

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
TOWNSHIP OF FALLS
Fairless Hills, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF FALLS, Pennsylvania (the Township) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF FALLS, Pennsylvania, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and other post employment benefit information on pages 18 through 30 and pages 64 through 65 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 historic 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TOWNSHIP OF FALLS' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, capital asset schedules and statistical section 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, capital asset schedules and the budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, capital asset schedules and the budgetary comparison schedules are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

June 20, 2013

MAJOR & MASTRO, LLC
Certified Public Accountants

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**Falls Township
Bucks County, Pennsylvania**

**Management's Discussion and Analysis (MD&A)
Required Supplementary Information (RSI)
For the Fiscal Year Ended December 31, 2012**

Unaudited

As management of the Township of Falls, we offer readers of the Falls Township financial statements this narrative overview and analysis of the financial activities of Falls Township for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 3-8 of this report. Readers should also review the independent auditor's opinion letter, the notes to the basic financial statements, and the financial statements themselves to enhance their understanding of the Township's financial performance. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of Falls Township exceeded its liabilities by \$138,378,583 and \$140,603,909 and at the close of the years ended December 31, 2012 and 2011, respectively. Of the 2012 amount, \$47,192,366 may be used to meet the government's ongoing obligations for general operations of the Township, whereas in 2011 \$51,070,958 was available for that purpose.

The Township's governmental net position decreased by a total of \$2,175,386 over the prior year. This decrease is primarily due to a decrease in the Township's cash reserves.

As of the end of 2012, Falls Township's governmental funds reported combined ending fund balances of \$50,673,106. As a comparison, at the end of 2011, the balance was \$53,900,851, a reduction of \$3,227,745.

Business-type activities' net position decreased by \$49,940 from \$22,921 in 2011 to (\$27,019) in 2012. The reason for this decrease is that charges for services are not keeping pace with expenses.

At the end of the 2012, the unassigned fund balance for the general fund was \$14,616,130 or 65.7% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

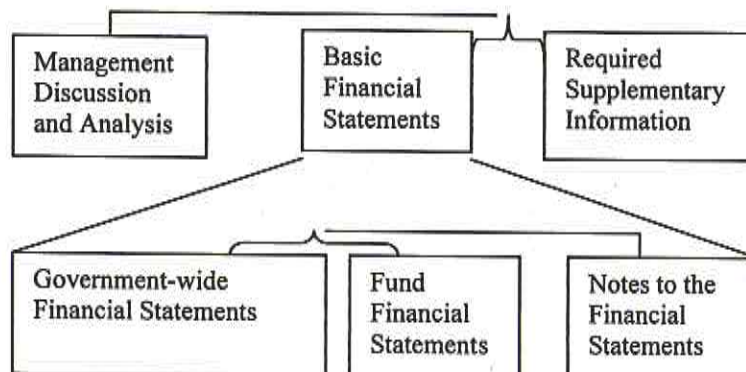
This discussion and analysis are intended to serve as an introduction to Falls Township's basic financial statements. Falls Township's basic financial statements are comprised of three components:

- 1) government-wide financial statements
- 2) fund financial statements
- 3) notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Figure 1 shows how the required parts of the Financial Section are arranged and relate to one another.

Figure 1
Required Components of
Falls Township's Financial Report



Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of Falls Township's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of Falls Township's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Falls Township is improving or deteriorating. To assess the overall health of the Township, you need to consider additional non-financial factors, such as changes in the property tax base or the condition of Township infrastructure.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes and earned but unused leave.

Both of the government-wide financial statements distinguish functions of Falls Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Falls Township include general government, public safety, highways and culture and recreation. The business-type activities of the Township of Falls include the ongoing operation of a recreational pool.

The government-wide financial statements can be found on pages 32 and 33 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Falls Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Falls Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Falls Township maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund and the Capital Reserve fund, which are considered major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Falls Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 34-38 of this report.

Proprietary Funds

Falls Township maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Falls Township uses an enterprise fund to account for its Pinewood Pool fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 39-41 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 42 and 43 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 44-62 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 64 and 65 of this report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on pensions and other post-employment benefits. Combining and non-major governmental fund budget comparison schedules can be found on pages 69-79 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. For Falls Township, assets exceed liabilities by \$138,378,583 and \$140,603,909 at the close of the years ended December 31, 2012 and 2011, respectively.

The following table provides a summary of the Township's net position at December 31, 2012 compared to the prior year's figures:

**FALLS TOWNSHIP
NET POSITION**

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 53,370,574	\$ 56,155,264	\$ -	\$ -	\$ 53,370,574	\$ 56,155,264
Capital assets	89,871,750	88,258,738	176,511	178,484	90,048,261	88,437,222
Other noncurrent assets	-	-	-	-	-	-
Total Assets	143,242,324	144,414,002	176,511	178,484	143,418,835	144,592,486
Long-term liabilities outstanding	2,215,879	1,767,440	-	-	2,215,879	1,767,440
Other liabilities	2,620,843	2,065,574	203,530	155,563	2,824,373	2,221,137
Total Liabilities	4,836,722	3,833,014	203,530	155,563	5,040,252	3,988,577
Net Position:						
Invested in capital assets	89,871,750	88,258,738	176,511	178,484	90,048,261	88,437,222
Restricted	1,137,956	1,095,729	-	-	1,137,956	1,095,729
Unrestricted	47,395,896	51,226,521	(203,530)	(155,563)	47,192,366	51,070,958
Total Net Position	\$ 138,405,602	\$ 140,580,988	\$ (27,019)	\$ 22,921	\$ 138,378,583	\$ 140,603,909

The largest portion of Falls Township's net position, 65%, reflects its investment in capital assets (land, building, machinery, equipment, open space, and roads/road improvements). Falls Township uses these capital assets to provide services to the citizens and, therefore, these assets are not available for future spending. Note that all capital assets reported have no outstanding debt on their initial purchases.

