

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, 2011, which collectively comprise the TOWNSHIP OF FALLS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of TOWNSHIP OF FALLS' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

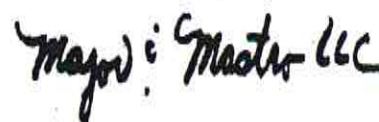
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF FALLS, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 29 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TOWNSHIP OF FALLS' financial statements as a whole. 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 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 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. 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 19, 2012

MAJOR & MASTRO, LLC
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC".

**Falls Township
Bucks County, Pennsylvania**

**Management's Discussion and Analysis (MD&A)
Required Supplementary Information (RSI)
For the Fiscal Year Ended December 31, 2011**

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, 2011. 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 \$140,603,909 and \$141,703,077 (as restated) at the close of the years ended December 31, 2011 and 2010, respectively. Of the 2011 amount, \$51,070,958 may be used to meet the government's ongoing obligations for general operations of the Township, whereas in 2010 \$54,971,288 (as restated) was available for that purpose.

The Township's governmental net assets decreased by a total of \$1,099,168 over the prior year. This decrease is primarily due to a decrease in the Township's cash reserves.

As of the end of 2011, Falls Township's governmental funds reported combined ending fund balances of \$53,900,851. As a comparison, at the end of 2010, the balance was \$57,107,951 (as restated), a reduction of \$3,207,100.

Business-type activities' net assets increased by \$101,157 from (\$78,236) in 2010 to \$22,921 in 2011. The reason for this increase is a cash transfer from the Township's general fund.

At the end of the 2011, the unassigned fund balance for the general fund was \$24,783,566 or 116% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

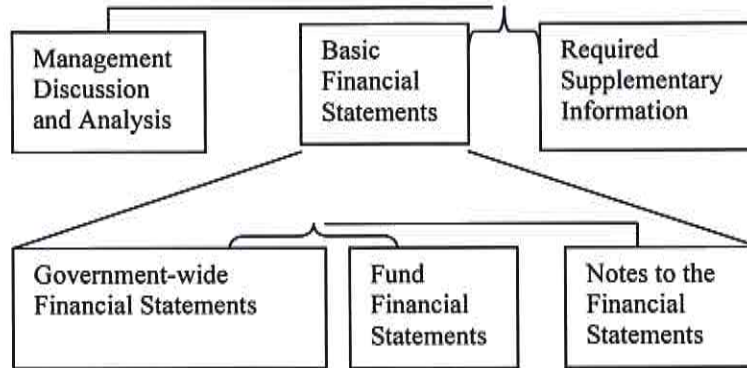
This discussion and analysis are intended to serve as an introduction to Falls Township's basic financial statements. Falls Township's basic financial statements are comprised of three components:

- 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 assets presents information on all of Falls Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 assets may serve over time as a useful indicator of a government's financial position. For Falls Township, assets exceed liabilities by \$140,603,909 and \$141,703,077 (as restated) at the close of the years ended December 31, 2011 and 2010, respectively.

The following table provides a summary of the Township's net assets at December 31, 2011 compared to the prior year's figures:

FALLS TOWNSHIP NET ASSETS

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2011	2010 *	2011	2010	2011	2010 *
Current and other assets	\$ 56,155,264	\$ 42,803,605	\$ -	\$ -	\$ 56,155,264	\$ 42,803,605
Capital assets	88,258,738	85,897,168	178,484	180,457	88,437,222	86,077,625
Other noncurrent assets	-	16,795,212	-	-	-	16,795,212
Total Assets	144,414,002	145,495,985	178,484	180,457	144,592,486	145,676,442
Long-term liabilities outstanding	1,767,440	1,730,036	-	-	1,767,440	1,730,036
Other liabilities	2,065,574	1,984,636	155,563	258,693	2,221,137	2,243,329
Total Liabilities	3,833,014	3,714,672	155,563	258,693	3,988,577	3,973,365
Net Assets:						
Invested in capital assets	88,258,738	85,897,168	178,484	180,457	88,437,222	86,077,625
Restricted	1,095,729	654,164	-	-	1,095,729	654,164
Unrestricted	51,226,521	55,229,981	(155,563)	(258,693)	51,070,958	54,971,288
Total Net Assets	\$ 140,580,988	\$ 141,781,313	\$ 22,921	\$ (78,236)	\$ 140,603,909	\$ 141,703,077

* 2010 amounts are restated to reflect a prior period adjustment

The largest portion of Falls Township's net assets, 63%, 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 assets, 0.8%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$51,070,958, 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 assets, for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

CHANGES IN NET ASSETS

Governmental activities

Governmental activities decreased Falls Township's net assets by \$1,200,325 for the year ended December 31, 2011 in addition to the decrease in net assets by \$2,033,203 for the year ended December 31, 2010. The 2011 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 increased Falls Township's net assets by \$101,157 for the year ended December 31, 2011 compared to an increase of \$12,120 for the prior year. These activities represent ongoing operations at the Pinewood Pool for 2011.

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.

