses in all categories were \$2,502,509. The largest areas of expense were Police and General Government. Expenses decreased \$13,692 or 0.54% from the prior year.

Figure 3



BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

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 March 3013, the Borough contracted with Advanced Disposal to provide for trash pickup for Chalfont Borough residents. Advance Disposal bills and collects for this service. In 2014, the standard contract rate was \$238.20 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, 2014

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 2014.

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. Seven employees participate in the plan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Borough has \$5,117,769 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 Langhorne Road and Holland Drive in 2015.

Additionally, the Borough has received approval on approximately \$1.4 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 2014 and will be completed by 2015.

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, 2014**

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, Sandra Zadell at 215-822-7295, extension 201.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Net Position
December 31, 2014

Assets

Current Assets

Cash	\$ 776,989
Investments	4,299,192
Grants and Other Receivables	111,250
Taxes Receivable	301,538
Total Current Assets	5,488,969

Noncurrent Assets

Net Capital Assets	5,490,178
Fair Value of Interest Rate Swap	1,708
Total Noncurrent Assets	5,491,886

Total Assets

10,980,855

Liabilities

Current Liabilities

Current Portion of General Obligation Note Payable	26,000
Current Portion of Obligations Under Capital Lease	9,409
Accounts Payable and Accrued Expenses	76,939
Escrow Deposits	61,890
Total Current Liabilities	174,238

Noncurrent Liabilities

General Obligation Note Payable	337,000
Accrued Compensated Absences and Severance Pay	107,958
Total Noncurrent Liabilities	444,958

Total Liabilities

619,196

Deferred Inflows of Resources

Deferred Permit and Rental Receipts	218,354
Accumulated Increase in Value of Hedging Derivative	1,708
Total Deferred Inflows of Resources	220,062

Net Position

Invested in Capital Assets, Net of Related Debt	5,117,769
Restricted for	
Capital Projects	4,315,278
Other Purposes	130,245
Unrestricted	578,305
Total Net Position	\$ 10,141,597

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Activities
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
General Government					
Legislative	\$ 8,538	\$ 0	\$ 0	\$ 0	\$ (8,538)
Executive	299,303	0	0	0	(299,303)
Finance and Tax Collection	113,343	28,031	0	0	(85,312)
Professional Services	111,615	0	0	0	(111,615)
General Government	241,812	90,900	6,525	0	(144,387)
Public Safety					
Police	1,028,625	25,489	75,037	0	(928,099)
Fire	146,880	5,200	34,546	0	(107,134)
Code Enforcement	59,935	40,470	0	0	(19,465)
Planning and Zoning	0	36,225	0	0	36,225
Highways					
Highway Maintenance	352,432	1,100	120,458	21,271	(209,603)
Snow and Ice Removal	40,361	0	0	0	(40,361)
Traffic Signals and Street Lighting	6,846	2,830	0	0	(4,016)
Parks and Recreation	63,384	0	27,583	137,100	101,299
Community Development	29,435	0	29,435	0	0
Total Governmental Activities	\$ 2,502,509	\$ 230,245	\$ 293,584	\$ 158,371	\$ (1,820,309)

General Revenues

Taxes

Real Estate Taxes	753,989
Real Estate Transfer Taxes	98,496
Earned Income Taxes	689,220
Local Services Taxes	46,653
Investment Income and Rents	645,963
Miscellaneous	50,065
Gain on Disposal of Capital Assets	23,841
Total General Revenues	2,308,227

Change in Net Position 487,918

Net Position, Beginning of Year 9,653,679

Net Position, End of Year \$ 10,141,597

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Capital Reserve Fund	Grant Fund
Assets			
Cash	\$ 627,536	\$ 0	\$ 10
Investments	0	4,299,192	0
Grants and Other Receivables	29,435	0	81,815
Taxes Receivable	299,350	0	0
Due from (to) Other Funds	85,702	(10,239)	(76,876)
	<u>85,702</u>	<u>(10,239)</u>	<u>(76,876)</u>
Total Assets	<u>\$ 1,042,023</u>	<u>\$ 4,288,953</u>	<u>\$ 4,949</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 43,193	\$ 0	\$ 10
Accrued Wages and Payroll Withholdings	26,897	0	0
Due to Other Governments	5,426	0	0
Escrow Deposits	61,890	0	0
Total Liabilities	<u>137,406</u>	<u>0</u>	<u>10</u>
 Deferred Inflows of Resources			
Deferred Tax and Rental Receipts	176,790	0	0
	<u>176,790</u>	<u>0</u>	<u>0</u>
 Fund Balances			
Restricted	0	0	4,939
Committed	0	4,288,953	0
Unassigned	727,827	0	0
Total Fund Balances	<u>727,827</u>	<u>4,288,953</u>	<u>4,939</u>
Total Liabilities and Fund Balances	<u>\$ 1,042,023</u>	<u>\$ 4,288,953</u>	<u>\$ 4,949</u>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 149,443	\$ 776,989
0	4,299,192
0	111,250
2,188	301,538
<u>1,413</u>	<u>0</u>
<u>\$ 153,044</u>	<u>\$ 5,488,969</u>

