

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Township of Falls, County of Bucks, Commonwealth of Pennsylvania, was founded in 1692. The Township is a second-class township and is governed by an elected board of five supervisors and a board-appointed Township Manager. Falls Township covers approximately 26.5 square miles in Lower Bucks County and has a population of 34,865 per the 2000 U.S. Census.

The Township of Falls provides a full range of municipal services. These services include police protection; fire protection; park and recreation activities; highway maintenance and reconstruction operations; refuse; and general administrative services.

The Township has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

The financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the non-fiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. These statements present each major fund as a separate column on the fund financial statements, and all non-major funds are aggregated and presented in a single column.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. All assets and liabilities are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The accounts of the Township are organized and operated on the basis of funds.

The Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Reserve Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary and fiduciary funds.

The *Host Community Fee Fund* accounts for revenues collected through a contractual agreement with Waste Management, Inc.

The Township reports the following major proprietary fund:

The *Pinewood Pool Fund* accounts for operations of a recreational pool.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Additionally, the Township reports the following Fiduciary funds:

The *Police Pension Trust Fund* accounts for the accumulation of resources for pension benefit payments to qualified uniformed police officers.

The *Non-uniformed Pension Trust Fund* accounts for the accumulation of resources for pension benefit payments to qualified employees of the Township other than uniformed officers.

The *Township Escrow and Subdivision Fund* is used to account for assets held by the Township in an agent capacity for developers as required by developer agreements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues, rather than as program revenues. Likewise, general revenues include all taxes and investment earnings.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Pinewood pool fund are charges to customers for pool memberships. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Township are reported at fair market value. The State Treasurer's Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair market value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Real estate taxes are levied on March 1 and payable under the following terms: 2% discount March 1 through May 1; face amount May 2 through July 1; and a 10% penalty after July 1. Taxes unpaid are liened in January of the subsequent year.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include land, buildings and systems, improvements, machinery and equipment, and infrastructure (roads, bridges, sidewalks and similar items), are reported in the governmental or business-type activities columns in the government-wide financial statements.

The Township defines capital assets as assets with an estimated useful life in excess of two years and an initial, individual cost greater than \$5,000. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Infrastructure includes retroactive reporting of assets prior to June 30, 1980.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Assets or Equity, continued

Property, plant, and equipment of the Township is being depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

5. Compensated Absences

It is the Township's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and payment of principal and interest reported as expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

7. Other Post Employment Benefits ("OPEB") Other than Pensions

The Township provides other post employment benefits to police officers as part of their collective bargaining agreement. The actuarial liability amortized over 30 years is reported in the government-wide financial statements.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Assets or Equity, continued

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Comparative data

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the recycling fund, township building complex fund and the development maintenance fund. All appropriations lapse at fiscal year end. All agencies of the government submit requests for appropriations to the township manager and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board of Supervisors. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level. There were no budgetary transfers during the year.

Encumbrance accounting is employed in governmental funds. Any encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year end December 31, 2010, expenditures exceeded appropriations in the following funds. These over-expenditures were funded by interfund transfers and available fund balances.

Fund	Excess
General Fund	\$ 690,167
Fire Hydrant Fund	3,984
Street Light Fund	4,816
Fire Protection Fund	29,625
Capital Reserve Fund	51,517

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under Act No. 72 enacted by the general assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Depository Insurance Corporation. The uninsured deposits, (as defined by Statement No. 40 of the Government Accounting Standards Board) of the Township in the amount of \$7,116,458 were collateralized by this pool of assets maintained by the Township's depository institutions.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$7,116,458 of the Township's bank balance of \$8,110,188 was exposed to custodial credit risk as follows:

Collateral held by pledging bank's trust department not in the Township's name	\$7,116,458
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State statutes authorize the Township to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

As of December 31, 2010, the Township had the following investments:

Government-Wide Investments (not including Fiduciary):

Investment	Fair Value
PA Local Government Investment Trust	\$ 4,352,248
PA Treasury Invest Community Pool	36,433
First National Bank Money Market	2,808,241
SEI Government Fund	2,936,504
US Treasury Notes	422,112
Federal Home Loan Mortgage corp	5,713,042
Federal Home Loan Bank	6,606,640
Federal National Mortgage Association	13,082,188
	\$ 35,957,408

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

A. Deposits and Investments, continued

Fiduciary Investments:

Investment	Fair Value
Mutual Funds	\$ 12,906,970
Certificate of Deposit	2,976,000
PA Local Government Investment Trust	4,965,718
	\$ 20,848,688

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Township has no investments subject to custodial credit risk.