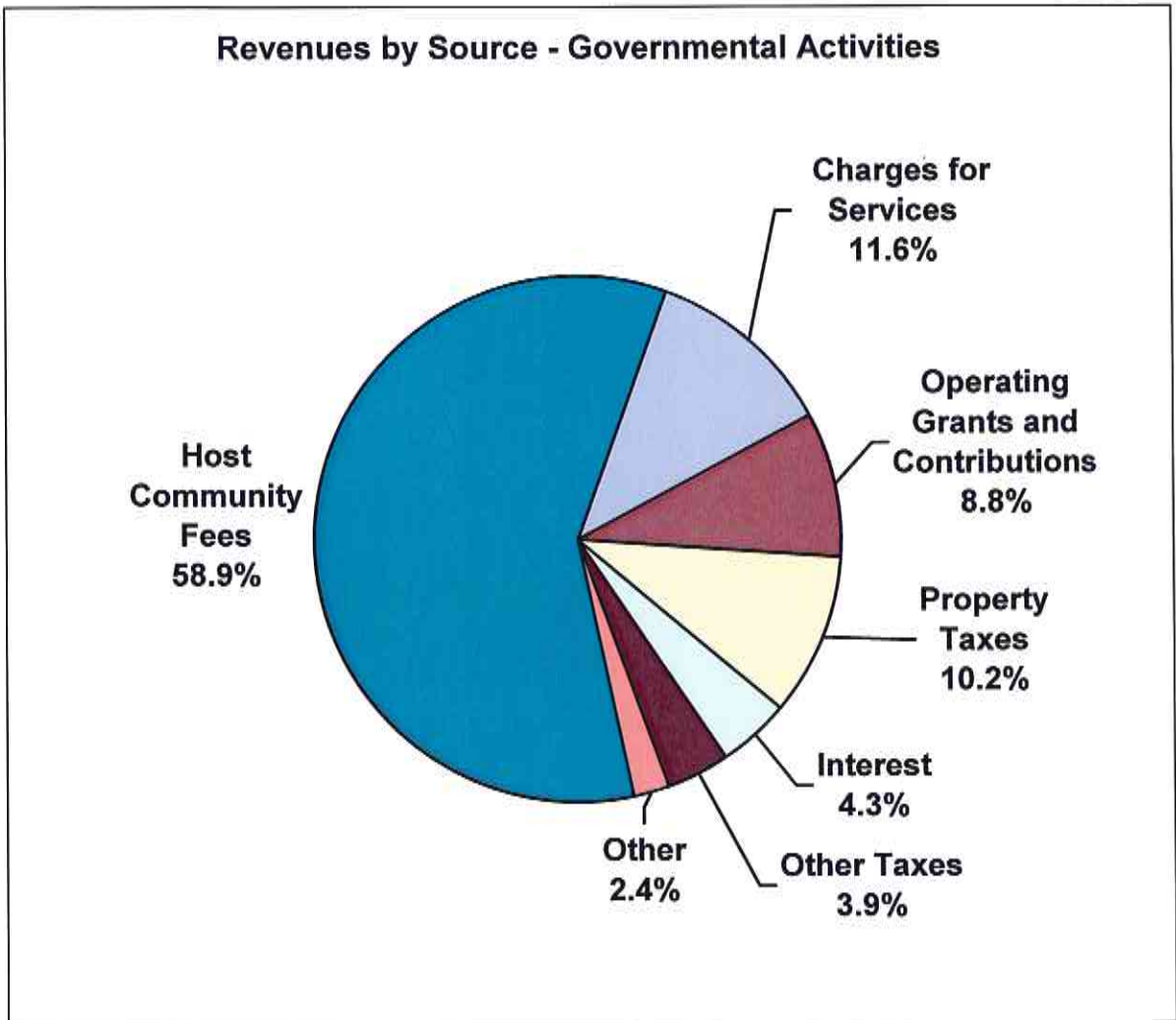
The following table takes the information from the Statement of Activities and rearranges it slightly, so you can see the Township's total revenues for the year ended December 31, 2011 compared to the prior year's figures.

**FALLS TOWNSHIP
CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 2,595,002	\$ 2,309,780	\$ 166,755	\$ 140,498	\$ 2,761,757	\$ 2,450,278
Operating Grants and Contributions	1,980,080	1,805,029	-	-	1,980,080	1,805,029
Capital Grants and Contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	2,279,128	2,280,492	-	-	2,279,128	2,280,492
Other taxes	862,662	846,227	-	-	862,662	846,227
Host Community Fees	13,179,521	11,979,130	-	-	13,179,521	11,979,130
Other	1,488,108	1,168,006	-	-	1,488,108	1,168,006
Total Revenues	<u>\$ 22,384,501</u>	<u>\$ 20,388,664</u>	<u>\$ 166,755</u>	<u>\$ 140,498</u>	<u>\$ 22,551,256</u>	<u>\$ 20,529,162</u>
EXPENSES:						
General Government	\$ 2,240,103	\$ 2,139,446			\$ 2,240,103	\$ 2,139,446
Public Safety	14,122,814	13,656,438			14,122,814	13,656,438
Highway and Streets	5,289,057	5,078,350			5,289,057	5,078,350
Culture and Recreation	1,782,852	1,477,633			1,782,852	1,477,633
Debt Service Interest	-	-			-	-
Pinewood Pool			\$ 215,598	\$ 198,378	215,598	198,378
Total Expenses	<u>23,434,826</u>	<u>22,351,867</u>	<u>215,598</u>	<u>198,378</u>	<u>23,650,424</u>	<u>22,550,245</u>
Change in net assets before transfers	(1,050,325)	(1,963,203)	(48,843)	(57,880)	(1,099,168)	(2,021,083)
Transfers	(150,000)	(70,000)	150,000	70,000	-	-
Change in Net Assets	(1,200,325)	(2,033,203)	101,157	12,120	(1,099,168)	(2,021,083)
Net Assets, Beginning					-	-
As Previously Reported	141,781,313	143,950,765	(78,236)	(90,356)	141,703,077	143,860,409
Adjustment (See Note 4.E)		(136,249)	-	-	-	(136,249)
Net Assets, Ending	<u>\$ 140,580,988</u>	<u>\$ 141,781,313</u>	<u>\$ 22,921</u>	<u>\$ (78,236)</u>	<u>\$ 140,603,909</u>	<u>\$ 141,703,077</u>

