

**CHARLESTOWN TOWNSHIP
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2006**

**CHARLESTOWN TOWNSHIP
TABLE OF CONTENTS
DECEMBER 31, 2006**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT DISCUSSION AND ANALYSIS	3-9
FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Activities	11
Combined Balance Sheets	12
Combined Statements of Revenues, Expenditures, and Changes in Fund Balances	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - State Fund	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Open Space Fund	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Bond Proceeds Fund	17
Statement of Activity – Property and Equipment Fund	18
Notes to Financial Statements	19-25

Todd & Todd, LLP
Certified Public Accountants

2094 Seven Oaks Road
Chester Springs, Pa. 19425
610-827-1040
Fax 610-827-0844
email: etoddcpa@msn.com

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Charlestown Township
Devault, Pennsylvania

We have audited the accompanying financial statements of the governmental activities of Charlestown Township as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charlestown Township's management. Our responsibility is to express an opinion 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Charlestown Township as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charlestown Township basic financial statements. The introductory section, combining individual nonmajor fund financial statements, and statistical tables 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Todd & Todd, LLP

Chester Springs, Pennsylvania
March 12, 2007

CHARLESTOWN TOWNSHIP MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Our discussion and analysis of Charlestown Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please review it in conjunction with the Township's basic financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$655,269 which represents a 17 percent increase from 2005.
- General Revenues accounted for \$1,670,000 in revenues or 53 percent of all revenues. Program specific revenues in the form of charges for services and capital grants accounted for \$1,508,000 or 47 percent of all revenues.
- The Township had \$2,517,000 in expenses related to governmental activities with \$3,179,000 in program revenues to cover the cost of those programs. The excess revenues were invested for use in future capital expenditure programs.
- In addition to the above, the Township, in May, purchased a conservation easement on the 73 acre Burgoon-Muldoon tract for \$1,500,000. The source of these funds came from the \$9 million in General Obligation Bonds issued by the Township in 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 12. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most financially significant funds.

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

Reporting the Township as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the Township as a whole begins on page 10. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets and changes in them. You can think of the Township's net assets, the difference between assets, what the Township owns, and liabilities, what the Township owes, as one way to measure the Township's financial health, or *financial position*. Over time, *increases or decreases* in the Township's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Township's jurisdiction, the availability of capital projects, and continuing local government support to assess the *overall health* of the Township.

Reporting the Township's Most Significant Funds

Major Funds

Fund Financial Statements

- General
- Property and Equipment
- State Highway
- Open Space
- General Obligation Bond

Our analysis of the Township's major funds begins on page 5. The fund financial statements begin on page 14 and provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. However, the Board of Supervisors establishes many other funds to help control and manage money for particular purposes (ex. various capital projects funds). The Township only has governmental funds.

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Funds: The Township's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Township's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 25 of this report.

THE TOWNSHIP AS A WHOLE

The Township's total net assets changed from a year ago, increasing from \$3.9 million to \$4.6 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Township's governmental activities.

Table 1
Net Assets (in millions)

	<u>2005</u>	<u>2006</u>		<u>2005</u>	<u>2006</u>
Current and other assets	\$ 7.5	\$ 6.5	Net Assets:		
Capital Assets	7.5	9.0	Invested in capital		
Other Assets	<u>0.2</u>	<u>0.2</u>	assets, net of related		
Total Assets	<u>15.2</u>	<u>15.7</u>	debt	\$ (3.7)	\$ 3.0
G.O. Bonds Payable	11.2	10.8			
Other Liabilities	<u>0.1</u>	<u>0.3</u>	Unrestricted	<u>7.6</u>	<u>1.6</u>
Total Liabilities	<u>11.3</u>	<u>11.1</u>	Total Net Assets	<u>\$ 3.9</u>	<u>\$ 4.6</u>

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

Table 2 compares the 2006 change in net assets to the 2005 change in net assets:

Table 2
Changes in Net Assets for 2006
Compared with 2005 Activity

	<u>2005</u>	<u>2006</u>	<u>Change</u>
Program Revenues:			
Charges for Services	\$ 0	\$ 0	\$ 0
Capital Grants	282,989	179,363	(103,626)
General Revenues:			
Other	<u>2,525,661</u>	<u>2,999,443</u>	<u>473,782</u>
Total Revenues	\$ 2,808,650	\$ 3,178,806	\$370,156
Program Expenses			
General Government	<u>1,716,412</u>	<u>2,523,537</u>	<u>807,125</u>
Total Expenses	<u>1,716,412</u>	<u>2,523,537</u>	<u>807,125</u>
Increase in Net Assets	\$ <u>1,092,238</u>	\$ <u>655,269</u>	\$ <u>(436,969)</u>

Table 3 presents the fund balances of the individual major funds and an analysis of significant changes in the fund balances.

Table 3
Changes in Year End Fund Balance

	<u>2005</u>	<u>2006</u>	<u>% Change</u>
General	\$ 469,488	\$ 420,523	(10)%
Property	7,529,270	8,963,910	19%
State Highway	44,837	104,477	133%
Open Space	895,404	1,066,224	19%
General Obligation Note	<u>(5,008,653)</u>	<u>(5,969,519)</u>	<u>(19)%</u>
Total Governmental Balances	\$ <u>3,930,346</u>	\$ <u>4,585,615</u>	<u>17%</u>

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

The 10% decrease in the **General Fund** was substantially less than the budgeted decrease of 34%. This better performance can be attributed to greater than expected real estate sales and development activity which produced more transfer taxes and related fees than budgeted.

The 133% increase in the **State Highway Fund** was due almost entirely to the absence of snow removal expense in 2006.

The 19% increase in the **Property and Equipment Fund** is due solely to the purchase of a \$1.5 million conservation easement on the 73 acre Burgoon - Muldoon tract.

The 19% increase in the **Open Space Fund** was due to a myriad of factors including much greater than anticipated Earned Income Tax Revenues which were more than offset by the absence of expected revenues from the sale of the Jenkins tract. Finally, monies spent on acquisition of additional Open Space were \$500,000 less than budgeted.

The 19% decrease in the **General Obligation Note Fund** was slightly less than the budgeted 21% decrease. The decrease was budgeted due to the fact that interest expense on the Bonds is always more than earnings on excess funds invested. The reason for the smaller than planned decrease was that investment income was better than anticipated.

Table 4
Total Governmental Fund Revenues

Revenue Source	<u>2006 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2005</u>	<u>Percent Increase (Decrease)</u>
Intergovernmental	\$ 2,601,135	82%	\$ 162,647	7%
Capital Grants	179,363	6%	(103,626)	(37)%
Investment Earnings	<u>398,308</u>	<u>12%</u>	<u>311,135</u>	<u>357%</u>
Total	<u>\$ 3,178,806</u>	<u>100.0%</u>	<u>\$ 370,156</u>	<u>13%</u>

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

The 37% decrease in **Capital Grants** was actually better than the budgeted decrease of 40%.

The 35% increase in **Investment Earnings** is the result of higher interest rates along with proceeds of the 2005 General Obligation Bond Issue being invested for an entire year as opposed to only being invested for the last quarter of 2005.

Table 5
Final Budget versus Actual Results
General Fund

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Intergovernmental	\$ 2,540,520	\$ 2,601,135	\$ 60,615
Grants	168,604	179,363	10,759
Investment Earnings	224,750	398,308	173,558
Expenditures:			
Total General Government	2,666,100	2,517,602	148,498

Budget versus Actual Results

The small positive variances in intergovernmental revenues and grants were due to greater than anticipated real estate activity and slightly higher grant amounts received.

The large positive variance in Investment Earnings was due to excess bond proceeds being invested for a full year in 2006 as opposed to only the last quarter of 2005.

The lower than budgeted expenditures were mainly a result of less funds spent on parks and recreation than anticipated.

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charlestown Township Administrator, P. O. Box 507, Devault, PA 19432.