Credit Risk. Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Township has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2010, the Township's investments were rated as:

Investment	Standard & Poor's
PA Local Government Investment Trust	AAA
PA Treasury Invest Community Pool	AAA
Federal Home Loan Mortgage corp	Unavailable
Federal Home Loan Bank	Unavailable
Federal National Mortgage Association	Unavailable
Bond Mutual Funds	BBB

Concentration of Credit Risk. A concentration of investments in any one single user of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. The Township does not have a formal policy regarding concentration of credit risk. More than five percent of the Government-wide investments are invested in the following single issuers:

Investment	Fair Value	Percent of total Government Wide Investments
Federal Home Loan Mortgage corp	\$ 5,713,042	15%
Federal Home Loan Bank	6,606,640	17%
Federal National Mortgage Association	13,082,188	34%

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

A. Deposits and Investments, continued

Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Township does not have a formal policy regarding interest rate risk. As of December 31, 2010, the Township's investments had the following weighted average maturities:

Investment	Fair Value	Weighted Average Maturity (Years)
Federal Home Loan Mortgage corp	\$ 5,713,042	2.29
Federal Home Loan Bank	6,606,640	1.86
Federal National Mortgage Association	13,082,188	2.72
Bond Mutual Funds	4,425,799	2 - 5

These mortgage pass-through investments are highly sensitive to changes in interest rate changes because of prepayment options.

A portion of the Township's investments are in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania Treasury Investment Community Pool, which both act like money market mutual funds in that the objective is to maintain a stable net asset value of \$1 per share. These investments are not subject to interest rate risk.

B. Receivables

Receivables as of year end for the government's individual major funds, fiduciary funds and non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General	Host Community	Nonmajor Funds	Fiduciary Funds	Total
Receivables:					
Taxes	\$ 41,910	\$	\$ 63,673	\$	\$ 105,583
Accounts	490,967	965,287	25,000	147,975	1,629,229
Interest				14,100	14,100
Gross receivables	532,877	965,287	88,673	162,075	1,748,912
Less: allowance for uncollectibles	(37,831)	(86,361)	-		(124,192)
Total net receivables	<u>\$ 495,046</u>	<u>\$ 878,926</u>	<u>\$ 88,673</u>	<u>\$ 162,075</u>	<u>\$ 1,624,720</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

C. Loans Receivable

On December 29, 2006, the Township of Falls (the Township) entered into a note in the amount of \$15,296,081, pursuant to an Asset Purchase Agreement with the Township of Falls Authority (the Authority) for the sale of the Township's water and sewer assets. The terms of the note are: interest calculated at a fixed rate of 3% per annum; principal paid in full on or before December 31, 2011; no prepayment penalty; interest paid annually on or before June 30th of each year through 2011.

The Township and the Authority also entered into a note in the amount of \$1,500,000, which represents a loan from the Township for the Authority's operational start-up costs. The terms of the note are: interest calculated at a fixed rate of 3% per annum; principal paid in full on or before December 31, 2011; no prepayment penalty; interest paid annually on or before June 30th of each year through 2011.

D. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the components of deferred revenue reported in governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable - general fund	\$ 35,914	\$
Delinquent property taxes receivable - special revenue funds	54,478	
Accounts receivable, not available	163,897	
Accounts receivable, unearned	<u> </u>	<u>203,670</u>
Total Governmental deferred revenue	<u>\$ 254,289</u>	<u>\$ 203,670</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

E. Capital Assets

Capital asset activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated				
Land	\$ 16,460,926	\$	\$	\$ 16,460,926
Capital Assets being depreciated				
Buildings	4,034,111	123,532		4,157,643
Improvements other than building	11,821,330	601,869		12,423,199
Machinery, equipment, and vehicles	5,674,335	488,127	196,588	5,965,874
Infrastructure	87,720,824	1,669,238		89,390,062
Total capital assets being depreciated	<u>109,250,600</u>	<u>2,882,766</u>	<u>196,588</u>	<u>111,936,778</u>
Less accumulated depreciation for:				
Buildings	2,012,785	152,378		2,165,163
Improvements other than building	9,221,606	557,326		9,778,932
Machinery, equipment, and vehicles	4,571,334	424,265	184,658	4,810,941
Infrastructure	23,505,077	2,240,423		25,745,500
Total accumulated depreciation	<u>39,310,802</u>	<u>3,374,392</u>	<u>184,658</u>	<u>42,500,536</u>
Total capital assets being depreciated, net	<u>69,939,798</u>	<u>(491,626)</u>	<u>11,930</u>	<u>69,436,242</u>
Governmental activities capital assets, net	<u>\$ 86,400,724</u>	<u>\$ (491,626)</u>	<u>\$ 11,930</u>	<u>\$ 85,897,168</u>
<i>Business-type Activities:</i>				
Capital assets not being depreciated				
Land	\$ 162,700	\$	\$	\$ 162,700
Capital Assets being depreciated				
Machinery and equipment		19,730		19,730
Less accumulated depreciation for:				
Machinery and equipment		1,973		1,973
Business-type activities capital assets, net	<u>\$ 162,700</u>	<u>\$ 17,757</u>	<u>\$ -</u>	<u>\$ 180,457</u>