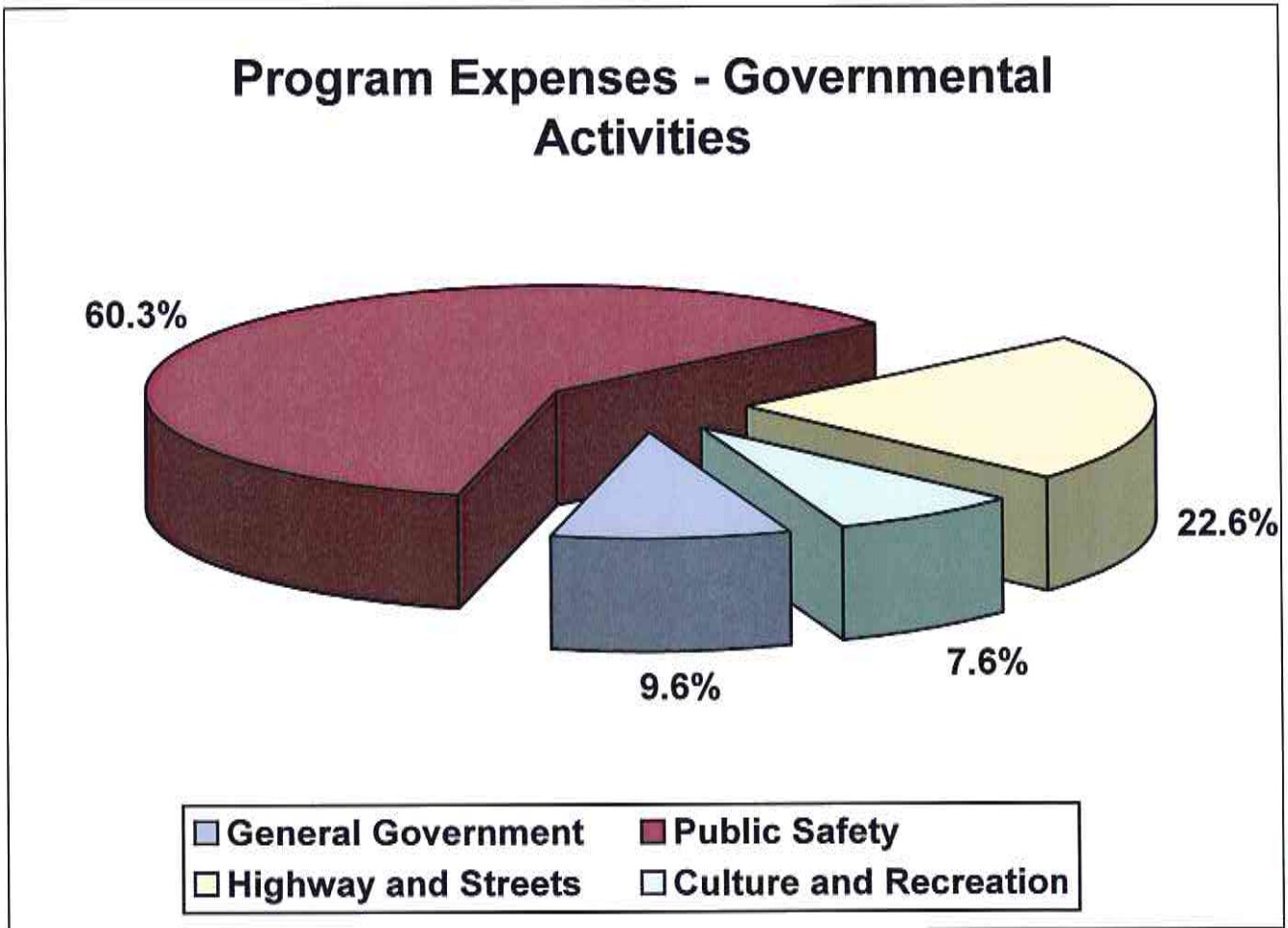
Governmental Activities

The following chart shows the Government-wide sources of revenues for the year ended December 31, 2011:



Of the total Government-wide revenues of \$22,384,501, \$13,179,521 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 \$2,595,002 which were generated for various items from business licenses to permits. Property taxes netted the Township \$2,279,128, Other Taxes brought in \$862,662, Operating Grants and Contributions added \$1,980,080, Interest Earnings netted \$958,489 and Other (miscellaneous) revenues were \$529,619.