\$ 1,413	\$ 44,616
0	26,897
0	5,426
0	61,890
<u>1,413</u>	<u>138,829</u>

<u>2,149</u>	<u>178,939</u>
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91,317	96,256
58,165	4,347,118
0	727,827
<u>149,482</u>	<u>5,171,201</u>

<u>\$ 153,044</u>	<u>\$ 5,488,969</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, 2014

Total Governmental Fund Balances	\$ 5,171,201
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 \$1,974,510.	5,490,178
Other Long-Term Assets Are Not Available to Pay Current Period Expenditures, and Therefore Are Deferred in the Funds.	
Taxes Receivable	175,585
Fair Value of Interest Rate Swap	1,708
Long-Term Liabilities Are Not Due and Payable in the Current Period, and Therefore Are Not Reported in the Funds.	
General Obligation Note Payable	(363,000)
Obligations Under Capital Lease	(9,409)
Accrued Compensated Absences and Severance Pay	(107,958)
Deferred Permit Receipts	(215,000)
Accumulated Increase in the Fair Value of Interest Rate Swap	(1,708)
Net Assets of Governmental Activities	\$ 10,141,597

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, 2014

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Grant Fund</u>
Revenues			
Taxes	\$ 1,542,483	\$ 0	\$ 0
Intergovernmental	175,987	0	158,371
Fines, Licenses and Permits	115,979	0	0
Charges for Services	114,266	0	0
Investment Income and Rents	251,630	394,088	0
Miscellaneous	88,335	0	0
Total Revenues	<u>2,288,680</u>	<u>394,088</u>	<u>158,371</u>
Expenditures			
General Government	569,141	0	0
Public Safety	1,123,923	0	0
Public Works	329,320	0	0
Parks and Recreation	1,721	0	173
Community Development	29,435	0	0
Debt Service - Principal	13,410	0	0
Debt Service - Interest	4,755	0	0
Capital Expenditures	425,612	0	328,895
Miscellaneous Governmental	60,789	0	0
Total Expenditures	<u>2,558,106</u>	<u>0</u>	<u>329,068</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(269,426)</u>	<u>394,088</u>	<u>(170,697)</u>
Other Financing Sources (Uses)			
Proceeds from Issuance of Long-Term Note	300,000	0	0
Transfers In (Out)	65,315	(83,000)	(10,000)
Total Other Financing Sources (Uses)	<u>365,315</u>	<u>(83,000)</u>	<u>(10,000)</u>
Net Change in Fund Balances	95,889	311,088	(180,697)
Fund Balances			
Beginning of Year	<u>631,938</u>	<u>3,977,865</u>	<u>185,636</u>
End of Year	<u>\$ 727,827</u>	<u>\$ 4,288,953</u>	<u>\$ 4,939</u>

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 86,326	\$ 1,628,809
90,041	424,399
0	115,979
0	114,266
245	645,963
27,556	115,891
<u>204,168</u>	<u>3,045,307</u>
0	569,141
86,345	1,210,268
4,244	333,564
12,636	14,530
0	29,435
15,000	28,410
2,335	7,090
38,355	792,862
0	60,789
<u>158,915</u>	<u>3,046,089</u>
<u>45,253</u>	<u>(782)</u>
0	300,000
27,685	0
<u>27,685</u>	<u>300,000</u>
72,938	299,218
<u>76,544</u>	<u>4,871,983</u>
<u>\$ 149,482</u>	<u>\$ 5,171,201</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, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$ 299,218
 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 \$792,862 Exceeded Depreciation Expense of \$266,552 and Disposal of Capital Assets with a Book Value of \$14,429 in the Current Year.	
	511,881
 Revenues in the Funds That Provide Current Financial Resources Are Not Reported As Revenues in the Statement of Activities	
Taxes Receivable	(40,451)
 Governmental Funds Report General Obligation Note Proceeds as Current Financial Resources. In Contrast, the Statement of Activities Treats Such Issuance of Debt as a Liability.	
	(300,000)
 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.	
	28,410
 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	
Accrued Compensated Absences and Severance Pay	<u>(11,140)</u>
 Change in Net Assets of Governmental Activities	 <u><u>\$ 487,918</u></u>