A very small portion of Falls Township's net position, 0.8%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$47,395,896, may be used to meet the government's ongoing obligations to citizens and creditors of the Township.

At the end of the current fiscal year, Falls Township is able to report positive balances in all three categories of net position for the government as a whole.

CHANGES IN NET POSITION

Governmental activities

Governmental activities decreased Falls Township's net position by \$2,175,386 for the year ended December 31, 2012 in addition to the decrease in net position by \$1,200,325 for the year ended December 31, 2011. The 2012 decrease is due to a reduction in the Township's cash reserve. Falls Township is committed to maintaining high quality services and recreation facilities for its residents without increasing real estate taxes or charging exorbitant user fees. Some cash reserves have been expended in order to meet rising costs without burdening our residents.

Business-type activities

Business-type activities decreased Falls Township's net position by \$49,940 for the year ended December 31, 2012 compared to an increase of \$101,157 for the prior year. These activities represent ongoing operations at the Pinewood Pool for 2012.

The results of this year's operations as a whole are reported in the Statement of Activities on page 33. All expenses are reported in the first column. Specific charges, grants, and contributions that directly relate to specific expense categories are netted against them to determine the final amount of the Township's activities that are supported by other general revenues, primarily Host Community Fees and Property Taxes. Basically, the Statement shows which Township expenses are funded by specific program revenues and the balance of expenses left to be funded by general revenues.

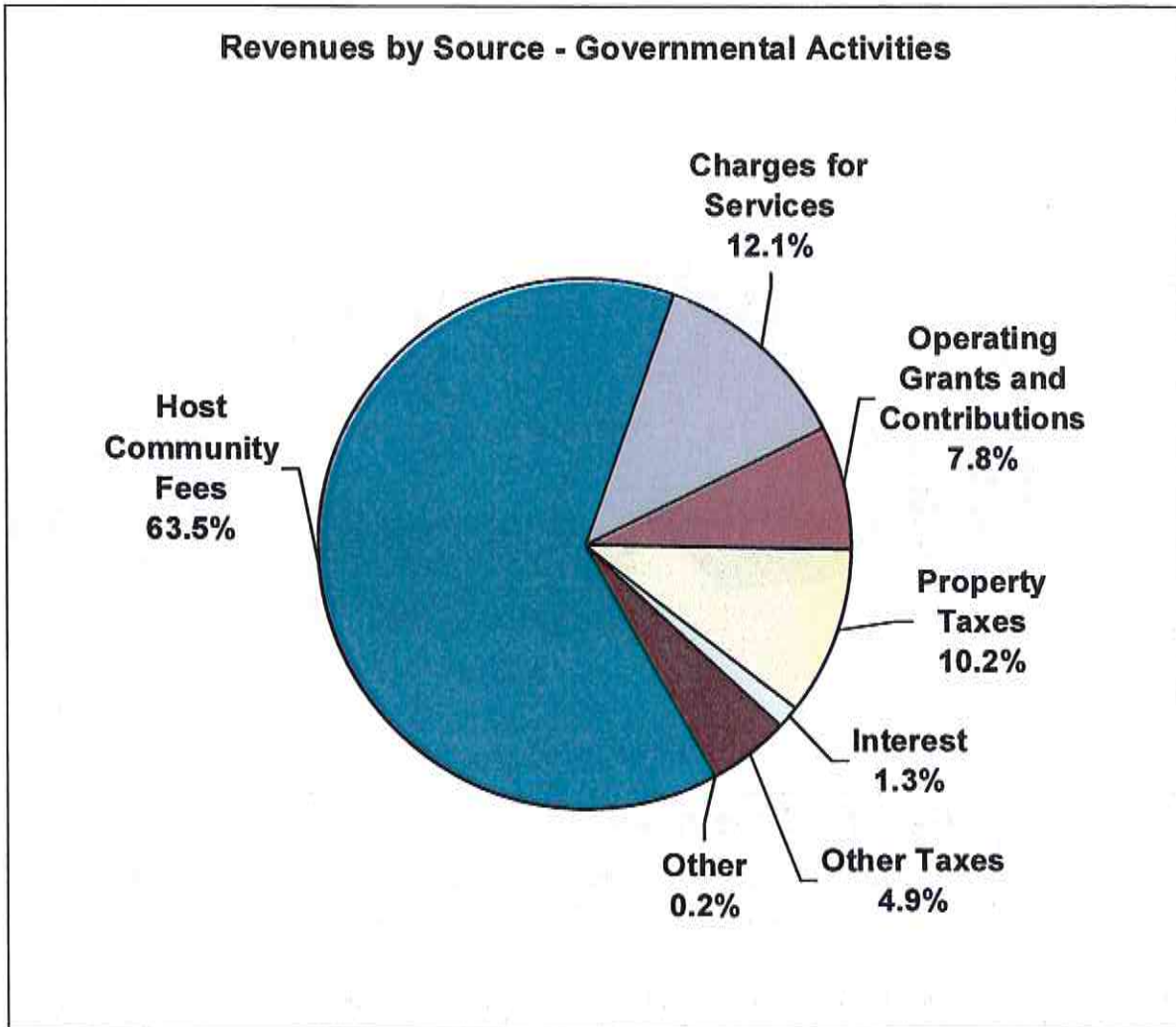
The following table takes the information from the Statement of Activities and rearranges it slightly, so you can see the Township's total revenues for the year ended December 31, 2012 compared to the prior year's figures.