The following chart shows the Government-wide sources of program expenses and revenues for the year ended December 31, 2011:



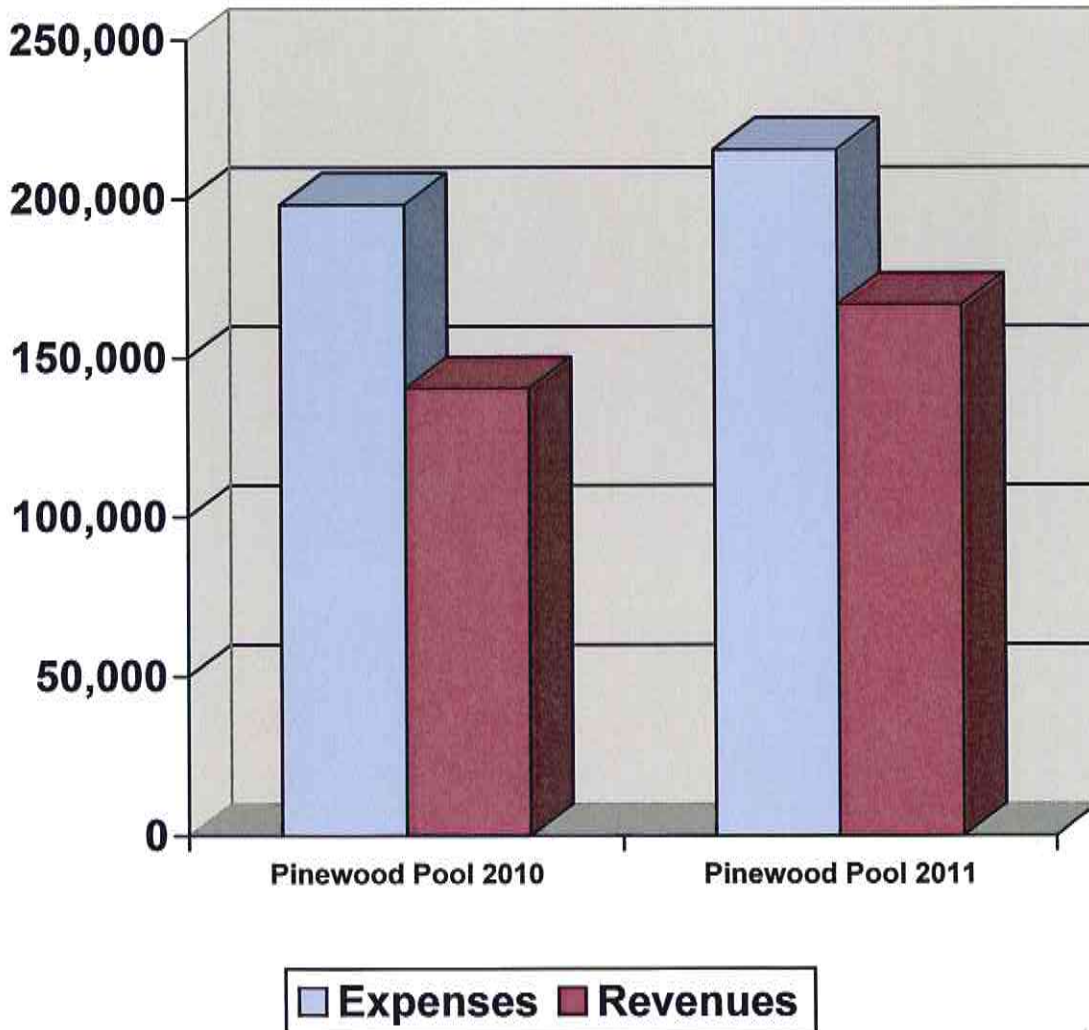
Most of the expenses that occurred in the year 2011 were related to Public Safety. Public Safety expenses were \$14,122,814. This broad category encompasses police protection, animal control, fire marshal's services, code enforcement, zoning services and environmental protection. Highway and Streets expenses were \$5,289,057 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 \$1,782,852 which includes maintenance/upgrades at over 16 parks including the Falls Township Community Park. General Government expenses were \$2,240,103 and include costs for staffing, benefits, insurance and various other administrative costs.

Business-type activities

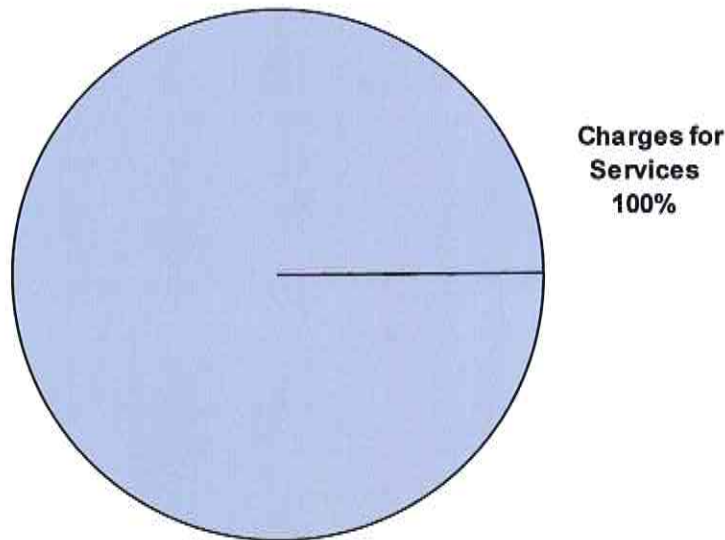
Business-type activities increased the Township's net assets by \$101,157. The single business-type activity of Falls Township is the operation of the Pinewood Pool.

