

**CHARLESTOWN TOWNSHIP
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2011**

**CHARLESTOWN TOWNSHIP
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DECEMBER 31, 2011**

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INDEPENDENT AUDITORS' REPORT

To the Supervisors
Charlestown Township
Devault, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Charlestown Township, as of and for the year ended December 31, 2011, 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 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the 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, the aggregate discretely presented component units, each major fund,

INDEPENDENT AUDITORS' REPORT (Continued)

and the aggregate remaining fund information of Charlestown Township, as of December 31, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2012, on our consideration of Charlestown Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Todd & Todd, LLP

Todd and Todd, LLP
Chester Springs, PA
March 19, 2012

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. Please review it in conjunction with the Township's basic financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,269,809 which represents a 15 percent increase from 2010.
- General Revenues accounted for \$3,266,400 in revenues or 86 percent of all revenues. Program specific revenues in the form of charges for services and capital grants accounted for \$512,082 or 14 percent of all revenues.
- The Township had \$2,508,672 in expenses related to governmental activities with \$3,773,494 in program revenues to cover the cost of those programs. The excess revenues were invested for use in future capital expenditure programs.

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, 2011**

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

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, 2011**

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 18 through 23 of this report.

THE TOWNSHIP AS A WHOLE

The Township's total net assets changed from a year ago, increasing from \$8.6 million to \$9.8 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>2011</u> | <u>2010</u> | | <u>2011</u> | <u>2010</u> |
|--------------------------|-------------|-------------|------------------------|---------------|---------------|
| Current and other assets | \$ 8.8 | \$ 7.7 | Net Assets: | | |
| Capital Assets | 15.5 | 15.6 | Invested in capital | | |
| Other Assets | <u>0.3</u> | <u>0.3</u> | assets, net of related | | |
| Total Assets | <u>24.6</u> | <u>23.6</u> | debt | \$ 6.5 | \$ 5.9 |
| G.O. Bonds Payable | 14.7 | 14.9 | | | |
| Other Liabilities | <u>0.1</u> | <u>0.1</u> | Unrestricted | <u>3.3</u> | <u>2.7</u> |
| Total Liabilities | <u>14.8</u> | <u>15.0</u> | Total Net Assets | <u>\$ 9.8</u> | <u>\$ 8.6</u> |

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011**

Table 2 compares the 2011 change in net assets to the 2010 change in net assets:

Table 2
Changes in Net Assets for 2011
Compared with 2010 Activity

| | <u>2010</u> | <u>2011</u> | <u>Change</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Program Revenues: | | | |
| Charges for Services | \$ 336,677 | \$ 264,170 | \$ (72,507) |
| Capital Grants | 320,865 | 247,911 | (72,954) |
| General Revenues: | | | |
| Other | <u>3,077,786</u> | <u>3,266,400</u> | <u>188,614</u> |
| Total Revenues | \$ 3,735,328 | \$ 3,778,481 | \$ 43,153 |
| Program Expenses | | | |
| General Government | <u>2,221,253</u> | <u>2,508,672</u> | <u>287,419</u> |
| Total Expenses | <u>2,221,253</u> | <u>2,508,672</u> | <u>287,419</u> |
| Increase in Net Assets | <u>\$ 1,514,075</u> | <u>\$ 1,269,809</u> | <u>\$ (244,266)</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>2010</u> | <u>2011</u> | <u>% Change</u> |
|---------------------------------|---------------------|---------------------|-----------------|
| General | \$ 441,109 | \$ 366,615 | (17)% |
| Property | 15,570,442 | 15,505,082 | (0.4)% |
| State Highway | 69,400 | 52,576 | (24)% |
| Open Space | 7,470,702 | 8,677,189 | 16% |
| General Obligation Bonds | <u>(14,960,000)</u> | <u>(14,740,000)</u> | <u>0.1%</u> |
| Total Governmental Balances | <u>\$ 8,591,653</u> | <u>\$ 9,861,462</u> | <u>15%</u> |

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011**

The 17% decrease in the **General Fund** was a budgeted decrease based on expected revenues and expenses.

The 24% decrease in the **State Highway Fund** was as planned. There was an unbudgeted surplus in this fund due to lower snow removal costs, and this surplus was then transferred to the General Fund.

The 16% increase in the **Open Space Fund** was due solely to greater than expected revenues from the Earned Income Tax.