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Fiduciary Net Position
Pension Trust Funds
December 31, 2014

Assets

Cash	\$ 38,880
Investments	1,559,040
Prepaid Pension Benefit	<u>2,510</u>
Total Assets	<u>1,600,430</u>

Liabilities

0

Net Position

Held in Trust for Pension Benefits	<u><u>\$ 1,600,430</u></u>
------------------------------------	----------------------------

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Statement of Changes in Fiduciary Net Position
Pension Trust Funds
Year Ended December 31, 2014

Additions	
Contributions	
Employer (Borough)	\$ 24,513
Plan Members	30,488
State	81,326
Total Contributions	<u>136,327</u>
Investment Income	
Net Appreciation in Fair Value of Investments	120,180
Less Investment Expense	7,119
Net Investment Income	<u>113,061</u>
Total Additions	<u>249,388</u>
Deductions	
Benefits	30,125
Refund of Plan Member Contributions	50,072
Administrative Expense	3,194
Total Deductions	<u>83,391</u>
Increase in Net Position	165,997
Net Position, Held in Trust	
Beginning of Year	<u>1,434,433</u>
End of Year	<u><u>\$ 1,600,430</u></u>

See Notes to Financial Statements.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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, 2014

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, 2014**

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, 2014**

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, 2014

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, 2014

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, 2014, 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.

<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, 2014

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 five 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 10 days of sick leave per year, with a cap of 650 hours. 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 \$66,519 for vested sick and vacation pay at December 31, 2014.

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, 2014

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, 2014.

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 and Finance Director, as well as the Borough Council. The Borough did not have any assigned fund balances at December 31, 2014.

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, 2014**

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, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash	\$ 776,989
Investments	4,299,192
Statement of Fiduciary Net Position:	
Cash	38,880
Investments	<u>1,559,040</u>
Total Cash and Investments	<u>\$ 6,674,101</u>

Cash and investments as of December 31, 2014, consist of the following:

Cash on Hand	\$ 550
Deposits with Financial Institutions	815,319
Investments	<u>5,858,232</u>
Total Cash and Investments	<u>\$ 6,674,101</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, 2014, \$612,404 of the Borough's bank balance of \$862,404 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, 2014

2. Cash and Investments (Continued)

B. Investments

At December 31, 2014, the Borough's investments consisted of the following:

Governmental Funds:	
Asset-Backed Securities	
Federal Home Loan Mortgage Association	\$ 1,988,585
Federal National Mortgage Association	1,882,690
Government National Mortgage Association	222,948
Money Market Funds	<u>204,969</u>
	<u>4,299,192</u>
Fiduciary Funds:	
Fixed Income Mutual Funds	434,275
Equity Mutual Funds	<u>1,124,765</u>
	<u>1,559,040</u>
Total Investments	<u>\$ 5,858,232</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, 2014

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, 2014

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, 2014, the Borough's investments were rated as shown on the next page.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

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	\$ 1,988,585	AAA
Federal National Mortgage Association	<u>1,882,690</u>	AAA
Total Exposed to Credit Risk	<u>\$ 3,871,275</u>	
U.S. Government Guaranteed*		
Government National Mortgage Association	<u>\$ 222,948</u>	
Not Rated**	<u>\$ 204,969</u>	
Fiduciary Funds		
Not Rated**	<u>\$ 1,559,040</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	\$1,988,585
Federal National Mortgage Association	\$1,882,690
Government National Mortgage Association	\$222,948

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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 2044 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 \$49,153,480 for 2014. 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 2014, the Borough's tax rate was 13.75 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, 2014

4. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 1/1/14	Additions	Disposals	Balance 12/31/14
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	1,317,854	370,277	0	1,688,131
Buildings and Improvements	1,098,594	475,912 *	0	1,574,506
Vehicles	577,894	120,488	47,398	650,984
Machinery and Equipment	215,926	20,085	5,527	230,484
Furniture	12,646	0	0	12,646
Infrastructure	2,309,887	21,100	17,500	2,313,487
Total at Historical Cost	6,527,251	1,007,862	70,425	7,464,688
Less Accumulated Depreciation				
Land and Park Improvements	285,814	58,440	0	344,254
Buildings and Improvements	453,194	42,446	0	495,640
Vehicles	376,908	51,942	45,876	382,974
Machinery and Equipment	135,007	19,030	5,526	148,511
Furniture	8,750	923	0	9,673
Infrastructure	504,281	93,771	4,594	593,458
Total Accumulated Depreciation	1,763,954	266,552	55,996	1,974,510
Total Net Capital Assets	\$ 4,763,297	\$ 741,310	\$ 14,429	\$ 5,490,178

* Purchase price includes \$215,000 of credits toward future permit revenues.

