

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
23-410

LIQUID FUELS TAX FUND  
AUDIT REPORT

FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005



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## Independent Auditor's Report

The Honorable Allen D. Biehler, P.E.  
Secretary  
Department of Transportation  
Harrisburg, PA 17120

We have audited the accompanying financial statements of the Liquid Fuels Tax Fund for the Borough of Folcroft, Delaware County, for the two years ended December 31, 2005, which consist of amounts reported on Forms MS-965 With Auditor Adjustments. These financial statements are the responsibility of the municipality'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 and *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 that 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 Forms MS-965 as submitted to and accepted by the Pennsylvania Department of Transportation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Borough of Folcroft, Delaware County's financial statements are prepared using accounting practices prescribed by the Pennsylvania Department of Transportation, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material. The financial statements present only the Liquid Fuels Tax Fund and are not intended to present fairly the financial position and results of operations of the Borough of Folcroft, Delaware County, in conformity with accounting principles generally accepted in the United States.

Independent Auditor's Report (Continued)

As described in Note 4, the adjustments included on the financial statements are adjustments made by the Department of the Auditor General.

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Liquid Fuels Tax Fund of the Borough of Folcroft, Delaware County, as of December 31, 2005, the changes in its financial position, or where applicable, its cash flows for the years then ended.

As discussed in Finding No. 1, the borough expended \$85,339.04 in 2004 and \$5,375.70 in 2005 from the Liquid Fuels Tax Fund for paving in excess of one inch without making application to and receiving the approval of the Department of Transportation. Additionally, as discussed in Finding No. 2, the borough expended \$10,333.62 in 2005 from the Liquid Fuels Tax Fund in excess of the approved amount for street lighting costs.

In our opinion, except for the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the information required by the Pennsylvania Department of Transportation on Forms MS-965 of the Liquid Fuels Tax Fund of the Borough of Folcroft, Delaware County, for the two years ended December 31, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2006, on our consideration of the Borough of Folcroft, Delaware County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The report on compliance with laws and regulations and internal control over financial reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Borough of Folcroft, Delaware County, and is not intended to be and should not be used by anyone other than these specified parties.

March 16, 2006

JACK WAGNER  
Auditor General

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 FORM MS-965 – SECTION 1  
 WITH AUDITOR ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Auditor Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$-	\$ -
Minor equipment purchases		-	-
Agility projects	-	-	-
Cleaning streets and gutters		-	-
Winter maintenance services	3,969.77	-	3,969.77
Traffic control devices	8,499.44	-	8,499.44
Street lighting	6,591.30	-	6,591.30
Storm sewers and drains			-
Repairs of tools and machinery	2,108.81	-	2,108.81
Maintenance and repair of roads and bridges	54,738.89	-	54,738.89
Highway construction and rebuilding projects	88,281.79		88,281.79
Miscellaneous	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
 Total (To Section 2, Line 5)	 <u>\$164,190.00</u>	 <u>\$-</u>	 <u>\$164,190.00</u>

Notes to the financial statements are an integral part of this report.

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 FORM MS-965 – SECTION 2  
 WITH AUDITOR ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Auditor Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2004	\$ 46,996.08	\$-	\$ 46,996.08
Receipts:			
2. State allocation	92,458.60	-	92,458.60
2a. Turnback allocation		-	-
2b. Interest on investments (Note 3)	536.51	-	536.51
2c. Miscellaneous (Note 5)	30,242.65	-	30,242.65
3. Total receipts	<u>123,237.76</u>	<u>-</u>	<u>123,237.76</u>
4. Total funds available	<u>170,233.84</u>	<u>-</u>	<u>170,233.84</u>
5. Expenditures (Section 1)	<u>164,190.00</u>	<u>-</u>	<u>164,190.00</u>
6. Balance, December 31, 2004	<u>\$ 6,043.84</u>	<u>\$-</u>	<u>\$ 6,043.84</u>

Notes to the financial statements are an integral part of this report.



BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 FORM MS-965 – SECTION 3  
 WITH AUDITOR ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Auditor Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$46,996.08	\$-	\$46,996.08
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	18,491.72	-	18,491.72
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	65,487.80	-	65,487.80
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>65,487.80</u>	<u>-</u>	<u>65,487.80</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance)	<u>\$ 6,043.84</u>	<u>\$-</u>	<u>\$ 6,043.84</u>

Notes to the financial statements are an integral part of this report.

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 FORM MS-965 – SECTION 1  
 WITH AUDITOR ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Auditor Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,579.42	-	2,579.42
Traffic control devices	10,590.90	-	10,590.90
Street lighting	27,497.17	-	27,497.17
Storm sewers and drains	34,975.46	(5,375.70)	29,599.76
Repairs of tools and machinery	5,055.44	-	5,055.44
Maintenance and repair of roads and bridges	2,756.22	-	2,756.22
Highway construction and rebuilding projects	-	5,375.70	5,375.70
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$83,454.61</u>	 <u>\$ -</u>	 <u>\$83,454.61</u>

Notes to the financial statements are an integral part of this report.