Depreciation expense was charged to the functions/programs of the Township as follows:

Governmental Activities:

General government	\$ 124,417
Public safety	285,603
Public works	2,393,290
Culture and recreation	571,082
Total depreciation expense - governmental activities	<u>\$ 3,374,392</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

F. Interfund Receivables, Payables, and Transfers

The following is a summary of interfund receivables and payables at December 31, 2010:

	Receivable	Payable
General Fund	\$ 1,836,076	\$ 7,326
Capital Reserve	-	3,658,429
Host Community Fund	2,179,128	67,756
Pool Fund	421	258,458
Nonmajor Funds	17,753	41,409
	\$ 4,033,378	\$ 4,033,378

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers for the year ended December 31, 2010, consisted of the following:

	Transfers to Other Funds	Transfers from Other Funds
General Fund	\$ -	\$ 10,170,837
Capital Reserve	5,070,000	-
Host Community Fund	7,471,958	2,000,000
Pool Fund	-	70,000
Nonmajor Funds	118,879	420,000
	\$ 12,660,837	\$ 12,660,837

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Long-term Debt

Defeased Debt

In prior years, the Township defeased certain general obligation bonds by placing the proceeds of the new bonds in irrevocable escrow accounts with a trust agent to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Township's financial statements. The balance of defeased debt is \$1,890,000 at December 31, 2010.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

G. Long-term Debt, continued

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Governmental Activities					
Other Post-employment benefits	\$ 429,930	\$ 424,679	\$ 228,761	\$ 625,848	\$ -
Compensated Absences	1,018,202	138,638	126,389	1,030,451	426,263
Total Governmental Activities	<u>\$ 1,448,132</u>	<u>\$ 563,317</u>	<u>\$ 355,150</u>	<u>\$ 1,656,299</u>	<u>\$ 426,263</u>

The general fund has been used to liquidate the liability for the compensated absences of the governmental activities.

4. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to third party liability claims, damage to and loss of Township-owned property, errors and omissions by public officials, and injuries to employees. As a method of financing the risk, the Township purchases commercial insurance. The Township participates in the Delaware Valley Worker's Compensation Trust. The amount of settlement did not exceed insurance coverage for the past three years. There have been no significant reductions in insurance coverage during the year ended December 31, 2010.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

A judgment payable has been recorded on the government-wide statement of net assets in the amount of \$500,000. This amount is expected to be paid as a result of litigation.

The Township is a defendant in several lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, in the opinion of Township Management, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

C. Other Post-employment Benefits

Plan Description: The Township provides postemployment healthcare benefits, as per the requirements of local ordinances, for certain retired police officers. The Township pays \$2,400 to \$9,600 per year of the premiums of healthcare coverage for police officers who retire with 25 years of full-time service or become disabled. The Township calculates its actuarial valuation once every three years, as required. Separate financial statements are not issued for the plan.

Funding Policy: The Township has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2010 year, 23 eligible retirees received postemployment health care benefits. The Township provided age-adjusted contributions of \$228,761 toward the annual OPEB cost. Required contributions are based on projected age-adjusted pay-as-you-go financing. The following table shows the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation:

Description	
Normal cost (service cost for one year)	\$ 153,035
Interest on Normal Cost	16,350
Amortization of Unfunded Actuarial Accrued Liability	255,707
Annual Required Contribution (ARC)	425,092
Interest on net OPEB Obligation	17,171
Adjustment to Annual Required Contribution	(17,584)
Annual OPEB Cost (expense)	424,679
Contributions toward the OPEB Cost	(228,761)
Increase in Net OPEB Obligation	195,918
Net OPEB Obligation, Beginning of Year	429,930
Net OPEB Obligation, End of Year	\$ 625,848

Annual OPEB Cost and Net OPEB Obligation: The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$ 395,029	46%	\$ 214,965
12/31/2009	395,029	46%	429,930
12/31/2010	424,679	54%	625,848

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

C. Other Post-employment Benefits, continued

Funded Status and Funding Progress: As of December 31, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,307,595, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,307,595. The covered payroll (annual payroll of active participating employees) was \$3,689,955 for the 2008 year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 170.9 percent.