**FALLS TOWNSHIP
CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 2,683,787	\$ 2,595,002	\$ 176,139	\$ 166,755	\$ 2,859,926	\$ 2,761,757
Operating Grants and Contributions	1,722,785	1,980,080	-	-	1,722,785	1,980,080
Capital Grants and Contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	2,274,529	2,279,128	-	-	2,274,529	2,279,128
Other taxes	1,076,975	862,662	-	-	1,076,975	862,662
Host Community Fees	14,104,136	13,179,521	-	-	14,104,136	13,179,521
Other	334,782	1,488,108	-	-	334,782	1,488,108
Total Revenues	\$ 22,196,994	\$ 22,384,501	\$ 176,139	\$ 166,755	\$ 22,373,133	\$ 22,551,256
EXPENSES:						
General Government	\$ 2,415,703	\$ 2,240,103			\$ 2,415,703	\$ 2,240,103
Public Safety	14,588,506	14,122,814			14,588,506	14,122,814
Highway and Streets	5,530,481	5,289,057			5,530,481	5,289,057
Culture and Recreation	1,837,690	1,782,852			1,837,690	1,782,852
Debt Service Interest	-	-			-	-
Pinewood Pool	-	-	\$ 226,079	\$ 215,598	226,079	215,598
Total Expenses	24,372,380	23,434,826	226,079	215,598	24,598,459	23,650,424
Change in net position before transfers	(2,175,386)	(1,050,325)	(49,940)	(48,843)	(2,225,326)	(1,099,168)
Transfers	-	(150,000)	-	150,000	-	-
Change in Net Position	(2,175,386)	(1,200,325)	(49,940)	101,157	(2,225,326)	(1,099,168)
Net Position, Beginning	140,580,988	141,781,313	22,921	(78,236)	140,603,909	141,703,077
Net Position, Ending	\$ 138,405,602	\$ 140,580,988	\$ (27,019)	\$ 22,921	\$ 138,378,583	\$ 140,603,909