Table 4
Total Governmental Fund Revenues

| Revenue Source | 2011 Amount | Percent of Total | Increase (Decrease) Over 2010 | Percent Increase (Decrease) |
|-------------------------|---------------------|---------------------|-------------------------------------|-----------------------------------|
| Open Space Acquisitions | \$ 0 | 0% | \$ 0 | 0% |
| Intergovernmental | 3,525,582 | 93% | 114,376 | 3% |
| Capital Grants | 247,911 | 6% | (72,954) | (23)% |
| Investment Earnings | <u>4,988</u> | <u>1%</u> | <u>1,731</u> | <u>53%</u> |
| Total | <u>\$ 3,778,481</u> | <u>100.0%</u> | \$ <u>43,154</u> | <u>1%</u> |

The 23% decrease in **Capital Grants** was due to a lower level of Open Space Fund Grants due to less activity.

The 53% increase in **Investment Earnings** was due to a combination of higher interest rates, along with greater amounts of capital to invest.

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011**

Table 5
Final Budget versus Actual Results
All Funds

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------|-------------------------|---------------|-----------------|
| Revenues: | | | |
| Intergovernmental | \$ 3,065,190 | \$ 3,525,582 | \$ 460,392 |
| Grants | 206,553 | 247,911 | 41,358 |
| Investment Earnings | 2,025 | 4,988 | 2,963 |
| Expenditures: | | | |
| Total General Government | 3,101,053 | 2,508,672 | 592,381 |

Budget versus Actual Results

The large positive variance in intergovernmental revenues was due solely to a greater than expected increase in earned income tax revenues.

The lower than budgeted expenditures were due mostly to incorrect budgeting for principal repayment of General Obligation Bonds.

**CHARLESTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011**

ASSETS:

| | |
|---|---------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ <u>8,865,199</u> |
| Total Current Assets | <u>8,865,199</u> |
| Noncurrent Assets: | |
| Land | 14,399,288 |
| Buildings (net) | 1,036,464 |
| Improvements other than Buildings (net) | 50,580 |
| Equipment (net) | <u>18,750</u> |
| Total Noncurrent Assets | <u>15,505,082</u> |
| Other Assets: | |
| Prepaid Insurance (net) | 67,130 |
| Deferred Bond Fees (net) | <u>207,338</u> |
| Total Other Assets | <u>274,469</u> |
| TOTAL ASSETS | <u>24,644,750</u> |

LIABILITIES:

| | |
|---------------------------------|-------------------|
| Current Liabilities: | |
| Bonds Payable - Current Portion | 575,000 |
| Deferred Revenue | <u>43,287</u> |
| Total Current Liabilities | <u>618,287</u> |
| Long - Term Liabilities: | |
| Bonds Payable | <u>14,165,000</u> |
| TOTAL LIABILITIES | <u>14,783,287</u> |

NET ASSETS:

| | |
|----------------------------|---------------------|
| Invested in Capital Assets | 6,499,823 |
| Unrestricted | <u>3,361,639</u> |
| TOTAL NET ASSETS | <u>\$ 9,861,462</u> |

See accompanying notes to the financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | PROGRAM REVENUES | | | |
|--|----------------------------|-----------------------------------|---|---------------------|
| EXPENSES | CHARGES FOR SERVICES | CAPITAL GRANTS AND REVENUES | NET REVENUES AND CHANGE IN NET ASSETS | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ <u>2,508,671</u> | \$ <u>264,170</u> | \$ <u>3,509,322</u> | \$ <u>1,264,821</u> |
| General Revenues: | | | | |
| | | | | 4,988 |
| Unrestricted Investment Earnings | | | | |
| Grants and Revenues not Restricted to Specific Programs | | | | |
| Total General Revenues | | | | 4,988 |
| | | | | 1,269,809 |
| Change in Net Assets | | | | |
| Net Assets - Beginning | | | | 8,591,653 |
| Net Assets - Ending | | | \$ | 9,861,462 |

See accompanying notes to the financial statements.