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 142,771
Police	26,622
Highway Maintenance	48,132
Parks and Recreation	49,027
Total Depreciation Expense	\$ 266,552

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

5. Long-Term Notes Payable

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

	Balance at 1/1/2014	Proceeds	Payments	Balance at 12/31/2014
2008 General Obligation Note	\$ 78,000	\$ 0	\$ 15,000	\$ 63,000
2014 General Obligation Note	0	300,000	0	300,000
Total	\$ 78,000	\$ 300,000	\$ 15,000	\$ 363,000

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 at 3.745% (see Note 12). 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:

Year	Principal	Interest	Total Debt Service
2015	\$ 15,000	\$ 2,078	\$ 17,078
2016	15,000	1,517	16,517
2017	18,000	899	18,899
2018	15,000	281	15,281
	\$ 63,000	\$ 4,775	\$ 67,775

Interest expense was \$2,335 for the year.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

5. Long-Term Notes Payable (Continued)

2014 General Obligation Note

On July 25, 2014, the Borough issued a General Obligation Note in the amount of \$300,000 through the Delaware Valley Regional Finance Authority. Additionally, the Borough executed a fixed rate swap agreement, which fixed its interest rate at 2.98% (see Note 12). Principal payments are due on July 25 of each year as shown below. The note was issued for the purpose of acquiring property, and making renovations to Borough buildings and parking lots 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
2015	\$ 11,000	\$ 8,940	\$ 19,940
2016	11,000	8,612	19,612
2017	12,000	8,284	20,284
2018	12,000	7,927	19,927
2019	12,000	7,569	19,569
2020-2024	69,000	32,095	101,095
2025-2029	79,000	21,218	100,218
2030-2034	94,000	8,552	102,552
	<u>\$ 300,000</u>	<u>\$ 103,197</u>	<u>\$ 403,197</u>

Interest expense was \$3,725 for the year.

6. Fund Balance Classifications

	General Fund	Capital Reserve Fund	Grant Fund	Nonmajor Governmental Funds	Total
Restricted for:					
Fire and Ambulance	\$ 0	\$ 0	\$ 0	\$ 39	\$ 39
Capital Expenditures	0	0	4,939	0	4,939
Highway Improvements	0	0	0	91,278	91,278
	<u>0</u>	<u>0</u>	<u>4,939</u>	<u>91,317</u>	<u>96,256</u>
Committed for:					
Capital Expenditures	0	4,288,953	0	21,386	4,310,339
Recreation	0	0	0	36,779	36,779
	<u>0</u>	<u>4,288,953</u>	<u>0</u>	<u>58,165</u>	<u>4,347,118</u>
Unassigned	<u>727,827</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>727,827</u>
Total Fund Balances	<u>\$ 727,827</u>	<u>\$ 4,288,953</u>	<u>\$ 4,939</u>	<u>\$ 149,482</u>	<u>\$ 5,171,201</u>

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

7. Interfund Transactions

Interfund transactions are as follows:

Purpose	Receivable Fund	Payable Fund	Amount
Due to/from			
Tax Revenue Received	Fire Tax	General	\$1,413
Investment Income	General	Capital Reserve	\$10,239
Grant Project Expenditures	General	Grant	\$76,876
Operating Transfers			
Capital Purchases	Equipment	General	\$57,685
Capital Purchases	General	Grant	\$10,000
Capital Purchases	General	Recreation	\$30,000
Capital Purchases	General	Capital Reserve	\$83,000

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.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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 \$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.

10. Chalfont Borough Police Pension Plan

A. Summary of Significant Accounting Policies

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 InR Advisory Services, LLC.

B. Plan Description

Plan Administration

The Borough administers the Chalfont Borough Police Pension Plan (the Plan). The Plan is a single employer defined benefit plan established by the Borough to provide pension benefits for its full-time police officers. The Plan is controlled by the provisions of Resolution 90-22 dated December 18, 1990, and as amended by Resolution 2003-8, dated November 18, 2003, Resolution 2007-12 dated November 13, 2007, Resolution 2009-19, dated November 10, 2009 and Resolution 2010-11, dated July 13, 2010. Assets are held separately and may only be used for the payment of benefits to members of the Plan. The Plan is part of the Borough's financial reporting entity and is included in the Borough's financial report as a pension trust fund.