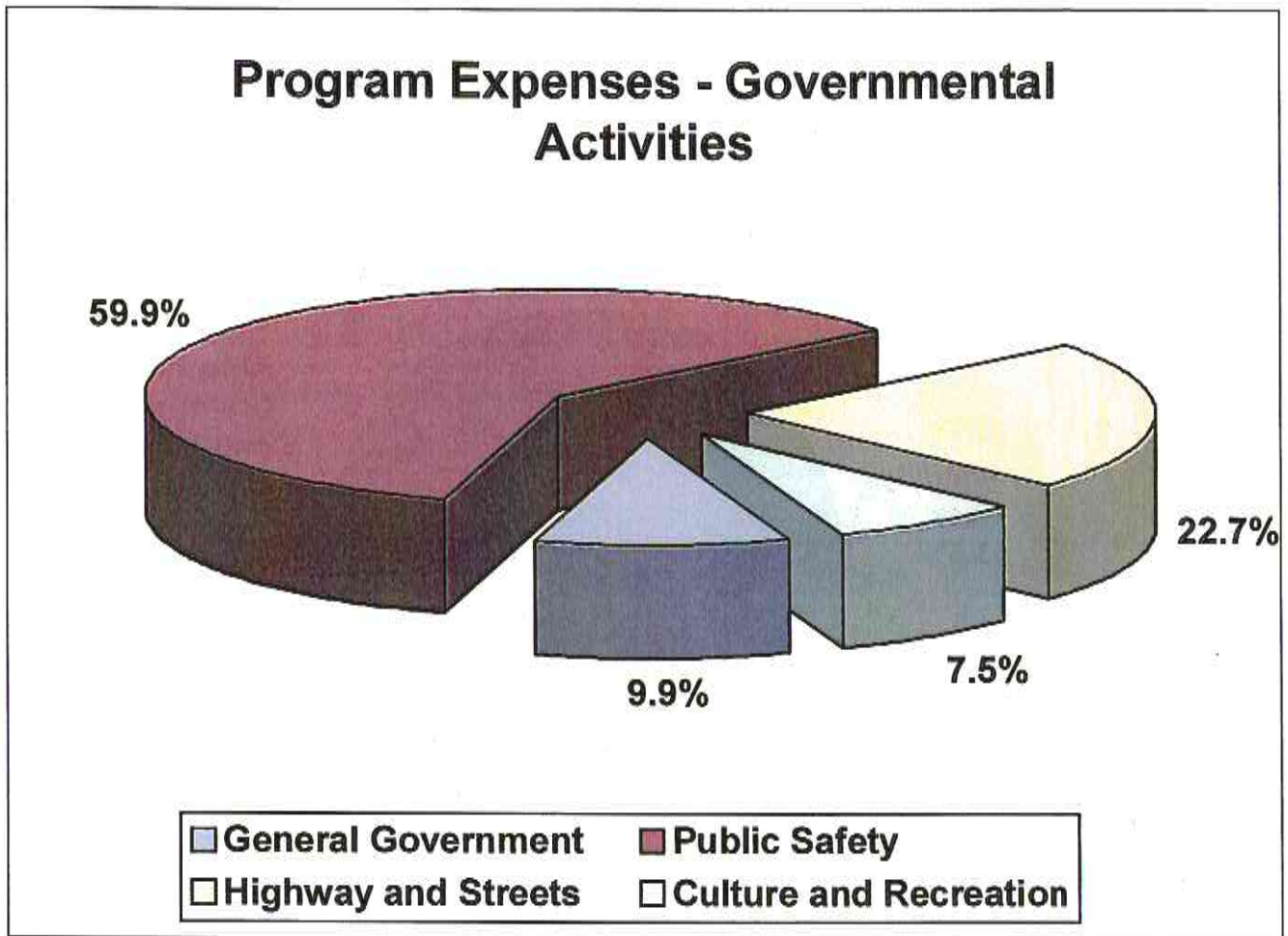
Governmental Activities

The following chart shows the Government-wide sources of revenues for the year ended December 31, 2012:



Of the total Government-wide revenues of \$22,196,994, \$14,104,136 were Host Community Fees or “tipping” fees received from Waste Management for the landfill and incinerator operations. Also contributing to the Township’s revenue stream were Charges for Services with revenues of \$2,683,787 which were generated for various items from business licenses to permits. Property taxes netted the Township \$2,274,529, Other Taxes brought in \$1,076,975, Operating Grants and Contributions added \$1,722,785, Interest Earnings netted \$288,455 and Other (miscellaneous) revenues were \$46,327.

The following chart shows the Government-wide sources of program expenses and revenues for the year ended December 31, 2012:

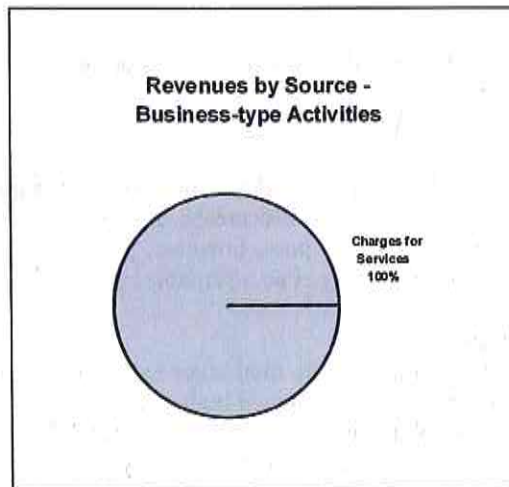
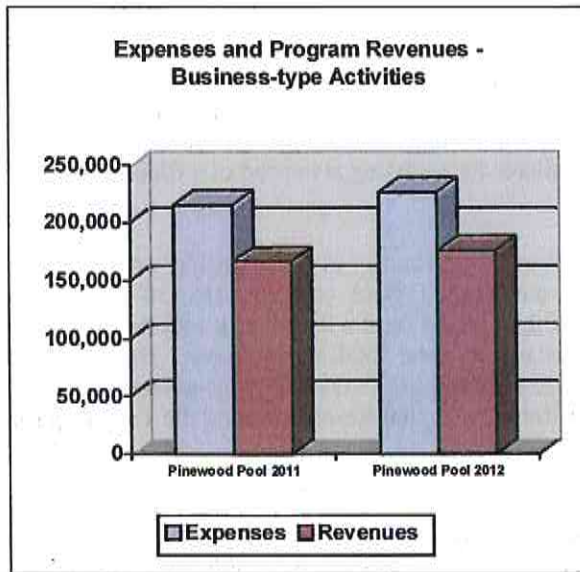


Most of the expenses that occurred in the year 2012 were related to Public Safety. Public Safety expenses were \$14,588,506. This broad category encompasses police protection, animal control, fire marshal's services, code enforcement, zoning services and environmental protection. Highway and Streets expenses were \$5,530,481 which includes road reconstruction, engineering costs, construction and rebuilding of storm sewers, operation and maintenance of traffic signals, and snow removal. Culture and Recreation expenses were \$1,837,690 which includes maintenance/upgrades at over 16 parks including the Falls Township Community Park. General Government expenses were \$2,415,703 and include costs for staffing, benefits, insurance and various other administrative costs.

Business-type activities

Business-type activities decreased the Township's net position by \$49,940. The single business-type activity of Falls Township is the operation of the Pinewood Pool.

The Pinewood Pool fund experienced an operating loss of \$49,940 in 2012. The Pool underwent a reconstruction in 2003 and was reopened to the public in 2004. 2012 was the ninth full year of operation for the renovated site. The loss is attributed to continued increases in operating costs outpacing revenues, in spite of an increase in the number of pool membership registrations.



Charges for services represent 100% of program revenues for the Pinewood Pool. Although the pool is operating at a loss, the Township continues to offer low membership rates to residents in the interest of providing affordable family entertainment.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

As Falls Township completed the year, its governmental funds reported a combined fund balance of \$50,673,106 a decrease of \$3,227,745 compared to the previous year. Of the combined fund balance total: \$14,488,011 constitutes *unassigned fund balance*, which is available to meet the Township's current and future needs at the Township's discretion; an additional \$34,842,976 is assigned for specific purposes; and \$1,137,956 is restricted for particular purposes.