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Township's initial OPEB actuarial valuation as of December 31, 2008 used the entry age normal actuarial cost method to estimate both the unfunded liability as of December 31, 2008 and to estimate the Township's annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.0 percent rate of return on invested assets. The actuarial assumptions include an annual health care cost trend rate of 8% initially for the 2008 year, decreasing by .5% per year to 5% in 2017. The amortization method for the unfunded actuarial liability is "level percent of pay". The remaining amortization period at December 31, 2010 is 27 years, using level dollar open amortization.

D. Pension Plans

The Township maintains a single-employer pension plan that covers all of the Township's full-time sworn police officers and a single-employer pension plan that covers all full-time employees other than police officers.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

D. Pension Plans, continued

Police Pension Plan (PPP)

Plan Description

The Township administers the PPP, a single-employer defined benefit plan covering the full-time police officers. The plan is controlled by the provisions of Ordinance 93-5, which amended Chapter 72 of the Falls Township Code. The PPP provides vesting, retirement, survivor, and disability benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the municipality. Falls Township issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained at the Township's office.

Membership of the PPP consisted of the following at January 1, 2009, the date of the latest actuarial valuations:

Active Plan members	44
Retirees and beneficiaries receiving benefits	51
Terminated employees entitled to benefit but not yet receiving them	<u>0</u>
Total	<u>95</u>

Summary of Significant Accounting Policies

The financial statements of the PPP are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the PPP are recognized when due, in accordance with Act 205, as amended by Act 189. Benefits and refunds are recognized when due and payable in accordance with the terms of the PPP. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Contributions and Funding Policy

As a condition of participation, full-time officers are required to contribute 5% of compensation to the PPP. The Township allocates State Aid received from the Commonwealth of Pennsylvania to the PPP. To the extent that these fundings are not adequate, the Township would then be required to contribute. In accordance with Act 205, the Township was required to contribute \$1,570,253 to the plan for the year 2010. The Township contributed \$420,530 of Commonwealth State Aid, and an additional \$1,149,723 to the plan for 2010 as required. The payment from the Commonwealth for State Aid is recognized as revenue in the General Fund and an expenditure in the Fiduciary Fund. The schedule of funding progress is presented as required supplementary information (RSI) following the notes to the financial statements.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

D. Pension Plans, continued

Annual Pension Cost

The Township's annual pension cost ("APC") for the PPP for the year ended December 31, 2010 is as follows:

Annual Required Contribution (ARC)	\$	1,570,253
Interest on net pension obligation		-
Adjustment to ARC		-
Annual pension cost		1,570,253
Contributions made		(1,570,253)
Increase in nt pension obligation		-
Net pension obligation, end of year	\$	-

Three Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2008	\$ 862,493	100%	\$ -
12/31/2009	1,060,137	100%	-
12/31/2010	1,570,253	100%	-

Funding Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 66.11% funded. The actuarial accrued liability for benefits was \$29,828,997 and the actuarial value of assets was \$19,719,896, resulting in an unfunded actuarial accrued liability (UAAL) of \$10,109,101. The covered payroll (annual payroll of active employees covered by the plan) was \$4,190,968, and the ratio of the UAAL to the covered payroll was 241.2%. The schedule of funding progress, presented in the RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry Age Normal
Asset valuation method	5 year fresh start smoothing
Amortization method	Level Dollar, Open
Remaining amortization period	13.43 Years
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	5%

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

D. Pension Plans, continued

Non Uniform Pension Plan (NUPP)

Plan Description

The Township administers the NUPP, a single-employer defined contribution pension plan in which all general and public safety employees of the Township are eligible to participate. The NUPP provides retirement, disability, and death benefits to plan members and their beneficiaries. The Township has authorized the Board of Supervisors to establish and amend all plan provisions.

Summary of Significant Accounting Policies

The financial statements of the NUPP are prepared using the accrual basis of accounting. The Township's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the Township's balance sheet date. The plan does not issue separate financial statements.

Contributions and Funding Policy

The contribution requirements of the Township are established and may be amended by the Board of Supervisors. Plan members are not required to contribute. The Township is required to contribute at a determined rate, which is currently 5% of annual covered payroll. The township contributed \$133,664 for the year ending December 31, 2010.