The Pinewood Pool fund experienced an operating loss of \$48,843 in 2011. The Pool underwent a reconstruction in 2003 and was reopened to the public in 2004. 2011 was the eighth full year of operation for the renovated site. The loss is attributed to continued increases in operating costs and is less of a loss than prior years due to an increase in the number of pool membership registrations.

**Expenses and Program Revenues -
Business-type Activities**



Revenues by Source - Business-type Activities



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 \$53,900,851 a decrease of \$3,207,100 compared to the previous year. Of the combined fund balance total: \$24,720,232 constitutes *unassigned fund balance*, which is available to meet the Township's current and future needs at the Township's discretion; an additional \$27,915,600 is assigned for specific purposes; and \$1,095,729 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 \$24,783,566 while total fund balance reached \$36,292,015. 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 decreased \$2,457,820 during 2011. Overall, revenues were higher, however, expenditures for capital projects increased in 2011 with the continuation of the Township road reconstruction program as well as additions and upgrades to our township parks.

Capital Reserve

The Capital Reserve fund serves the Township to finance various Township purchases and projects. At the end of 2011, the assigned and total fund balance was \$16,576,441. This is a decrease in the amount of \$259,893 due to a capital outlay for the modernization of the elevator in the Township Municipal Building.

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 2011, the net assets were \$22,921. This represents an increase of \$101,157 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 under budget for 2011. The largest contributing factors were: Interest Earnings under budget by \$418,040, Intergovernmental revenues under budget by \$971,395, and Charges for Services coming in short by \$228,833. Total expenditures for the year were under budget as well, by a total of \$4,020,337. The greatest savings occurred in expenditures for Capital Outlays for the Township road program and land acquisition.

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, 2011, amount to \$88,437,222 (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 2011 included the following:

Road improvements for various roads in the Township amounting to just over \$3,728,000 in construction and engineering costs. Also improving our roadways were continuing upgrades to Township traffic signals at a cost of \$84,811.

Park improvements in the form of new playground equipment amounted to \$188,659, construction and engineering costs for a boat ramp with access to the Delaware River were \$1,016,950, parking expansion at the Community Park cost \$107,814, engineering costs for the Biles Island master plan cost \$46,210, and engineering costs for a Babe Ruth baseball field at Quaker Penn Park amounted to \$14,575.

Capital purchases for the Police Department, including patrol car purchases, were just over \$307,400.

FALLS TOWNSHIP
Capital Assets
(net of accumulated depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 16,460,926	\$ 16,460,926	\$ 162,700	\$ 162,700
Building and System	2,181,634	1,992,480	-	-
Improvements other than Building	3,329,099	2,644,267	-	-
Machinery and Equipment	1,143,643	1,154,933	15,784	17,757
Infrastructure	65,143,436	63,644,562	-	-
	<u>\$ 88,258,738</u>	<u>\$ 85,897,168</u>	<u>\$ 178,484</u>	<u>\$ 180,457</u>

Additional information on Falls Township's capital assets can be found in Note E 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 2011 in the Township's ten year capital purchase plan were acquired in accordance with the budget. These assets, along with the 2011 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 G 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 fell in 2009 due to the impact of the economic downturn and Waste Management landfill projections indicated that tipping fee revenue was expected to decline throughout 2010 and 2011. However, 2010 earnings did recover somewhat netting \$866,000 more than budgeted and 2011 earnings recovered even further coming in over budget by \$1,465,421. Projections remain conservative for 2012.

2) The Pinewood Pool is expected to continue operations while trying to contain costs and exceed projected revenues. The Township has assumed in-house management of the pool for 2011 in an effort to control costs. Pool membership registration is on an upswing. And, the General fund will provide another cash transfer in 2012, if needed.

3) The Parks and Recreation department will receive additional funding from the General 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.

4) As part of the 2006 Settlement Agreement with the Township of Falls Authority (TOFA), the Capital Reserve Fund has received in excess of \$17,000,000 in principle and interest in 2011 from TOFA for the purchase of the Township Water and Sewer assets.

All of these factors were considered in preparing the Falls Township's budget for 2012.

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.