As noted earlier, Falls Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of Falls Township's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing Falls Township's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

General Fund

The General Fund is the chief operating fund of Falls Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,616,130 while total fund balance reached \$42,073,239. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The fund balance of Falls Township's general fund increased \$5,781,224 during 2012. Overall, expenditures were higher; however, rising costs were offset by a large transfer from the Capital Reserve to fund the Township road reconstruction program and other capital projects.

Capital Reserve

The Capital Reserve fund serves the Township to finance various Township purchases and projects. At the end of 2012, the assigned and total fund balance was \$7,590,030. This is a decrease in the amount of \$8,986,411 due to a substantial transfer into the General Fund to fund ongoing capital programs.

Proprietary Funds

Falls Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Pinewood Pool

The Pinewood Pool fund accounts for the operations of a recreational community pool. At the end of 2012, the net position was (\$27,019). This represents a decrease of \$49,940 over the prior year. Expenses continue to outpace revenues at the community pool; however, pool memberships are on the rise. The Township strives to offer a state of the art facility at an affordable rate for our residents.

General Fund Budgetary Highlights

No differences between the original budget and the final amended budget occurred during the year. Some of the highlights of the comparison between the original budget and actual were as follows. Overall, total revenues were over budget by \$3,667,446 for 2012. The largest contributing factors were: Real Estate Transfer Taxes over budget by \$232,059, Host Community Fees over budget by \$3,548,536, Intergovernmental revenues over budget by \$248,548, and Charges for Services coming in over budget by \$169,499. This was more than enough to offset Interest Earnings coming in short by \$543,816. Total expenditures for the year were under budget by a total of \$3,819,060. The greatest savings occurred in expenditures for Capital Outlays which will not be completed until 2013.

Capital Asset and Debt Administration

Capital Assets

The Township's investment in capital assets for its governmental and business type activities as of December 31, 2012, amount to \$90,048,261 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, open space, roads, and bridges.

Major capital asset events during 2012 included the following:

Road improvements for various roads in the Township amounting to just over \$3,972,000 in construction and engineering costs. Also improving our roadways were continuing upgrades to Township traffic signals at a cost of \$19,223.

Park improvements in the form of a new Babe Ruth baseball field at Quaker Penn Park amounted to \$321,048, soccer field reconstruction at the Community Park cost \$203,995, engineering costs for the Biles Island master plan cost \$26,259, and engineering costs for the reconstruction of the Penns Grant tennis courts amounted to \$17,831.

Capital purchases for the Police Department, including patrol car purchases, were just under \$230,000.

FALLS TOWNSHIP
Capital Assets
(net of accumulated depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 16,460,926	\$ 16,460,926	\$ 162,700	\$ 162,700
Building and System Improvements other than Building	2,175,977	2,181,634	-	-
Machinery and Equipment	3,174,411	3,329,099	-	-
Infrastructure	1,237,404	1,143,643	13,811	15,784
	66,823,032	65,143,436	-	-
	<u>\$ 89,871,750</u>	<u>\$ 88,258,738</u>	<u>\$ 176,511</u>	<u>\$ 178,484</u>

Additional information on Falls Township's capital assets can be found in Note D on pages 54 and 55 of this report.

Falls Township prepared a ten year capital purchase plan in 2004. All long-term planning for the acquisition of these various assets would be primarily funded through host community fees. The capital assets for the year 2012 in the Township's ten year capital purchase plan were acquired in accordance with the budget. These assets, along with the 2012 road program, were the Township's significant additions or improvements for the year.

Debt Administration

As of December 31, 2009, Falls Township had no outstanding long term debt. The previous balance of \$3,055,000 on the Township-held Water and Sewer Revenue Bonds, Series 2004, was paid in full on December 15, 2009. The outstanding balance of the revenue bonds had been transferred from the proprietary funds to a governmental fund in 2007 due to the sale of the Township's water and sewer operations. The bonds were originally set to mature through December 15, 2016. Calling these bonds for early redemption resulted in an interest savings to the Township of just under \$325,000.

Additional information on Falls Township's long-term debt can be found in Note F on page 56 of this report.

Economic Factors and Next Year's Budgets and Rates

1) Tipping fees received from the landfill located in the Township have been on the rise since 2010, netting \$866,000 more than budgeted for that year. In 2011, earnings recovered even further coming in over budget by \$1,465,421. Fiscal year 2012 saw a large increase in landfill revenue due to some economic recovery as well as an influx of tonnage generated by clean-up from Superstorm Sandy in October 2012. Revenues for 2012 topped \$13 million. Projections for 2013 are similar.

2) The Pinewood Pool is expected to continue operations while trying to contain costs and exceed projected revenues. The Township has continued in-house management of the pool for 2012 in an effort to control costs. Pool membership registration is on an upswing. And, the Host Community Fees fund will provide another cash transfer in 2013, if needed.

3) The Parks and Recreation department will receive additional funding from the Host Community Fees fund as the department continues to offer an extensive list of programs and events in the Community. Also as the Falls Township Community Park grows, additional spending will be required to maintain the quality of service needed to operate at a superior level.

All of these factors were considered in preparing the Falls Township budget for 2013.