CHARLESTOWN TOWNSHIP
COMBINED BALANCE SHEET - ALL FUNDS
December 31, 2011

| | <u>Governmental Fund Types</u> | | | | <u>TOTALS (MEMORANDUM ONLY)</u> |
|---|--------------------------------|---------------------------------------|--------------------------------|--|---|
| | <u>GENERAL FUND</u> | <u>STATE HIGHWAY AID FUND</u> | <u>OPEN SPACE FUND</u> | <u>PROPERTY & EQUIPMENT FUND</u> | |
| ASSETS | | | | | |
| Cash- Money Market Accounts and Government Bonds | \$ 409,302 | \$ 52,576 | \$ 8,402,721 | \$ | \$ 8,864,599 |
| Petty Cash | 400 | | | | 400 |
| Accounts Receivable | 200 | | | | 200 |
| Land, Buildings and Equipment (net) | | | 207,338 | 15,505,082 | 15,505,082 |
| Deferred Bond Fees (net) | | | 67,130 | | 207,338 |
| Prepaid Insurance (net) | | | | | 67,130 |
| TOTAL ASSETS | <u>\$ 409,902</u> | <u>\$ 52,576</u> | <u>\$ 8,677,189</u> | <u>\$ 15,505,082</u> | <u>\$ 24,644,749</u> |
| LIABILITIES | | | | | |
| Deferred Revenues | \$ 43,287 | | \$ 14,740,000 | | \$ 43,287 |
| Bonds Payable | | | | | 14,740,000 |
| TOTAL LIABILITIES | <u>43,287</u> | <u>0</u> | <u>14,740,000</u> | <u>0</u> | <u>14,783,287</u> |
| FUND BALANCES | | | | | |
| Fund Balances | <u>366,615</u> | <u>52,576</u> | <u>(6,062,811)</u> | <u>15,505,082</u> | <u>9,861,462</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 409,902</u> | <u>\$ 52,576</u> | <u>\$ 8,677,189</u> | <u>\$ 15,505,082</u> | <u>\$ 24,644,749</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, 2011

| | Governmental Fund Types | | | | TOTALS (MEMORANDUM ONLY) |
|---|-------------------------|------------------------------|-----------------------|------------------------------------|--------------------------------|
| | GENERAL FUND | STATE HIGHWAY AID FUND | OPEN SPACE FUND | PROPERTY & EQUIPMENT FUND | |
| REVENUES | | | | | |
| 2011 Property Acquisitions | \$ | \$ | \$ | \$ | \$ 0 |
| Real Estate Taxes | 451,593 | | | | 451,593 |
| Transfer Taxes | 179,759 | | | | 179,759 |
| Local Services Taxes | 59,479 | | | | 59,479 |
| Licenses/Permits/Inspections | 264,170 | | | | 264,170 |
| Per Capita Taxes | 15,490 | | | | 15,490 |
| Contributions | | | | | 0 |
| Earned Income Tax | | | 2,540,091 | | 2,540,091 |
| Interest Earned | 216 | 23 | 4,749 | | 4,988 |
| Rental Income | 15,000 | | | | 15,000 |
| Grants | 141,218 | 106,693 | | | 247,911 |
| TOTAL REVENUES | <u>1,126,925</u> | <u>106,716</u> | <u>2,544,840</u> | <u>0</u> | <u>3,778,481</u> |
| EXPENDITURES: | | | | | |
| Open Space Expenses | | | 1,338 | | 1,338 |
| Parks and Recreation | | | 134,418 | | 134,418 |
| Purchase of Easements | | | | | 0 |
| Appraisals & Surveys | | | 4,400 | | 4,400 |
| Advisors/Consultants | | | 28,776 | | 28,776 |
| Advertising | 16,047 | | | | 16,047 |
| Auditing | 6,438 | 0 | | | 6,438 |
| Culture and Recreation | 6,345 | | | | 6,345 |
| Amortization | | | 14,446 | | 14,446 |
| Depreciation | | | | 65,360 | 65,360 |
| Dues and Conventions | 3,748 | | | | 3,748 |
| Emergency Control | 4,413 | | | | 4,413 |
| Plan Reviews | 77,425 | | | | 77,425 |
| Fire Protection | 223,077 | | | | 223,077 |
| General Obligation Note/Interest | | | 507,320 | | 507,320 |
| Tax Collection/Fees | 6,791 | | 27,656 | | 34,447 |
| Highway Maintenance | 873,617 | 34,540 | | | 908,157 |
| Insurance | 26,433 | | | | 26,433 |
| Legal Expenses | 71,258 | | | | 71,258 |
| Bank Fees | | | | | 0 |
| Engineering | 48,892 | | | | 48,892 |
| Office Expenses | 39,270 | | | | 39,270 |
| Pension Contribution | 12,361 | | | | 12,361 |
| Payroll Taxes | 10,859 | | | | 10,859 |
| Planning and Zoning | 148,007 | | | | 148,007 |
| Property Maintenance | | | | | 0 |
| Rent | 10,980 | | | | 10,980 |
| Salaries | 102,775 | | | | 102,775 |
| Telephone | 1,683 | | | | 1,683 |
| TOTAL EXPENDITURES | <u>1,690,419</u> | <u>34,540</u> | <u>718,353</u> | <u>65,360</u> | <u>2,508,671</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | (563,494) | 72,176 | 1,826,487 | (65,360) | 1,269,809 |
| INTERFUND TRANSFERS | 489,000 | (89,000) | (400,000) | | 0 |
| FUND BALANCE - 01/01/11 | <u>441,109</u> | <u>69,400</u> | <u>(7,489,298)</u> | <u>15,570,442</u> | <u>8,591,653</u> |
| FUND BALANCE - 12/31/11 | <u>\$ 366,615</u> | <u>\$ 52,576</u> | <u>\$ (6,062,811)</u> | <u>\$ 15,505,082</u> | <u>\$ 9,861,462</u> |