Management of the Plan is vested in the Police Pension Committee which is appointed by Borough Council, and consists of four members – the Borough Council President, Borough Manager, Finance Director and a uniformed police employee.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

10. Chalfont Borough Police Pension Plan (Continued)

B. Plan Description (Continued)

Plan Membership

At December 31, 2014, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	
Police	2
Current employees:	
Vested	1
Non-vested	<u>5</u>
Total	<u>8</u>

Benefits Provided

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, including overtime and longevity, 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. Employees who retire because of a total and permanent disability will receive 50% of base wages for life, offset by any Social Security benefits received for the same injury.

If an employee dies prior to the commencement of pension benefits, then his designated beneficiary shall be entitled to a refund of his accumulated member's contributions with credited interest. If an employee dies survived by a spouse or dependent children, after having become eligible to receive a pension benefit, then a monthly pension of 50% of the pension the member would have received shall be provided to the employee's spouse until death or to dependent children until their death or until they turn 18, whichever comes first.

If an employee is killed in service, the employee's surviving family receives a pension calculated at 100% of the employee's salary at the time of death, less the amount of any workers compensation or pension benefit available. The benefit is payable to the surviving spouse until death, then to the surviving dependent children under the age of 18 years, or if attending college, under or attaining 23 years.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

10. Chalfont Borough Police Pension Plan (Continued)

B. Plan Description (Continued)

Contributions

Participating employees can be required to contribute 5% of their salary to the Plan. For the year 2014, 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.

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.

C. Investments

Investment Policy

It is the policy of the Police Pension Committee to pursue an investment strategy that will produce a return on investment which is based on levels of investment risk that are prudent and reasonable given prevailing capital market conditions. While the committee recognizes the importance of the preservation of capital, it also recognizes modern portfolio theory, which maintains that varying degrees of investment risk will be rewarded with compensating returns. Consequently, prudent risk-taking is warranted and justifiable. The first performance objective is to achieve a rate of return equal to or greater than the Plan's actual interest rate. The second objective is to achieve a real return above inflation. The Plan's liabilities are sensitive to inflation as benefits are ultimately determined by future salaries. Failing to achieve the necessary real return may increase retirement costs. The third objective is to maintain a risk level within the tolerance level of the plan fiduciaries. The following was the Committee's adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Stocks	52.5%
Domestic Bonds	27.0%
International Stocks	17.5%
Cash	3.0%
	<u>100.0%</u>

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

10. Chalfont Borough Police Pension Plan (Continued)

C. Investments (Continued)

Concentrations

The Borough had no 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 investments.

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.05%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

D. Deferred Retirement Option Program (DROP)

Effective January 1, 2007, members of the Chalfont Borough Police Department who have not retired prior to the implementation of the DROP program, may enter into DROP on the first day of any month following completion of 25 years of credited service and attaining the age of 50, for a maximum period of sixty months. A member electing to participate must execute a "DROP Option Form", which shall include an irrevocable notice to the Borough that the member will resign from employment on a specific date (the "resignation date"). The resignation date may not be shorter than twelve months or longer than sixty months from the execution of the DROP Option Form.

After the effective date of the DROP option, the member shall no longer earn or accrue additional years of continuous service for the pension purposes. Service thereafter shall not be recognized or used for the calculation or determination of any benefits payable for the Plan. The pension benefit to the members shall only increase as a result of cost of living adjustments in effect on the effective date of a member's participation in DROP or by applicable cost of living adjustment granted thereafter.

The monthly retirement benefits that would have been payable had the member elected to cease employment and receive a normal retirement benefit shall, upon commencing participation in DROP, be paid into the separate account established to receive the participant's monthly pension payments. Within thirty days of the participant's resignation date, the balance of the DROP account shall be paid to the member in a single lump-sum payment or at the member's option, in any fashion permitted by law.

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

10. Chalfont Borough Police Pension Plan (Continued)

D. Deferred Retirement Option Program (DROP) (Continued)

If a member becomes temporarily disabled during his participation in DROP, any such time lost to disability shall be counted towards the member's resignation date. Upon return to duty, membership in DROP shall continue with the remaining time left. If eligible, the member shall receive disability pay in the same amount as disabled officers who are not participating in DROP. Members on temporary disability are not able to draw from their DROP accounts. If a disabled member has not returned to work as of the date of his required resignation, then such resignation shall take precedence over all other provisions and the member will be required to resign.