Requests for Information

Falls Township's financial report is designed to provide a general overview of the Township's finances for those interested in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Falls Township, 188 Lincoln Highway, Suite 100, Fairless Hills, PA 19030.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF FALLS

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash & cash equivalents	\$ 24,439,940	\$	\$ 24,439,940
Investments	24,705,301		24,705,301
Taxes receivable	103,920		103,920
Accounts receivable (net of allowance for uncollectibles)	3,917,250		3,917,250
Prepaid assets	204,163		204,163
Total Current Assets	53,370,574	-	53,370,574
Capital Assets (net of accumulated depreciation):			
Land	16,460,926	162,700	16,623,626
Buildings and systems	2,175,977		2,175,977
Infrastructure	66,823,032		66,823,032
Improvements other than buildings	3,174,411		3,174,411
Machinery, equipment, and vehicles	1,237,404	13,811	1,251,215
Total Capital Assets	89,871,750	176,511	90,048,261
TOTAL ASSETS	143,242,324	176,511	143,418,835
LIABILITIES			
Current Liabilities:			
Accounts payable	881,939	120	882,059
Accrued salary and benefits	311,489	639	312,128
Unearned revenue	236,584		236,584
Deposits	814,908		814,908
Judgment payable	104,590		104,590
Internal balances	(202,771)	202,771	-
Portion due or payable within one year			
Compensated absences	474,104		474,104
Total Current Liabilities	2,620,843	203,530	2,824,373
Long-term Liabilities:			
Portion due or payable after one year			
Compensated absences	759,934		759,934
Other post-employment benefits	1,455,945		1,455,945
Total Long-term Liabilities	2,215,879	-	2,215,879
TOTAL LIABILITIES	4,836,722	203,530	5,040,252
NET POSITION			
Net investment in capital assets	89,871,750	176,511	90,048,261
Restricted for			
Culture and recreation	120,805		120,805
Fire protection	1,663		1,663
Library support	372		372
Recycling expenditures	446,108		446,108
Highway aid	427,175		427,175
Drug prevention	141,833		141,833
Unrestricted	47,395,896	(203,530)	47,192,366
TOTAL NET POSITION	\$ 138,405,602	\$ (27,019)	\$ 138,378,583

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES							
General government	\$ 2,415,703	\$ 953,299	\$ 579,781	\$ -	\$ (882,623)	\$ -	\$ (882,623)
Public safety	14,588,506	1,496,699	278,797		(12,813,010)		(12,813,010)
Public works - highways and streets	5,530,481	59,570	864,175		(4,606,736)		(4,606,736)
Culture and recreation	1,837,690	174,219	32		(1,663,439)		(1,663,439)
TOTAL GOVERNMENTAL ACTIVITIES	24,372,380	2,683,787	1,722,785	-	(19,965,808)	-	(19,965,808)
BUSINESS-TYPE ACTIVITIES							
Pinewood Pool	226,079	176,139			(49,940)		(49,940)
TOTAL BUSINESS-TYPE ACTIVITIES	226,079	176,139	-	-	(49,940)	(49,940)	(49,940)
TOTAL GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES	\$ 24,598,459	\$ 2,859,926	\$ 1,722,785	\$ -	(19,965,808)	(49,940)	(20,015,748)
GENERAL REVENUES							
Property taxes, levied for general purposes					2,274,529		2,274,529
Real estate transfer taxes					582,059		582,059
Local services taxes					371,546		371,546
Mechanical device tax					33,583		33,583
Other taxes					14,328		14,328
Payment in lieu of taxes					75,459		75,459
Contributions not restricted to specific programs					14,104,136		14,104,136
Interest earnings					288,455		288,455
Miscellaneous revenues					46,327		46,327
TOTAL GENERAL REVENUES AND TRANSFERS					17,790,422	-	17,790,422
CHANGE IN NET POSITION					(2,175,386)	(49,940)	(2,225,326)
NET POSITION AT BEGINNING OF YEAR					140,580,988	22,921	140,603,909
NET POSITION AT END OF YEAR					\$ 138,405,602	\$ (27,019)	\$ 138,378,583

TOWNSHIP OF FALLS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Capital Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 14,903,944	\$ 8,383,447	\$ 1,152,549	\$ 24,439,940
Investments	24,705,301			24,705,301
Accounts receivable (net of allowance for uncollectibles)	3,917,249	I		3,917,250
Taxes receivable	41,122		62,798	103,920
Interfund receivable	314,843		38,610	353,453
Prepaid items	204,163			204,163
TOTAL ASSETS	\$ 44,086,622	\$ 8,383,448	\$ 1,253,957	\$ 53,724,027
LIABILITIES				
Accounts payable	\$ 815,626	\$ 22,152	\$ 44,161	\$ 881,939
Deposits	43,392	771,266	250	814,908
Interfund payable	38,610		112,072	150,682
Salaries and benefits payable	756,008		29,585	785,593
Unearned revenue	314,775			314,775
TOTAL LIABILITIES	1,968,411	793,418	186,068	2,947,897
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - real estate taxes	38,025		58,052	96,077
Unavailable revenue - other	6,947			6,947
TOTAL DEFERRED INFLOWS OF RESOURCES	44,972	-	58,052	103,024
FUND BALANCES				
Nonspendable:				
Prepaid items	204,163			204,163
Restricted for:				
Culture and recreation			120,805	120,805
Fire protection			1,663	1,663
Library support			372	372
Recycling expenditures			446,108	446,108
Highway aid			427,175	427,175
Drug prevention			141,833	141,833
Assigned to:				
Capital projects	17,326,670	7,590,030		24,916,700
Subsequent year's budget: appropriation of fund balance	9,926,276			9,926,276
Unassigned	14,616,130		(128,119)	14,488,011
TOTAL FUND BALANCES	42,073,239	7,590,030	1,009,837	50,673,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 44,086,622	\$ 8,383,448	\$ 1,253,957	\$ 53,724,027