CHARLESTOWN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

| | BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|---|-------------------|-------------------|--|
| REVENUES: | | | |
| Real Estate Taxes | \$ 456,000 | \$ 451,593 | \$ (4,407) |
| Transfer Taxes | 190,000 | 179,759 | (10,241) |
| Local Services Taxes | 50,000 | 59,479 | 9,479 |
| Licenses/Permits/Inspections | 334,290 | 264,170 | (70,120) |
| Per Capita Taxes | 20,500 | 15,490 | (5,010) |
| Interest Income | 400 | 216 | (184) |
| Grants | 102,485 | 141,218 | 38,733 |
| Rental Income | 14,400 | 15,000 | 600 |
| | <u>1,168,075</u> | <u>1,126,926</u> | <u>(41,149)</u> |
| TOTAL REVENUES | | | |
| EXPENDITURES: | | | |
| Advertising | 17,051 | 16,047 | 1,004 |
| Auditing | 6,000 | 6,438 | (438) |
| Culture and Recreation | 18,700 | 6,345 | 12,355 |
| Dues and Conventions | 3,000 | 3,748 | (748) |
| Emergency Control | 5,000 | 4,413 | 587 |
| Plan Reviews | 156,000 | 77,425 | 78,575 |
| Fire Protection | 178,900 | 223,077 | (44,177) |
| Tax Collection/Fees | 7,750 | 6,791 | 959 |
| Highway Maintenance | 750,500 | 873,617 | (123,117) |
| Insurance | 26,000 | 26,433 | (433) |
| Legal Expenses | 94,500 | 71,258 | 23,243 |
| Engineering | 41,200 | 48,892 | (7,692) |
| Office Expenses | 45,092 | 39,270 | 5,822 |
| Pension Contribution | 12,360 | 12,361 | (1) |
| Payroll Taxes | 11,000 | 10,859 | 141 |
| Planning and Zoning | 169,300 | 148,007 | 21,293 |
| Rent/Utilities | 14,000 | 10,980 | 3,020 |
| Salaries | 104,500 | 102,775 | 1,725 |
| Telephone | 2,000 | 1,683 | 317 |
| | <u>1,662,853</u> | <u>1,690,420</u> | <u>(27,567)</u> |
| TOTAL EXPENDITURES | | | |
| EXCESS OF REVENUES OVER EXPENDITURES | (494,778) | (563,494) | (68,716) |
| INTERFUND TRANSFERS | 400,000 | 489,000 | 89,000 |
| FUND BALANCE – 01/01/11 | <u>320,582</u> | <u>441,109</u> | <u>120,527</u> |
| FUND BALANCE – 12/31/11 | <u>\$ 225,804</u> | <u>\$ 366,615</u> | <u>\$ 140,811</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, 2011

| | BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|--------------------------------------|-----------|-----------|--|
| REVENUES: | | | |
| Interest and Dividends | \$ 125 | \$ 23 | \$ (102) |
| Liqued Fuel Tax | 104,068 | 106,693 | 2,625 |
| TOTAL REVENUES | 104,193 | 106,716 | 2,523 |
| EXPENDITURES: | | | |
| Road Construction | 0 | 0 | 0 |
| Snow Removal | 124,000 | 34,540 | 89,460 |
| TOTAL EXPENDITURES | 124,000 | 34,540 | 89,460 |
| EXCESS OF REVENUES OVER EXPENDITURES | (19,807) | 72,176 | 91,983 |
| INTERFUND TRANSFERS | 0 | (89,000) | (89,000) |
| FUND BALANCE – 01/01/11 | 70,000 | 69,400 | (600) |
| FUND BALANCE – 12/31/11 | \$ 50,193 | \$ 52,576 | \$ 2,383 |