Linda M. Csete
Township Administrator

**CHARLESTOWN TOWNSHIP
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

ASSETS:

Current Assets:	
Cash and Cash Equivalents	\$ <u>6,549,630</u>
Total Current Assets	<u>6,549,630</u>
Noncurrent Assets:	
Land	6,731,298
Buildings (net)	1,942,212
Improvements other than Buildings	252,900
Equipment (net)	<u>37,500</u>
Total Noncurrent Assets	<u>8,963,910</u>
Other Assets:	
Deferred Bond Fees (net)	<u>171,547</u>
Total Other Assets	<u>171,547</u>
TOTAL ASSETS	<u>15,685,087</u>

LIABILITIES:

Current Liabilities:	
G.O Bonds Payable - Current Portion	285,000
Deferred Revenue	<u>269,472</u>
Total Current Liabilities	<u>554,472</u>
Long - Term Liabilities:	
G.O. Bonds Payable	<u>10,545,000</u>
TOTAL LIABILITIES	<u>11,099,472</u>

NET ASSETS:

Invested in Capital Assets	2,994,391
Unrestricted	<u>1,591,224</u>
TOTAL NET ASSETS	<u>\$ 4,585,615</u>

See accompanying notes to the financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET REVENUES AND CHANGE IN NET ASSETS</u>
		<u>CHARGES FOR SERVICES</u>	<u>CAPITAL GRANTS AND REVENUES</u>	
Primary Government:				
Governmental Activities:				
General Government	\$ <u>4,023,536</u>	\$ <u> </u>	\$ <u>4,280,497</u>	\$ <u>256,961</u>
General Revenues:				
Unrestricted Investment Earnings				398,308
Grants and Revenues not Restricted to Specific Programs				
Total General Revenues				<u>398,308</u>
Change in Net Assets				655,269
Net Assets - Beginning				<u>3,930,346</u>
Net Assets - Ending			\$	<u><u>4,585,615</u></u>

See accompanying notes to the financial statements.

**CHARLESTOWN TOWNSHIP
COMBINED BALANCE SHEET - ALL FUNDS
December 31, 2006**

	Governmental Fund Types					TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	STATE HIGHWAY AID FUND	OPEN SPACE FUND	PROPERTY & EQUIPMENT FUND	GENERAL OBLIGATION BOND FUND	
ASSETS						
Cash- Money Market Accounts and Government Bonds	\$ 689,409	\$ 104,477	\$ 1,066,224		\$ 4,688,934	\$ 6,549,044
Petty Cash	386					386
Accounts Receivable	200					200
Land, Buildings and Equipment (net)				8,963,910		8,963,910
Deferred Bond Fees (net)					171,547	171,547
TOTAL ASSETS	<u>\$ 689,995</u>	<u>\$ 104,477</u>	<u>\$ 1,066,224</u>	<u>\$ 8,963,910</u>	<u>\$ 4,860,481</u>	<u>\$ 15,685,087</u>
LIABILITIES						
Deferred Revenues	\$ 269,472					\$ 269,472
General Obligation Bond					10,830,000	10,830,000
TOTAL LIABILITIES	<u>269,472</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,830,000</u>	<u>11,099,472</u>
FUND BALANCES						
Fund Balances	420,523	104,477	1,066,224	8,963,910	(5,969,519)	4,585,615
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 689,995</u>	<u>\$ 104,477</u>	<u>\$ 1,066,224</u>	<u>\$ 8,963,910</u>	<u>\$ 4,860,481</u>	<u>\$ 15,685,087</u>

See accompanying notes to the financial statements.