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 FORM MS-965 – SECTION 2  
 WITH AUDITOR ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Auditor Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2005	\$ 6,043.84	\$ -	\$ 6,043.84
Receipts:			
2. State allocation	94,794.91	-	94,794.91
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	10,000.00	(8,868.57)	1,131.43
2c. Miscellaneous (Note 5)	10,000.00	-	10,000.00
3. Total receipts	<u>114,794.91</u>	<u>(8,868.57)</u>	<u>105,926.34</u>
4. Total funds available	<u>120,838.75</u>	<u>(8,868.57)</u>	<u>111,970.18</u>
5. Expenditures (Section 1)	<u>83,454.61</u>	<u>-</u>	<u>83,454.61</u>
6. Balance, December 31, 2005	<u><u>\$ 37,384.14</u></u>	<u><u>\$(8,868.57)</u></u>	<u><u>\$ 28,515.57</u></u>

Notes to the financial statements are an integral part of this report.

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 FORM MS-965 – SECTION 3  
 WITH AUDITOR ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Auditor Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 6,043.84	\$-	\$ 6,043.84
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	18,958.98	-	18,958.98
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	25,002.82	-	25,002.82
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>25,002.82</u>	<u>-</u>	<u>25,002.82</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance)	<u>\$25,002.82</u>	<u>\$-</u>	<u>\$25,002.82</u>

Notes to the financial statements are an integral part of this report.

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

1. Significant Accounting Policies

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The financial presentation has been prepared in compliance with the regulatory provisions of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the financial statement presentation is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

The reporting requirements for the Liquid Fuels Tax Fund are prescribed by the Pennsylvania Department of Transportation. These financial statements, Forms MS-965, are not intended to present either financial results of operations or financial position in conformity with accounting principles generally accepted in the United States.

Basis Of Accounting

The accompanying financial statements are prepared on the cash basis of accounting as required by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenses are recorded when paid.

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

2. Deposits

*The Borough Code*, Title 53 P.S § 46316, authorizes the municipality to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2005. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

Fund Balance

The fund balance as of December 31, 2005 consists of the following:

Cash	<u>\$28,515.57</u>
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BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE TWO YEARS ENDED  
 DECEMBER 31, 2005

3. Interest On Investments

Our audit disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$536.51 during 2004, and \$1,131.43 during 2005, thus providing additional funds for road maintenance and repairs.

4. Auditor Adjustments

2005 - Section 1

Adjustments were made to “Storm sewers and drains” and “Highway construction and building projects” because expenditures of \$5,375.70 were misclassified.

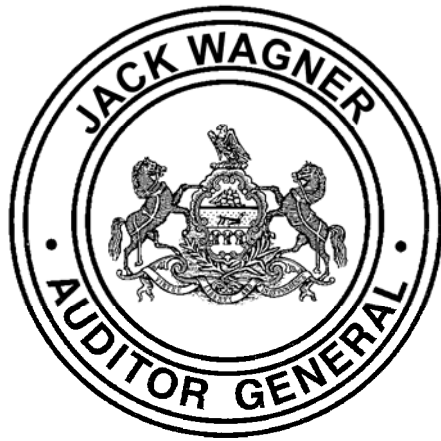
2005 - Section 2

An adjustment of \$(8,868.57) was made to “Interest on investments” because interest earnings were overstated.

5. Miscellaneous Receipts

The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the audit period:

<u>Source</u>	<u>Description</u>	<u>2004</u>	<u>2005</u>
General Fund	Transfer to cover expenditures	\$30,000.00	\$10,000.00
Sharon Hill Borough	Reimbursement for a street sweeper	<u>242.65</u>	<u>-</u>
Totals		<u>\$30,242.65</u>	<u>\$10,000.00</u>





Report On Compliance And On  
Internal Control Over Financial Reporting

The Honorable Allen D. Biehler, P.E.  
Secretary  
Department of Transportation  
Harrisburg, PA 17120

We have audited the accompanying financial statements of the Liquid Fuels Tax Fund for the Borough of Folcroft, Delaware County, for the two years ended December 31, 2005, which consist of amounts reported on Forms MS-965 With Auditor Adjustments, and have issued our report thereon dated March 16, 2006. We qualified our opinion due to the conditions noted in Finding No. 1 and Finding No. 2. 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the municipality's compliance with certain provisions of laws, regulations, contracts, grants, and allocations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts of the Liquid Fuels Tax Fund. 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards* and which we have reported in the findings:

- Expenditures Paid Without Making Application To And Receiving The Approval Of The Department Of Transportation.
- Overexpenditure Of Street Lighting Costs.

Report On Compliance And On  
Internal Control Over Financial Reporting (Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Folcroft, Delaware County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Pennsylvania Department of Transportation and the municipality and is not intended to be and should not be used by anyone other than these specified parties.