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BASIC FINANCIAL STATEMENTS

TOWNSHIP OF FALLS

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash & cash equivalents	\$ 31,683,378	\$ -	\$ 31,683,378
Investments	22,653,251		22,653,251
Taxes receivable	94,173		94,173
Accounts receivable (net of allowance for uncollectibles)	1,555,172		1,555,172
Prepaid assets	169,290		169,290
Total Current Assets	56,155,264	-	56,155,264
Capital Assets (net of accumulated depreciation):			
Land	16,460,926	162,700	16,623,626
Buildings and systems	2,181,634		2,181,634
Infrastructure	65,143,436		65,143,436
Improvements other than buildings	3,329,099		3,329,099
Machinery and equipment	1,143,643	15,784	1,159,427
Total Capital Assets	88,258,738	178,484	88,437,222
TOTAL ASSETS	\$ 144,414,002	\$ 178,484	\$ 144,592,486
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 561,764	\$ -	\$ 561,764
Accrued salary and benefits	269,584	552	270,136
Unearned revenue	204,132		204,132
Deposits	810,520		810,520
Internal balances	(155,011)	155,011	-
Portion due or payable within one year			
Compensated absences	374,585		374,585
Total Current Liabilities	2,065,574	155,563	2,221,137
Long-term Liabilities:			
Portion due or payable after one year			
Compensated absences	706,315		706,315
Other post-employment benefits	1,061,125		1,061,125
Total Long-term Liabilities	1,767,440	-	1,767,440
TOTAL LIABILITIES	3,833,014	155,563	3,988,577
NET ASSETS			
Invested in capital assets	88,258,738	178,484	88,437,222
Restricted for			
Culture and recreation	333,961		333,961
Library support	922		922
Rescue squad services	135		135
Recycling expenditures	445,943		445,943
Highway aid	290,572		290,572
Drug prevention	24,196		24,196
Unrestricted	51,226,521	(155,563)	51,070,958
TOTAL NET ASSETS	140,580,988	22,921	140,603,909
TOTAL LIABILITIES AND NET ASSETS	\$ 144,414,002	\$ 178,484	\$ 144,592,486

TOWNSHIP OF FALLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
General government	\$ 2,240,103	\$ 945,872	\$ 867,321	\$ (426,910)	\$	\$ (426,910)
Public safety	14,122,814	1,431,035	467,220	(12,224,559)		(12,224,559)
Public works - highways and streets	5,289,057	38,004	645,539	(4,605,514)		(4,605,514)
Culture and recreation	1,782,852	180,091	-	(1,602,761)		(1,602,761)
TOTAL GOVERNMENTAL ACTIVITIES	23,434,826	2,595,002	1,980,080	(18,859,744)	-	(18,859,744)
BUSINESS-TYPE ACTIVITIES						
Pinewood Pool	215,598	166,755		(48,843)		(48,843)
TOTAL BUSINESS-TYPE ACTIVITIES	215,598	166,755	-	(48,843)	-	(48,843)
TOTAL GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES	\$ 23,650,424	\$ 2,761,757	\$ 1,980,080	(18,859,744)	(48,843)	(18,908,587)
GENERAL REVENUES						
Property taxes, levied for general purposes				2,279,128		2,279,128
Real estate transfer taxes				361,953		361,953
Local services taxes				376,399		376,399
Mechanical device tax				36,372		36,372
Other taxes				12,938		12,938
Payment in lieu of taxes				75,000		75,000
Host community fees				13,179,521		13,179,521
Interest earnings				958,489		958,489
Miscellaneous revenues				529,619		529,619
Transfers				(150,000)	150,000	-
TOTAL GENERAL REVENUES AND TRANSFERS				17,659,419	150,000	17,809,419
CHANGE IN NET ASSETS				(1,200,325)	101,157	(1,099,168)
NET ASSETS AT BEGINNING OF YEAR						
As Previously Reported				141,917,562	(78,236)	141,839,326
Adjustment (See Note 4.E)				(136,249)		(136,249)
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED				141,781,313	(78,236)	141,703,077
NET ASSETS AT END OF YEAR				\$ 140,580,988	\$ 22,921	\$ 140,603,909

TOWNSHIP OF FALLS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Capital Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 13,248,569	\$ 17,323,033	\$ 1,111,776	\$ 31,683,378
Investments	22,653,251			22,653,251
Accounts receivable (net of allowance for uncollectibles)	1,530,171	1	25,000	1,555,172
Taxes receivable	37,275		56,898	94,173
Interfund receivable	263,652	26,500	17,753	307,905
Prepaid items	169,290			169,290
TOTAL ASSETS	\$ 37,902,208	\$ 17,349,534	\$ 1,211,427	\$ 56,463,169
LIABILITIES				
Accounts payable	\$ 538,640	\$ 2,216	\$ 20,908	\$ 561,764
Deposits	39,393	770,877	250	810,520
Interfund payable	88,949		63,945	152,894
Salaries and benefits payable	604,840		39,329	644,169
Deferred revenue	338,371		54,600	392,971
TOTAL LIABILITIES	1,610,193	773,093	179,032	2,562,318
FUND BALANCES				
Nonspendable:				
Prepaid items	169,290			169,290
Restricted for:				
Culture and recreation			333,961	333,961
Library support			922	922
Rescue squad services			135	135
Recycling expenditures			445,943	445,943
Highway aid			290,572	290,572
Drug prevention			24,196	24,196
Assigned to:				
Capital projects	10,520,582	16,576,441		27,097,023
Subsequent year's budget: appropriation of fund balance	818,577			818,577
Unassigned	24,783,566		(63,334)	24,720,232
TOTAL FUND BALANCES	36,292,015	16,576,441	1,032,395	53,900,851
TOTAL LIABILITIES AND FUND BALANCES	\$ 37,902,208	\$ 17,349,534	\$ 1,211,427	\$ 56,463,169