CHARLESTOWN TOWNSHIP
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Governmental Fund Types					TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	STATE HIGHWAY AID FUND	OPEN SPACE FUND	PROPERTY & EQUIPMENT FUND	GENERAL OBLIGATION BOND FUND	
REVENUES						
2006 Property Acquisitions	\$ 0	\$	\$	\$ 1,500,000	\$	1,500,000
Real Estate Taxes	444,352					444,352
Transfer Taxes	618,188					618,188
Emergency & Municip Mgmt Taxes	8,664		6,736			15,400
Licenses/Permits/Inspections	434,832					434,832
Per Capita Taxes	22,610					22,610
Contributions	0					0
Earned Income Tax	0		1,065,753			1,065,753
Interest Earned	59,813	5,080	56,200		277,215	398,308
Grants	81,802	97,560				179,362
TOTAL REVENUES	<u>1,670,261</u>	<u>102,640</u>	<u>1,128,689</u>	<u>1,500,000</u>	<u>277,215</u>	<u>4,678,805</u>
EXPENDITURES:						
Woolen Mill Improvements			159,217			159,217
Longwood School Improvements			1,835			1,835
Purchase Jenkins Property						0
Purchase of Easement			1,505,934			1,505,934
Appraisals & Surveys			46,774			46,774
Advertising	12,226					12,226
Auditing	5,991					5,991
Culture and Recreation	96,954					96,954
Historical Commission						0
Amortization					7,148	7,148
Depreciation				65,360		65,360
Dues and Conventions	2,130					2,130
Emergency Control	4,746					4,746
Plan Reviews	111,377					111,377
Fire Protection	168,149					168,149
General Obligation Note/Interest					435,138	435,138
Fees			18,760		14,407	33,167
Highway Maintenance	504,023	43,000				547,023
Insurance	29,161					29,161
Legal Expenses	156,012					156,012
Bank Fees	50					50
Engineering	87,637					87,637
Office Expenses	80,102					80,102
Payroll Taxes	12,067					12,067
Planning and Zoning	349,125					349,125
Property Maintenance	11,502					11,502
Rent	6,900					6,900
Salaries	85,610					85,610
Telephone	2,201					2,201
TOTAL EXPENDITURES	<u>1,725,963</u>	<u>43,000</u>	<u>1,732,520</u>	<u>65,360</u>	<u>456,693</u>	<u>4,023,536</u>
EXCESS OF REVENUES OVER EXPENDITURES	(55,701)	59,640	(603,832)	1,434,640	(179,478)	655,269
INTERFUND TRANSFERS	6,736		774,652		(781,388)	0
FUND BALANCE - 01/01/06	\$ 469,488	\$ 44,837	\$ 895,404	\$ 7,529,270	(5,008,653)	\$ 3,930,346
FUND BALANCE - 12/31/06	\$ 420,523	\$ 104,477	\$ 1,066,224	\$ 8,963,910	(5,969,519)	\$ 4,585,615

**CHARLESTOWN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Real Estate Taxes	\$ 400,000	\$ 444,352	\$ 44,352
Transfer Taxes	410,000	618,188	208,188
Emergency & Municipal Services	17,500	8,664	(8,836)
Licenses/Permits/Inspections	353,370	434,832	81,462
Per Capita Taxes	26,500	22,610	(3,890)
Interest Income	13,250	59,813	46,563
Grants	72,001	81,802	9,801
Rental Income	14,400	0	(14,400)
	<u>1,307,021</u>	<u>1,670,261</u>	<u>363,240</u>
TOTAL REVENUES			
EXPENDITURES:			
Advertising	5,000	12,226	(7,226)
Auditing	5,000	5,991	(991)
Culture and Recreation	128,900	96,954	31,946
Dues and Conventions	2,500	2,130	370
Emergency Control	30,550	4,746	25,804
Plan Reviews	81,000	111,377	(30,377)
Fire Protection	163,300	168,149	(4,849)
Highway Maintenance	495,250	504,023	(8,773)
Insurance	31,000	29,161	1,839
Legal Expenses	126,000	156,012	(30,012)
Bank Fees	100	50	50
Engineering	50,000	87,637	(37,637)
Office Expenses	77,600	80,102	(2,502)
Payroll Taxes	10,000	12,067	(2,067)
Implementation of GASB 34			0
Planning and Zoning	352,900	349,125	3,775
Property Maintenance	7,500	11,502	(4,002)
Rent/Utilities	13,000	6,900	6,100
Salaries	84,000	85,610	(1,610)
Telephone	2,000	2,201	(201)
	<u>1,665,600</u>	<u>1,725,962</u>	<u>(60,362)</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER EXPENDITURES	(358,579)	(55,701)	302,878
INTERFUND TRANSFERS	0	6,736	6,736
FUND BALANCE - 01/01/06	<u>668,600</u>	<u>469,488</u>	<u>(199,112)</u>
FUND BALANCE - 12/31/06	<u>\$ 310,021</u>	<u>\$ 420,523</u>	<u>\$ 110,502</u>