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2012

TOTAL GOVERNMENTAL FUND BALANCES	\$ 50,673,106
Amounts reported for governmental activities on the statement of net position are different because of the following:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$139,537,378 and the accumulated depreciation is \$49,665,628	89,871,750
Certain revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds	181,215
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of:	
Judgment payable	(104,590)
Other post employment benefits	(1,455,945)
Compensated absences	<u>(759,934)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 138,405,602</u>

TOWNSHIP OF FALLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Capital Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	\$ 895,591			\$ 2,268,828
Real estate transfer	582,059		1,373,237	582,059
Local services	371,209			371,209
Mechanical device	33,583			33,583
Motor fuel tax			633,435	633,435
Payment in lieu of taxes	30,064		45,395	75,459
Host community fees	14,104,136			14,104,136
Licenses and permits	797,257			797,257
Fines and forfeits	186,362			186,362
Interest earnings		6,314		6,314
Rents	281,534		609	288,457
Intergovernmental	84,944		13,137	98,081
Charges for services	824,848		246,147	1,070,995
Contributions and donations	1,452,849		174,219	1,627,068
Refunds of prior years	906		32,682	33,588
	34,101			34,101
TOTAL REVENUES	19,679,443	6,314	2,518,861	22,204,618
EXPENDITURES				
Current				
General government	2,218,302			2,283,123
Public safety	12,687,753	64,821		13,802,918
Public works - highways and streets	2,072,284		1,115,165	2,905,706
Culture and recreation	41,711		833,422	1,046,577
Capital outlay			1,004,866	
General government	65,462			65,462
Public safety	277,014			277,014
Public works - highways and streets	4,120,425	107,904	75,466	4,303,795
Culture and recreation	758,629			758,629
TOTAL EXPENDITURES	22,241,580	172,725	3,028,919	25,443,224
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,562,137)	(166,411)	(510,058)	(3,238,606)
OTHER FINANCING SOURCES (USES)				
Transfers in	8,821,000			9,309,500
Transfers out	(488,500)		488,500	(9,309,500)
Sale of capital assets	10,861		(1,000)	10,861
TOTAL OTHER FINANCING SOURCES (USES)	8,343,361	(8,820,000)	487,500	10,861
NET INCREASE (DECREASE) IN FUND BALANCES	5,781,224	(8,986,411)	(22,558)	(3,227,745)
FUND BALANCES AT BEGINNING OF YEAR	36,292,015	16,576,441	1,032,395	53,900,851
FUND BALANCES, ENDING	\$ 42,073,239	\$ 7,590,030	\$ 1,009,837	\$ 50,673,106

TOWNSHIP OF FALLS

**RECONCILIATION OF GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (3,227,745)
 Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense:	
Capital outlay	5,404,900
Depreciation expense	(3,771,905)
 Disposal of capital assets are reported in the governmental funds to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(19,983)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
	(7,624)
 Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	
	(53,619)
 On the Statement of Activities the actual and projected long term expenditures for post-employment benefits are reported, whereas on the governmental funds only the actual expenditures are recorded for post employment benefits.	
	(394,820)
 Judgement payable does not require the use of current financial resources, therefore, is not reported as an expenditure in Governmental Funds.	
	<u>(104,590)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (2,175,386)</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 939,992	\$ 939,992	\$ 895,591	\$ (44,401)
Real estate transfer	350,000	350,000	582,059	232,059
Local services	400,000	400,000	371,209	(28,791)
Mechanical device	36,000	36,000	33,583	(2,417)
Payment in lieu of taxes	29,605	29,605	30,064	459
Host community fees	10,555,600	10,555,600	14,104,136	3,548,536
Licenses and permits	744,700	744,700	797,257	52,557
Fines and forfeits	132,000	132,000	186,362	54,362
Interest earnings	825,350	825,350	281,534	(543,816)
Rents	119,000	119,000	84,944	(34,056)
Intergovernmental	576,300	576,300	824,848	248,548
Charges for services	1,283,350	1,283,350	1,452,849	169,499
Contributions and donations	-	-	906	906
Refunds of prior years	20,000	20,000	34,101	14,101
Miscellaneous revenues	100	100	-	(100)
TOTAL REVENUES	16,011,997	16,011,997	19,679,443	3,667,446
EXPENDITURES				
Current				
General government				
Supervisors	30,926	30,926	37,749	(6,823)
Manager	339,584	339,584	381,524	(41,940)
Finance and administration	489,678	489,678	497,072	(7,394)
Attorney	257,500	257,500	339,542	(82,042)
Other	809,381	809,381	962,415	(153,034)
Total general government	<u>1,927,069</u>	<u>1,927,069</u>	<u>2,218,302</u>	<u>(291,233)</u>
Public safety				
Police	11,010,010	11,010,010	11,230,708	(220,698)
Fire	489,154	489,154	453,308	35,846
Code Enforcement	1,045,118	1,045,118	1,003,737	41,381
Total public safety	<u>12,544,282</u>	<u>12,544,282</u>	<u>12,687,753</u>	<u>(143,471)</u>
Public works				
Highways and streets	1,702,207	1,702,207	2,072,284	(370,077)
Total public works	<u>1,702,207</u>	<u>1,702,207</u>	<u>2,072,284</u>	<u>(370,077)</u>
Total culture and recreation	-	-	41,711	(41,711)
Capital outlay				
General government	483,000	483,000	65,462	417,538
Public safety	1,439,141	1,439,141	277,014	1,162,127
Public works - highway and streets	6,234,000	6,234,000	4,120,425	2,113,575
Culture and recreation	1,730,941	1,730,941	758,629	972,312
Total capital outlay	<u>9,887,082</u>	<u>9,887,082</u>	<u>5,221,530</u>	<u>4,665,552</u>
TOTAL EXPENDITURES	26,060,640	26,060,640	22,241,580	3,819,060
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,048,643)	(10,048,643)	(2,562,137)	7,486,506
OTHER FINANCING SOURCES (USES)				
Transfers in	9,854,000	9,854,000	8,821,000	(1,033,000)
Transfers out	(488,500)	(488,500)	(488,500)	-
Sale of assets	2,000	2,000	10,861	8,861
TOTAL OTHER FINANCING SOURCES (USES)	9,367,500	9,367,500	8,343,361	(1,024,139)
NET INCREASE (DECREASE) IN FUND BALANCE	(681,143)	(681,143)	5,781,224	6,462,367
FUND BALANCE, BEGINNING	36,292,015	36,292,015	36,292,015	-
FUND BALANCE, ENDING	\$ 35,610,872	\$ 35,610,872	\$ 42,073,239	\$ 6,462,367