If a DROP member dies before the DROP account balances are paid, the member's legal beneficiary shall have the same rights as the member to withdraw the account balance.

As of December 31, 2014, there are no participants in the DROP program, therefore the balance held by the Plan for the DROP program is \$0.

E. Net Pension Liability of the Borough

The components of the net pension liability of the Borough at December 31, 2014, were as follows:

Total Pension Liability	\$ 1,421,000
Plan Fiduciary Net Position	<u>(1,052,348)</u>
Borough's Net Pension Liability	<u>\$ 368,652</u>
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	74.06%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all period included in the measurement.

Salary Increases	5%
Investment Rate of Return	6.375%

Mortality rates were based on the RP-2000 Blue Collar Annuitant Mortality Table for Males or Females. No pre-retirement mortality is assumed.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the two-year period ended January 1, 2013.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

10. Chalfont Borough Police Pension Plan (Continued)

E. Net Pension Liability of the Borough (Continued)

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>LT Expected Real Rate of Return</u>
Domestic Stocks	
Large Growth	6.07%
Large Value	5.18%
Mid Cap	6.48%
Small Cap	5.88%
Domestic Bonds	1.84%
International Stocks	6.16%
Cash	0.54%

Discount Rate

The discount rate used to measure the total pension liability was 6.375 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Borough contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Borough, calculated using the discount rate of 6.375 percent, as well as what the Borough's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.375 percent) or 1-percentage-point higher (7.375 percent) than the current rate.

	<u>1% Decrease (5.375%)</u>	<u>Current Discount Rate (6.375%)</u>	<u>1% Increase (7.375%)</u>
Borough's Net Pension Liability	\$581,652	\$368,652	\$191,652

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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 Plan's assets are managed by InR Advisory Services, LLC.

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.

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. Participants direct the investment of all contributions into the investment options offered by the plan.

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. These contributions are made on a quarterly basis. 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 \$30,802 to the plan, of which \$6,289 was funded by state-shared revenues.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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, 2014, in the amount of \$448,491 consisted entirely of mutual funds.

Individual investments comprising greater than 5% of the Plan's net assets at December 31, 2014, consisted of the following:

	Fair Value
Vanguard Total Bond Market Index	\$141,027
Vanguard Growth Index	\$44,837
Vanguard Mid Cap Index	\$43,296
Vanguard Small Cap Index	\$34,995
Vanguard Total International Stock Index	\$53,382
Vanguard Total Stock Market Index	\$48,762
Vanguard Value Index	\$35,245

12. Derivative Instruments and Hedging Activities

As described in Note 5, the Borough entered into two fixed rate swap agreements. The purpose of these agreements 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, and the \$300,000 2014 General Obligation Note (also defined as the "notional amounts"). The interest rate swap agreements end on the date concurrent with the final payment of the loans.

Under the interest rate swap agreements, the Borough is required to make monthly interest payments at the fixed interest rates over the remaining term of the loans. 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 agreements and in accordance with GASB 53, "Accounting and Reporting for Derivative Instruments", the Borough accounts for the interest rate swaps as a hedging derivative. The swap agreements have been determined to be effectively hedged under both the consistent critical terms and quantitative methods standards of GASB 53. As such, the changes in fair value of the swap agreements have been reflected as a deferred inflow of resources in the statement of net position. The change in the market value of the interest rate swaps in favor of the Borough as of December 31, 2014, were as follows:

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

12. Derivative Instruments and Hedging Activities (Continued)

	<u>2008 GON</u>	<u>2014 GON</u>	<u>Total</u>
Fair Market Value at December 31, 2013	\$ (3,590)	\$ 0	\$ (3,590)
Increase in Market Value	<u>4,341</u>	<u>957</u>	<u>5,298</u>
Fair Market Value at December 31, 2014	<u>\$ 751</u>	<u>\$ 957</u>	<u>\$ 1,708</u>

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 Trust (DVHT). DVHT 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 participates in the Delaware Valley Insurance Trust 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.

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.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

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. At December 31, 2014, three years remain to be paid, or approximately \$16,500.

In 2010, the Borough's long time Public Works Director retired. In recognition of his long-time service to the Borough, the Borough agreed to pay him one year's base salary of \$74,000 over a ten-year period. At December 31, 2014, five years remain to be paid, or approximately \$41,000.