See accompanying notes to financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - STATE FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Interest and Dividends	\$ 1,500	\$ 5,080	\$ 3,580
Grants & Contributions	<u>96,603</u>	<u>97,560</u>	<u>957</u>
TOTAL REVENUES	<u>98,103</u>	<u>102,640</u>	<u>4,537</u>
EXPENDITURES:			
Road Construction	43,000	43,000	0
Snow Removal	<u>50,000</u>	<u>0</u>	<u>50,000</u>
TOTAL EXPENDITURES	<u>93,000</u>	<u>43,000</u>	<u>50,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	5,103	59,640	54,537
FUND BALANCE - 01/01/06	<u>45,000</u>	<u>44,837</u>	<u>(163)</u>
FUND BALANCE - 12/31/06	<u>\$ 50,103</u>	<u>\$ 104,477</u>	<u>\$ 54,374</u>

See accompanying notes to financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - OPEN SPACE
YEAR ENDED DECEMBER 31, 2006**

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Earned Income Tax	\$ 600,000	\$ 1,065,753	\$ 465,753
Emergency & Municipal Services	0	6,736	6,736
Grants	18,750	0	(18,750)
Proceeds- Jenkins Property	700,000	0	(700,000)
Interest and Dividends	30,000	56,200	26,200
TOTAL REVENUES	1,348,750	1,128,689	(220,061)
EXPENDITURES:			
Appraisals & Surveys	50,000	46,774	3,226
Tax Collection	20,000	18,760	1,240
Open Space Acquisition	2,000,000	1,505,934	494,066
Parks and Recreation	390,000	161,052	228,948
Historical Commission	0	0	0
TOTAL EXPENDITURES	2,460,000	1,732,520	727,480
EXCESS OF REVENUES OVER EXPENDITURES	(1,111,250)	(603,831)	507,419
INTERFUND TRANSFER	(722,500)	774,652	1,497,152
FUND BALANCE - 01/01/06	780,000	895,404	115,404
FUND BALANCE - 12/31/06	\$ (1,053,750)	\$ 1,066,224	\$ 2,119,974

See accompanying notes to financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BOND PROCEEDS FUND
YEAR ENDED DECEMBER 31, 2006**

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Interest and Dividends	180,000	277,215	97,215
TOTAL REVENUES	180,000	277,215	97,215
EXPENDITURES:			
Amortization	0	7,148	(7,148)
General Obligation Notes - Interest	430,000	435,138	(5,138)
General Obligation Notes - Fiscal Fees	17,500	14,407	3,093
TOTAL EXPENDITURES	447,500	456,693	(9,193)
EXCESS OF REVENUES OVER EXPENDITURES	(267,500)	(179,478)	88,022
INTERFUND TRANSFER	722,500	(781,388)	(1,503,888)
FUND BALANCE - 01/01/06	(6,000,000)	(5,008,653)	991,347
FUND BALANCE - 12/31/06	\$ (5,545,000)	\$ (5,969,519)	\$ (424,519)

See accompanying notes to financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF ACTIVITY
PROPERTY AND EQUIPMENT FUND
THE YEAR ENDED DECEMBER 31, 2006**