March 16, 2006

JACK WAGNER  
Auditor General

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Finding No. 1 - Expenditures Paid Without Making Application To And Receiving The  
Approval Of The Department Of Transportation

Our audit revealed that the borough expended \$85,339.04 for a road resurfacing project in 2004 and \$5,375.70 for a road resurfacing project in 2005. Both projects required paving in excess of one inch. We further noted that the borough did not file an application with the Department of Transportation for either of the projects and also failed to submit specifications for approval.

Department of Transportation *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2 states that nonpermissible expenditures include “Construction and reconstruction projects without prior PENNDOT approval.”

Additionally, *Publication 9*, Chapter Two, Section 2.8 states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bituminous Surface:                    One inch thickness or greater

The failure to follow Department of Transportation *Publication 9* as noted above could result in the borough having to reimburse \$90,714.74 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the borough reimburse \$90,714.74 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the borough comply with the application, approval, and specification requirements of the Department of Transportation.

Auditee Response

The secretary stated:

Several calls were made to PENNDOT but nobody responded.

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Finding No. 1 - Expenditures Paid Without Making Application To And Receiving The  
Approval Of The Department Of Transportation (Continued)

Auditor's Conclusion

Department of Transportation Regulations do require that municipalities obtain the approval of the Department of Transportation when paving is one inch of thickness or greater. The borough did not obtain the approval of the Department of Transportation.

BOROUGH OF FOLCROFT  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 FINDINGS AND RECOMMENDATIONS  
 FOR THE TWO YEARS ENDED  
 DECEMBER 31, 2005

Finding No. 2 - Overexpenditure Of Street Lighting Costs

Our audit revealed that during 2005 the borough expended \$10,333.62 from the Liquid Fuels Tax Fund in excess of the approved amount for street lighting costs.

*The Borough Code*, 53 P.S. § 46302(a)(4), or § 1302 and § 1302(4) of *The Borough Code* as published by the Local Government Commission provide that:

The council of the borough shall have power, by ordinance, to levy and collect annually, a tax, not exceeding thirty mills for general borough purposes, unless the council by majority action shall, upon due cause shown by resolution, petition the court of common pleas, in which case the court may order a rate of not more than five mills additional to be levied and in addition thereto any of the following taxes: . . .

(4) For lighting and illuminating the streets, highways and other public places with electric light, gas light or other illuminant, not exceeding eight mills;. . .

We noted that the borough had levied a real estate tax assessment of 5.01 mills, of which .178 mills was imposed for street lighting costs for the year 2005.

Department of Transportation Regulations permit only those street lighting expenditures in excess of the tax actually collected for street lighting to be expended from the Liquid Fuels Tax Fund.

Our calculations are as follows:

2005 taxes assessed for street lighting	.178 mills	
Total real estate taxes assessed for 2005	5.01 mills	
.178 mills divided by 5.01 mills equals .0355%		
2005 street lighting costs		\$41,357.64
Total real estate taxes collected for 2005	\$1,197,250.22	
Street lighting percentage	3.55%	
2005 taxes collected for street lighting		\$42,502.39

Because 2005 taxes collected for street lighting costs of \$42,502.39 exceeded the 2005 street lighting costs of \$41,357.64, liquid fuels money was not permitted to be expended for street lighting.

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Finding No. 2 - Overexpenditure Of Street Lighting Costs (Continued)

The failure to follow *The Borough Code* and Department of Transportation Regulations as noted above could result in the borough having to reimburse \$10,333.62 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the borough reimburse \$10,333.62 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the borough follow Department of Transportation Regulations by limiting their street lighting expenditures from the Liquid Fuels Tax Fund only to lighting costs which exceed the tax amount collected for street lighting.

Auditee Response

The borough officials offered no formal response at this time.

BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

An exit conference was held March 16, 2006. Those participating were:

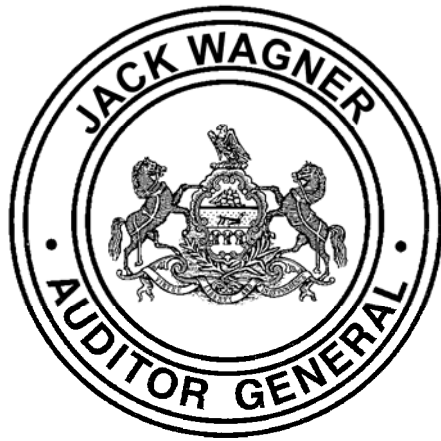
BOROUGH OF FOLCROFT

Mrs. Judith Serrtore, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

The results of the audit were presented and discussed in their entirety.





BOROUGH OF FOLCROFT  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.  
Secretary  
Department of Transportation

Borough of Folcroft  
Delaware County  
1555 Elmwood Avenue  
Folcroft, PA 19032

The Honorable Dennis M. O'Mahony

President of Council

Mrs. Judith Seratore

Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our web site at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).