Government Grants

As of December 31, 2014, the Borough has open several commitments from various government agencies for grants totaling approximately \$1.4 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 \$21,100 and \$28,871 in 2014 and 2013, respectively.
- DCED Grant in the amount of \$50,000 to implement a Façade Improvement Program in the Borough.
- DCNR Community Conservation Partnership Program in the amount of \$173,749 for the restoration of a park. This grant requires a 50% match, which has been provided by a Bucks County Open Space Grant. This project was substantially completed in 2014.
- Congestion Mitigation and Air Quality Grant in the amount of \$230,400. The project is scheduled to begin in 2015.
- DVRPC Neshaminy Greenway Trail Grant in the amount of \$188,768 to promote and implement the DVRPC Regional Trails Program in the Central Bucks area. This project commenced in 2014 and accordingly, the Borough recognized grant income of \$67,318 in 2014.

Management expects to receive the majority of these funds and complete the projects in 2015.

County Promissory Note

In December 2013, the Borough signed a promissory note with Bucks County for \$72,954 to fund the purchase of county mandated radio equipment. Beginning July 2015, the note is payable in seven annual payments of \$11,057, including interest at 1.5% per annum. As of the date of this report, the radio equipment had not been acquired.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

16. Adoption of Recently Issued Accounting Pronouncement

Effective for the year ended December 31, 2014, the Borough adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012. 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. See Notes 10 and 11 on pages 41-48, and the Required Supplementary Information on pages 52-54 for the new disclosures and schedules.

17. Recent Accounting Pronouncements Issued, Not Yet Effective

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 this Statement will have on the Borough's financial statements.

18. Subsequent Events

Management has evaluated subsequent events through April 7, 2015, the date which the financial statements were available to be issued.

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Changes in the Borough's Net Pension Liability and Related Ratios
December 31, 2014
(Unaudited)

Total Pension Liability	
Service Cost	\$ 65,506
Interest	84,637
Differences Between Expected and Actual Experience	52,054
Changes of Assumptions	157,000
Benefit Payments (Including Refunds of Member Contributions)	<u>(80,197)</u>
Net Change in Total Pension Liability	279,000
Total Pension Liability	
Beginning	<u>1,142,000</u>
Ending	<u>\$ 1,421,000</u>
Plan Fiduciary Net Position	
Contributions	
Employer	\$ 75,037
Member	30,488
Net Investment Income	75,775
Benefit Payments (Including Refunds of Member Contributions)	(80,197)
Administrative Expense	<u>(2,464)</u>
Net Change in Plan Fiduciary Net Position	98,639
Plan Fiduciary Net Position	
Beginning	<u>953,709</u>
Ending	<u>\$ 1,052,348</u>
Borough's Ending Net Pension Liability	<u>\$ 368,652</u>
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	74.06%
Covered Employee Payroll	<u>\$ 537,678</u>
Borough's Net Pension Liability As a Percentage of Covered Employee Payroll	68.56%

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Borough Contributions
December 31, 2014
(Unaudited)

Fiscal Year Ended December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess) (1)/(2)	Covered Payroll	Contribution as % of Covered Payroll (4)/(5)
2005	\$36,493	\$36,493	\$0	\$319,330	11.43%
2006	\$40,067	\$40,067	\$0	N/A	N/A
2007	\$44,886	\$44,886	\$0	\$343,950	13.05%
2008	\$40,939	\$40,939	\$0	N/A	N/A
2009	\$35,946	\$35,946	\$0	\$352,285	10.20%
2010	\$41,981	\$41,981	\$0	N/A	N/A
2011	\$53,387	\$53,387	\$0	\$472,343	11.30%
2012	\$57,322	\$57,322	\$0	N/A	N/A
2013	\$75,633	\$75,633	\$0	\$476,979	15.86%
2014	\$75,037	\$75,037	\$0	\$537,678	13.96%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated in accordance with the Minimum Municipal Obligation specified in PA Act 205. The calculation is made during the year preceding the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value of Assets
Salary Increases	5% per year
Investment Rate of return	7.25%
Retirement Age	55 years, with 25 years of service
Mortality	RP-2000 Blue Collar Mortality

**BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Investment Returns
December 31, 2014
(Unaudited)**

Annual Money-Weighted Rate of Return, Net of Investment Expense
for the Year Ended December 31, 2014