**ANALYSIS OF OPENING FUND
BALANCE AS OF 01/01/06**

Brightside Farm	\$ 1,536,656
Stonorov Conservation Easement	3,100,000
School and Traffic Signals	252,900
Charlestown Park - Land	120,620
Charlestown Park - Buildings	170,945
Township Yard - Land	14,840
Township Yard - Buildings	22,702
Jenkins Property	850,000
Solda Conservation Easement	460,213
Woolen Mill Stabilization	486,194
20.6 Acres Land - Rapp House	470,000
Land along Pickering Creek	201,625
Ruins of Historic Ice Dam	14,000
Office Furniture and Equipment	<u>37,500</u>
	7,738,195
Accumulated Depreciation	(208,925)
Opening Fund Balance 01/01/06	<u>7,529,270</u>
2006 Acquisitions:	
Burgoon-Muldoon Conservation Easement	1,500,000
2006 Expenses:	
Depreciation	(65,360)
Interfund Transfers	<u>0</u>
Fund Balance 12/31/06	<u>\$ 8,963,910</u>

See accompanying notes to the financial statements.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Charlestown Township comply with the rules prescribed by the Pennsylvania Department of Community and Economic Development and the Pennsylvania Second Class Township Code. Accounting policies included in the aforementioned conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

Basis of Presentation - Fund Accounting

The accounts of the Township are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The following fund types and accounts groups are used by the Township:

In 2004, the Township implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, township-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that township-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The new GASB model integrated fund-based financial reporting

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

Basis of Presentation – Fund Accounting (continued)

and township-wide financial reporting as complementary components of a single comprehensive financial model.

General Fund - The General Fund is the general operating fund of the Township and accounts for all revenues and expenditures of the Township not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Property and Equipment Fund – GASB 34 required governmental units with assets less than \$10 million to capitalize, at estimated historical cost, all property and equipment. The Township owns twelve parcels of real estate. The structures are being depreciated over 39 years and equipment is being depreciated over 10 years using the straight-line method.

State Highway Fund - The State Highway Fund is used to account for receipts from the Pennsylvania Liquid Fuels Tax, which receipts are legally restricted to expenditures for road construction and maintenance.

Open Space Fund – The Open Space Fund is funded by the newly enacted .5% Earned Income Tax and also by transfers from the General fund. Monies are used exclusively to purchase and/or improve Open Space parcels in the Township.

General Obligation Bond Fund – This fund is used to record the proceeds from General Obligation Bond Issues. It also reflects balances due on the obligations and any disbursements of proceeds.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

Basis of Accounting (continued)

Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financial uses) in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes, earned income taxes, licenses, permits, and inspections. Using the modified accrual basis of accounting, these revenues are reported when received or receivable, if measurable. Likewise, expenses of the Township are recorded when actually paid or payable, if measurable.

Reporting Entity

The Charlestown Township Board of Supervisors is the basic level of government which has financial accountability and control over the financial and operational management of the Township. The Township receives funding from state and local government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the Township's reporting entity.

Cash and Cash Equivalents

For purposes of the balance sheet and statement of revenues and expenditures, the fund type considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

Budget

The Township is required by state law to adopt annual budgets for all funds. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles ("GAAP").

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

Budget (continued)

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. During October of each year, the Township prepares an initial draft of the operating budget for the coming calendar year.
2. During November, the budget is reviewed and finalized by the Township's Board of Supervisors.
3. At least ten days prior to the December Township meeting, the budget is publicly advertised prior to approval.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CONCENTRATION OF CREDIT RISK - CASH AND INVESTMENTS

The Township invests in Money Market Accounts with the Pennsylvania Local Government Trust ("PLGIT"). PLGIT, in turn, invests only in two types of federal securities - obligations backed by the full faith and credit of the United States Government, and short-term obligations of the United States Government or its agencies or instrumentalities. The Township also invests, through a broker, in Federal Mortgage Notes. These notes are rated AAA by both Moody's and Standard & Poors and are backed by the full faith and credit of the United States Government.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

At December 31, 2006 total investments amounted to \$6,549,044 and consisted of the following:

GENERAL FUND

Operating Account – PGLIT Money Market	\$484,018
Stormwater Management Account – PGLIT Money Market	71,896
Fire Loss Escrow Account – PGLIT Money Market	<u>133,495</u>
	<u>\$689,409</u>