TOWNSHIP OF FALLS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

DECEMBER 31, 2011

TOTAL GOVERNMENTAL FUND BALANCES	\$ 53,900,851
Amounts reported for governmental activities on the statement of net assets 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 \$134,347,170 and the accumulated depreciation is \$46,088,432	88,258,738
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	188,839
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:	
Other post employment benefits	(1,061,125)
Compensated absences	<u>(706,315)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 140,580,988</u>

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

FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Capital Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	900,145	\$	\$ 1,379,066	\$ 2,279,211
Real estate transfer	361,953			361,953
Local services	376,414			376,414
Mechanical device	36,372			36,372
Motor fuel tax			633,393	633,393
Payment in lieu of taxes	29,605		45,395	75,000
Host community fees	13,079,521			13,079,521
Licenses and permits	749,112			749,112
Fines and forfeits	162,229			162,229
Interest earnings	1,187,842	21,186	1,403	1,210,431
Rents	124,153		11,780	135,933
Intergovernmental	892,405	869	434,570	1,327,844
Charges for services	1,530,959		180,091	1,711,050
Contributions and donations	385		32,650	33,035
Refunds of prior years	30,278			30,278
Miscellaneous	115			115
TOTAL REVENUES	19,461,488	22,055	2,718,348	22,201,891
EXPENDITURES				
Current				
General government	2,009,566	81,939	-	2,091,505
Public safety	11,914,718		1,400,343	13,315,061
Public works - highways and streets	1,605,589	1,238	1,223,234	2,830,061
Culture and recreation	99,048		956,825	1,055,873
Capital outlay				
General government	14,890	171,000		185,890
Public safety	302,065	5,375		307,440
Public works - highways and streets	3,861,244	22,396	49,033	3,932,673
Culture and recreation	1,554,258			1,554,258
TOTAL EXPENDITURES	21,361,378	281,948	3,629,435	25,272,761
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,899,890)	(259,893)	(911,087)	(3,070,870)
OTHER FINANCING SOURCES (USES)				
Transfers in	21,000		442,700	463,700
Transfers out	(592,700)		(21,000)	(613,700)
Sale of capital assets	13,770			13,770
TOTAL OTHER FINANCING SOURCES (USES)	(557,930)	-	421,700	(136,230)
NET INCREASE (DECREASE) IN FUND BALANCES	(2,457,820)	(259,893)	(489,387)	(3,207,100)
FUND BALANCES AT BEGINNING OF YEAR				
As Previously Reported	*	16,906,941	1,521,782	57,178,558
Adjustment (See Note 4.E)		(70,607)	**	(70,607)
BALANCES AT BEGINNING OF YEAR, AS RESTATED	38,749,835	16,836,334	1,521,782	57,107,951
FUND BALANCES, ENDING	\$ 36,292,015	\$ 16,576,441	\$ 1,032,395	\$ 53,900,851

* Restated to conform to GASB #54 (see Note 4.F)
 **Restatement of nonmajor funds beginning balance (See Note 4.E)

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, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (3,207,100)
<p>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:</p>	
Capital outlay	5,980,262
Depreciation expense	(3,598,161)
<p>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.</p>	
	(20,530)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	(65,450)
<p>Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.</p>	
	(102,128)
<p>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.</p>	
	(435,277)
<p>Write off of previously recorded judgment payable does not provide current financial recourses is not reported in the funds.</p>	
	500,000
<p>Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt in the statement of activities.</p>	
	<u>(251,941)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,200,325)</u></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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 946,752	\$ 946,752	\$ 900,145	\$ (46,607)
Real estate transfer	450,000	450,000	361,953	(88,047)
Local services	370,000	370,000	376,414	6,414
Mechanical device	32,000	32,000	36,372	4,372
Payment in lieu of taxes	29,605	29,605	29,605	-
Host community fees	11,614,100	11,614,100	13,079,521	1,465,421
Licenses and permits	708,800	708,800	749,112	40,312
Fines and forfeits	200,000	200,000	162,229	(37,771)
Interest earnings	1,605,882	1,605,882	1,187,842	(418,040)
Rents	60,000	60,000	124,153	64,153
Intergovernmental	1,863,800	1,863,800	892,405	(971,395)
Charges for services	1,759,792	1,759,792	1,530,959	(228,833)
Contributions and donations	-	-	385	385
Refunds of prior years	20,000	20,000	30,278	10,278
Miscellaneous revenues	100	100	115	15
TOTAL REVENUES	19,660,831	19,660,831	19,461,488	(199,343)
EXPENDITURES				
Current				
General government				
Supervisors	60,176	60,176	58,202	1,974
Manager	317,241	317,241	340,884	(23,643)
Finance and administration	484,438	484,438	468,518	15,920
Attorney	170,000	170,000	309,434	(139,434)
Other	627,612	627,612	832,528	(204,916)
Total general government	1,659,467	1,659,467	2,009,566	(350,099)
Public safety				
Police	10,598,111	10,598,111	10,493,431	104,680
Fire	441,632	441,632	449,924	(8,292)
Code Enforcement	906,644	906,644	971,363	(64,719)
Total public safety	11,946,387	11,946,387	11,914,718	31,669
Public works				
Highways and streets	1,565,913	1,565,913	1,605,589	(39,676)
Total public works	1,565,913	1,565,913	1,605,589	(39,676)
Total culture and recreation	-	-	99,048	(99,048)
Capital outlay				
General government	275,000	275,000	14,890	260,110
Public safety	436,513	436,513	302,065	134,448
Public works - highway and streets	5,470,400	5,470,400	3,861,244	1,609,156
Culture and recreation	4,028,035	4,028,035	1,554,258	2,473,777
Total capital outlay	10,209,948	10,209,948	5,732,457	4,477,491
TOTAL EXPENDITURES	25,381,715	25,381,715	21,361,378	4,020,337
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,720,884)	(5,720,884)	(1,899,890)	3,820,994
OTHER FINANCING SOURCES (USES)				
Transfers in	1,034,000	1,034,000	21,000	(1,013,000)
Transfers out	(442,700)	(442,700)	(592,700)	(150,000)
Sale of assets	5,000	5,000	13,770	8,770
TOTAL OTHER FINANCING SOURCES (USES)	596,300	596,300	(557,930)	(1,154,230)
NET INCREASE (DECREASE) IN FUND BALANCE	(5,124,584)	(5,124,584)	(2,457,820)	2,666,764
FUND BALANCE, BEGINNING	38,749,835	38,749,835	38,749,835	-
FUND BALANCE, ENDING	\$ 33,625,251	\$ 33,625,251	\$ 36,292,015	\$ 2,666,764