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, 2011**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|--------------------------------------|-----------------------|-----------------------|---|
| REVENUES: | | | |
| Earned Income Tax | \$ 2,000,000 | \$ 2,540,091 | \$ 540,091 |
| Grants | 0 | 0 | 0 |
| Interest and Dividends | <u>1,500</u> | <u>4,749</u> | <u>3,249</u> |
| TOTAL REVENUES | <u>2,001,500</u> | <u>2,544,840</u> | <u>543,340</u> |
| EXPENDITURES: | | | |
| Appraisals & Surveys | 60,000 | 33,176 | 26,824 |
| Tax Collection/Fees | 17,000 | 27,656 | (10,656) |
| Easement Purchases | 0 | 0 | 0 |
| Parks and Recreation | 132,200 | 135,756 | (3,556) |
| Principal on Bonds & Notes | 600,000 | 0 | 600,000 |
| Interest on Bonds & Notes | 500,000 | 521,766 | (21,766) |
| Insurance | 5,000 | 0 | 5,000 |
| Property Maintenance | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL EXPENDITURES | <u>1,314,200</u> | <u>718,353</u> | <u>595,847</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 687,300 | 1,826,487 | 1,139,187 |
| INTERFUND TRANSFER | (400,000) | (400,000) | 0 |
| FUND BALANCE – 01/01/11 | <u>(8,128,393)</u> | <u>(7,489,298)</u> | <u>639,095</u> |
| FUND BALANCE – 12/31/11 | <u>\$ (7,841,093)</u> | <u>\$ (6,062,811)</u> | <u>\$ 1,778,282</u> |

See accompanying notes to financial statements.

**CHARLESTOWN TOWNSHIP
STATEMENT OF ACTIVITY
PROPERTY AND EQUIPMENT FUND
THE YEAR ENDED DECEMBER 31, 2011**

ANALYSIS OF OPENING FUND
BALANCE AS OF 01/01/11

| | |
|---------------------------------------|---------------------------|
| Brightside Farm | \$ 1,536,656 |
| Coleman Easement | 273,000 |
| Bullard Conservation Easement | 970,000 |
| McDevitt Easement | 2,205,000 |
| Kling Easement | 1,600,000 |
| Stonorov Conservation Easement | 3,100,000 |
| Burgoon-Muldoon Conservation Easement | 1,500,000 |
| Stevens Conservation Easement | 282,973 |
| Bernhard Conservation Easement | 390,000 |
| Desfor Conservation Easement | 1,147,000 |
| 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 - Brightside Farm | 470,000 |
| Land along Pickering Creek | 201,625 |
| Ruins of Historic Ice Dam | 14,000 |
| Office Furniture and Equipment | 37,500 |
| | <hr/> |
| | 16,106,168 |
| Accumulated Depreciation | (535,726) |
| | <hr/> |
| Opening Fund Balance 01/01/11 | 15,570,442 |
| 2011 Expenses: | |
| Depreciation | (65,360) |
| Interfund Transfers | <hr/> 0 |
| Fund Balance 12/31/11 | <hr/> <hr/> \$ 15,505,082 |

See accompanying notes to the financial statements.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 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.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

Basis of Presentation – Fund Accounting (continued)

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 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.

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.

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.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

Reporting Entity (continued)

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").

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 Accounting Principles Generally Accepted in the United States of America requires management to make estimates and

assumptions that affect the reported amounts of assets and liabilities 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.

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

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.