8.05%

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,474,442	\$ 1,542,483	\$ 68,041
Intergovernmental	128,969	175,987	47,018
Fines, Licenses and Permits	117,000	115,979	(1,021)
Charges for Services	85,000	114,266	29,266
Investment Income and Rents	248,144	251,630	3,486
Miscellaneous	3,000	88,335	85,335
Total Revenues	<u>2,056,555</u>	<u>2,288,680</u>	<u>232,125</u>
Expenditures			
General Government	668,010	569,141	98,869
Public Safety	1,097,848	1,123,923	(26,075)
Highways	333,994	329,320	4,674
Parks and Recreation	2,864	1,721	1,143
Community Development	0	29,435	(29,435)
Debt Service - Principal	0	13,410	(13,410)
Debt Service - Interest	30,000	4,755	25,245
Capital Expenditures	0	425,612	(425,612)
Miscellaneous Governmental	66,839	60,789	6,050
Total Expenditures	<u>2,199,555</u>	<u>2,558,106</u>	<u>(358,551)</u>
Excess (Deficiency) of Revenues Over			
Expenditures Before Other Financing Sources (Uses)	<u>(143,000)</u>	<u>(269,426)</u>	<u>(126,426)</u>
Other Financing Sources (Uses)			
Proceeds from Issuance of Long-Term Note	0	300,000	300,000
Transfers In (Out)	40,000	65,315	25,315
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>365,315</u>	<u>325,315</u>
Net Change in Fund Balances	(103,000)	95,889	198,889
Fund Balances			
Beginning of Year	<u>103,000</u>	<u>631,938</u>	<u>528,938</u>
End of Year	<u>\$ 0</u>	<u>\$ 727,827</u>	<u>\$ 727,827</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, 2014

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 2014 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, 2014

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
Assets			
Cash	\$ 0	\$ 91,278	\$ 36,779
Taxes Receivable	2,188	0	0
Due from (to) Other Funds	<u>1,413</u>	<u>0</u>	<u>0</u>
Total Assets	<u><u>\$ 3,601</u></u>	<u><u>\$ 91,278</u></u>	<u><u>\$ 36,779</u></u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	<u>\$ 1,413</u>	<u>\$ 0</u>	<u>\$ 0</u>
 Deferred Inflows of Resources			
Deferred Tax Receipts	<u>2,149</u>	<u>0</u>	<u>0</u>
 Fund Balances			
Restricted	39	91,278	0
Committed	<u>0</u>	<u>0</u>	<u>36,779</u>
Total Fund Balances	<u>39</u>	<u>91,278</u>	<u>36,779</u>
 Total Liabilities and Fund Balances	 <u><u>\$ 3,601</u></u>	 <u><u>\$ 91,278</u></u>	 <u><u>\$ 36,779</u></u>

<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 21,386	\$ 149,443
0	2,188
<u>0</u>	<u>1,413</u>
<u>\$ 21,386</u>	<u>\$ 153,044</u>
<u>\$ 0</u>	<u>\$ 1,413</u>
<u>0</u>	<u>2,149</u>
0	91,317
<u>21,386</u>	<u>58,165</u>
<u>21,386</u>	<u>149,482</u>
<u>\$ 21,386</u>	<u>\$ 153,044</u>

BOROUGH OF CHALFONT
BUCKS COUNTY, PA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2014

	<u>Fire Tax Fund</u>	<u>Liquid Fuels Fund</u>	<u>Recreation Fund</u>
Revenues			
Taxes	\$ 86,326	\$ 0	\$ 0
Intergovernmental	0	90,041	0
Investment Income and Rents	0	130	93
Miscellaneous	0	0	27,556
Total Revenues	<u>86,326</u>	<u>90,171</u>	<u>27,649</u>
Expenditures			
Public Safety	86,345	0	0
Public Works	0	4,244	0
Parks and Recreation	0	0	12,636
Debt Service - Principal	0	15,000	0
Debt Service - Interest	0	2,335	0
Capital Expenditures	0	0	2,006
Total Expenditures	<u>86,345</u>	<u>21,579</u>	<u>14,642</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(19)	68,592	13,007
Other Financing Sources (Uses)			
Transfers In (Out)	<u>0</u>	<u>0</u>	<u>(30,000)</u>
Net Change in Fund Balances	(19)	68,592	(16,993)
Net Assets			
Beginning of Year	<u>58</u>	<u>22,686</u>	<u>53,772</u>
End of Year	<u>\$ 39</u>	<u>\$ 91,278</u>	<u>\$ 36,779</u>

<u>Equipment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 0	\$ 86,326
0	90,041
22	245
0	27,556
<u>22</u>	<u>204,168</u>
0	86,345
0	4,244
0	12,636
0	15,000
0	2,335
36,349	38,355
<u>36,349</u>	<u>158,915</u>
(36,327)	45,253
<u>57,685</u>	<u>27,685</u>
21,358	72,938
<u>28</u>	<u>76,544</u>
<u>\$ 21,386</u>	<u>\$ 149,482</u>