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds	
	Pinewood Pool Current Year	Pinewood Pool Prior Year
ASSETS		
Current assets		
Due from other funds	\$ 421	\$ 421
TOTAL CURRENT ASSETS	421	421
Capital Assets (net of accumulated depreciation):		
Land	162,700	162,700
Machinery and equipment	15,784	17,757
TOTAL CAPITAL ASSETS	178,484	180,457
TOTAL ASSETS	178,905	180,878
LIABILITIES		
Current liabilities		
Accounts payable	-	124
Interfund payable	155,432	258,458
Salaries and benefits payable	552	532
TOTAL CURRENT LIABILITIES	155,984	259,114
NET ASSETS		
Invested in capital assets	178,484	180,457
Unrestricted	(155,563)	(258,693)
TOTAL NET ASSETS (DEFICIT)	\$ 22,921	\$ (78,236)

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<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	\$ 144,874	\$ 124,405
Concession income	21,881	16,093
TOTAL OPERATING REVENUES	<u>166,755</u>	<u>140,498</u>
OPERATING EXPENSES		
Costs of sales and services	183,364	178,436
Administration	30,261	17,969
Depreciation on capital assets	1,973	1,973
TOTAL OPERATING EXPENSES	<u>215,598</u>	<u>198,378</u>
Operating Loss	(48,843)	(57,880)
Transfers in	150,000	70,000
CHANGE IN NET ASSETS	101,157	12,120
NET ASSETS (DEFICIT), BEGINNING	<u>(78,236)</u>	<u>(90,356)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 22,921</u>	<u>\$ (78,236)</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Pinewood Pool Current Year</u>	<u>Pinewood Pool Prior Year</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 166,755	\$ 140,498
Payments to suppliers	(191,107)	(172,934)
Payments to employees	(125,648)	(17,834)
NET CASH USED IN OPERATING ACTIVITIES	<u>(150,000)</u>	<u>(50,270)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	-	(19,730)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(19,730)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from other funds	150,000	70,000
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>150,000</u>	<u>70,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (48,843)	\$ (57,880)
Adjustments to reconcile operating loss to net cash provided (used) by operating expenses		
Depreciation expense	1,973	1,973
Increase (decrease) in interfund payable	(103,026)	258,458
Increase (decrease) in accounts payable	(124)	(252,956)
Increase (decrease) in salaries and benefits payable	20	135
TOTAL ADJUSTMENTS	<u>(101,157)</u>	<u>7,610</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (150,000)</u>	<u>\$ (50,270)</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

COMBINED STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

DECEMBER 31, 2011

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 3,279,795	\$ 2,150,885
Receivables	131,892	
Accounts receivable		1,704
Investment, at fair value		
Certificates of deposit	5,696,000	
Common stock, mutual funds	<u>11,808,694</u>	
TOTAL ASSETS	20,916,381	<u><u>\$ 2,152,589</u></u>
LIABILITIES		
Accrued investment expenses	<u>12,000</u>	
Escrow deposits		<u><u>\$ 2,152,589</u></u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 20,904,381</u></u>	

See accompanying notes to the basic financial statements

TOWNSHIP OF FALLS

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

PENSION TRUST FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 644,176
Plan member	239,051
Commonwealth	<u>766,711</u>
Total Contributions	<u>1,649,938</u>
Investment Income	
Interest	13,210
Dividend income	273,742
Net appreciation in fair market value of investments	<u>17,959</u>
Total investment income	<u>304,911</u>
Less: investment expenses	<u>58,815</u>
Net investment income	<u>246,096</u>
TOTAL ADDITIONS	<u>1,896,034</u>
DEDUCTIONS	
Benefits	1,957,234
Administrative expenses	<u>30,397</u>
Total deductions	<u>1,987,631</u>
Change in Net Assets	(91,597)
NET ASSETS BEGINNING OF YEAR	<u>20,995,978</u>
NET ASSETS END OF YEAR	<u>\$ 20,904,381</u>

See accompanying notes to the basic financial statements