At December 31, 2011 total investments amounted to \$8,864,599 and consisted of the following:

GENERAL FUND

| | |
|--|------------------|
| Operating Account – PGLIT Money Market | \$205,839 |
| Operating Account – PGLIT PLUS Money Market | 125,273 |
| Stormwater Management Account – PGLIT Money Market | <u>78,190</u> |
| | <u>\$409,302</u> |

STATE HIGHWAY AID FUND

| | |
|---|-----------------|
| Operating Account – PGLIT Money Market | \$ 2,465 |
| Operating Account – PGLIT PLUS Money Market | <u>50,111</u> |
| | <u>\$52,576</u> |

OPEN SPACE FUND

| | |
|--|--------------------|
| Operating Account – PGLIT Money Market | \$990,338 |
| Operating Account – PGLIT PLUS Money Market | 2,101,493 |
| Operating Account – Phoenixville Federal Thompson Escrow | 302,903 |
| General Obligation Note Account – PGLIT Money Market | <u>5,007,987</u> |
| | <u>\$8,402,721</u> |

**CHARLESTOWN TOWNSHIP - ALL FUNDS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011**

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 2011 calendar year was based, was \$615,275,000.

The tax rate assessed for the calendar year ended December 31, 2011, to finance general fund operations was .75 mills of assessed valuation.

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, 2011, Deferred Revenues consisted solely of the following:

| | |
|-------------------------------------|------------------|
| Subdivision/Land Development Escrow | \$ 33,326 |
| Zoning Hearing Deposits | 2,196 |
| Other Escrow Funds | <u>7,765</u> |
| | <u>\$ 43,287</u> |

NOTE 5 – CONTINGENT LIABILITIES

The Township leases its office space on a month-to-month basis at a monthly rental of \$625. There were no other contingent liabilities.

NOTE 6 – GENERAL OBLIGATION BONDS

On December 6, 2010, the Township received \$14,960,000 in proceeds from the issuance of its General Obligation Bonds, Series of 2010. The use of the proceeds were as follows:

| | |
|---|-------------|
| Retire Series of 2005 General Obligation Bonds | \$7,950,000 |
| Repay the Township's General Obligation Note, Series of 2008 | 1,714,531 |
| Portion of proceeds earmarked for Open Space Acquisitions | 5,006,555 |

**CHARLESTOWN TOWNSHIP - ALL FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

Balance of Proceeds used for:

| | |
|-------------------------------|---------------------|
| Insurance | 70,664 |
| Issuance Costs | 41,352 |
| Original Issue Discount (OID) | 64,698 |
| Underwriter's Discount | <u>112,200</u> |
| | <u>\$14,960,000</u> |

The principal of the Bonds is payable in 20 consecutive annual installments commencing on December 15, 2011. Scheduled annual principal repayments run from \$220,000 in year one, gradually increasing to a final payment of \$1,045,000 on December 15, 2030.

Interest is payable semiannually on June 15th and December 15th at varying rates depending on the term of the particular bond. The overall yield has been calculated by the Underwriter to be not less than 3.702708%. The combined payment of interest and principal for year one is \$727,320. Combined payments of interest and principal for years two through twenty total approximately \$1,090,000 per year.

NOTE 7 – DEFERRED BOND FEES

Fees paid in connection with the issuance of the Charlestown Township General Obligation Bonds, Series of 2010 totaled \$218,251. At issuance they were capitalized and are being amortized over the 20 year life of the bonds.

| | |
|--------------------------|------------------|
| Fees Capitalized | \$218,251 |
| Accumulated Amortization | <u>(10,913)</u> |
| Net Deferred Bond Fees | <u>\$207,338</u> |

NOTE 8 – PREPAID INSURANCE

The Township also paid insurance in the amount of \$70,663 on the issuance of the Bonds. This amount is reflected on the Balance Sheet as Prepaid Insurance and will be amortized over the 20 year life of the Bonds.

| | |
|--------------------------|-----------------|
| Fees Capitalized | \$70,663 |
| Accumulated Amortization | <u>(3,533)</u> |
| Net Prepaid Insurance | <u>\$67,130</u> |

Todd & Todd, LLP
Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Supervisors
Charlestown Township
Devault, PA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Charlestown Township, as of and for the year ended December 31, 2011, which collectively comprise the Township of Charlestown, Pennsylvania's basic financial statements and have issued our report thereon dated March 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered Charlestown Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Charlestown Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charlestown Township's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Todd & Todd, LLP
Certified Public Accountants

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether Charlestown Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Charlestown Township, in a separate letter dated March 19, 2012.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Todd & Todd, LLP

Todd & Todd, LLP
Chester Springs, PA
March 19, 2012