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds	
	Pinewood Pool Current Year	Pinewood Pool Prior Year
ASSETS		
Current assets		
Due from other funds	\$ -	\$ 421
TOTAL CURRENT ASSETS	-	421
Capital Assets (net of accumulated depreciation):		
Land	162,700	162,700
Machinery and equipment	13,811	15,784
TOTAL CAPITAL ASSETS	176,511	178,484
TOTAL ASSETS	176,511	178,905
 LIABILITIES		
Current liabilities		
Accounts payable	120	-
Interfund payable	202,771	155,432
Salaries and benefits payable	639	552
TOTAL CURRENT LIABILITIES	203,530	155,984
 NET POSITION		
Invested in capital assets	176,511	178,484
Unrestricted	(203,530)	(155,563)
TOTAL NET POSITION	\$ (27,019)	\$ 22,921

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Pinewood Pool Current Year</u>	<u>Pinewood Pool Prior Year</u>
OPERATING REVENUES		
Charges for sales and services		
Pool memberships	\$ 155,443	\$ 144,874
Concession income	20,696	21,881
TOTAL OPERATING REVENUES	<u>176,139</u>	<u>166,755</u>
OPERATING EXPENSES		
Costs of sales and services	195,946	183,364
Administration	28,160	30,261
Depreciation on capital assets	1,973	1,973
TOTAL OPERATING EXPENSES	<u>226,079</u>	<u>215,598</u>
Operating Loss	(49,940)	(48,843)
Transfers in	-	150,000
CHANGE IN NET POSITION	(49,940)	101,157
NET POSITION, BEGINNING	<u>22,921</u>	<u>(78,236)</u>
NET POSITION, ENDING	<u>\$ (27,019)</u>	<u>\$ 22,921</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds	
	Pinewood	Pinewood
	Pool	Pool
	Current Year	Prior Year
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 176,139	\$ 166,755
Payments to suppliers	(88,504)	(88,081)
Payments to employees	(135,395)	(125,648)
NET CASH USED IN OPERATING ACTIVITIES	(47,760)	(46,974)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from other funds	47,760	46,974
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	47,760	46,974
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (49,940)	\$ (48,843)
Adjustments to reconcile operating loss to net cash provided (used) by operating expenses		
Depreciation expense	1,973	1,973
Increase (decrease) in accounts payable	120	(124)
Increase (decrease) in salaries and benefits payable	87	20
TOTAL ADJUSTMENTS	2,180	1,869
NET CASH USED IN OPERATING ACTIVITIES	\$ (47,760)	\$ (46,974)

TOWNSHIP OF FALLS

COMBINED STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2012

	Pension Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 4,743,250	\$ 2,100,537
Receivables	134,191	
Accounts receivable		1,704
Investment, at fair value		
Certificates of deposit	5,452,000	
Common stock, mutual funds	11,726,568	
TOTAL ASSETS	22,056,009	\$ 2,102,241
LIABILITIES		
Escrow deposits		\$ 2,102,241
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 22,056,009	

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

PENSION TRUST FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 941,106
Plan member	246,343
Commonwealth	479,199
Total Contributions	<u>1,666,648</u>
Investment Income	
Interest	33,330
Dividend income	247,472
Net appreciation in fair market value of investments	<u>1,173,960</u>
Total investment income	1,454,762
Less: investment expenses	<u>51,176</u>
Net investment income	<u>1,403,586</u>
TOTAL ADDITIONS	<u>3,070,234</u>
DEDUCTIONS	
Benefits	1,918,208
Administrative expenses	<u>398</u>
Total deductions	<u>1,918,606</u>
Change in Net Position	1,151,628
NET POSITION BEGINNING OF YEAR	<u>20,904,381</u>
NET POSITION END OF YEAR	<u>\$ 22,056,009</u>

See accompanying notes to the basic financial statements