STATE HIGHWAY AID FUND

Operating Account – PGLIT Money Market	<u>\$104,477</u>
----------------------------------------	------------------

OPEN SPACE FUND

Operating Account – PGLIT Money Market	<u>\$1,066,224</u>
----------------------------------------	--------------------

GENERAL OBLIGATION BOND FUND

Operating Account – PGLIT Money Market	\$104,925
Operating Account – Evergreen U.S. Gov't Money Market	2,321
Federal National Mortgage Association Global Notes:	
- 2.125% due 4/15/07	<u>4,581,688</u>
- 4.375% due 10/15/07	
	<u>\$4,688,934</u>

NOTE 3 - PROPERTY TAXES

The Township's ad valorem property tax is levied each January 1st on the assessed value provided by the Chester County Board of Assessment as of the prior year for all residential and commercial real estate located in the Township. The assessed value of the certified roll, upon which the levy for the 2006 calendar year was based, was \$554,679,330.

The tax rate assessed for the calendar year ended December 31, 2006, to finance general fund operations was .75 mills of assessed valuation.

CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4 - DEFERRED REVENUES

Deferred revenues consist of subdivision and land development escrow accounts, zoning hearing deposits, and conditional use escrow accounts. All of these accounts are reviewed on a quarterly basis and decisions are made concerning either additional billings or refunds of unused balances. At December 31, 2006, Deferred Revenues consisted solely of the following:

Subdivision/Land Development Escrow	\$ 129,371
Zoning Hearing Deposits	9,405
Conditional Use Escrows	788
Fire Loss Escrow Fund	129,323
Other Escrow Funds	<u>586</u>
	<u>\$ 269,472</u>

NOTE 5 – CONTINGENT LIABILITIES

The Township leases its office space on a month-to-month basis at a monthly rental of \$ 575. There were no other contingent liabilities.

NOTE 6 – GENERAL OBLIGATION BONDS

On November 16, 2000 the Township received \$2,100,000 in proceeds from the issuance of a General Obligation Bond through the New Garden General Authority's Municipal Pooled Financing Program. The bulk of the proceeds (\$2.0 million) from these bonds was used to buy a 55 acre property known as "Brightside Farm", and to purchase a conservation easement on the Solda property.

The principal of the Bond is payable in 28 consecutive annual installments and commenced on November 1, 2002. Scheduled annual principal repayments run from \$40,000 per year initially and then gradually increase by increments of \$5,000 up to the final payment of \$130,000 due on November 1, 2029.

Interest is payable monthly and fluctuates at a discounted rate from prime. Interest paid during 2006 amounted to \$66,096, which equaled an average annual interest rate of 3.15%. At December 31, 2006, the principal remaining was \$1,890,000.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

On September 8, 2005 the Township received \$8,989,789 in proceeds from the issuance of Charlestown Township General Obligation Bonds, Series of 2005. The purpose of this bond issue was to “finance the acquisition of fee title, conservation easements, development rights or other interests in real estate for the preservation of open space or use as recreation or park land in the Township....”

The principal of the Bonds is payable in 25 consecutive annual installments commencing on December 15, 2006. Scheduled annual principal repayments run from \$230,000 in year one and then gradually increase up to a final payment of \$570,000 on December 15, 2030.

Interest is payable semiannually on June 15th and December 15th. Interest rates are fixed for the 25 year term, with a weighted average of 4.19%. Annual combined payments of principal and interest total approximately \$600,000. Interest paid for 2006 amounted to \$369,042. At December 31, 2006, the principal remaining was \$8,940,000.

NOTE 7 – DEFERRED BOND FEES

Fees paid in connection with the issuance of the Charlestown Township General Obligation Bonds, Series of 2005 totaled \$178,695. At issuance they were capitalized and are being amortized over the 25 year life of the bonds.

Fees Capitalized	\$178,695
2006 Amortization	<u>(7,148)</u>
Net Deferred Bond Fees	<u>\$171,547</u>