

TOWNSHIP OF LOWER MAKEFIELD

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2010

TOWNSHIP OF LOWER MAKEFIELD

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STANLEY N. BOOZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
TOWNSHIP OF LOWER MAKEFIELD
Yardley, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD, Yardley, Pennsylvania, as of and for the year ended December 31, 2010, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the TOWNSHIP OF LOWER MAKEFIELD'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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD, as of December 31, 2010, and the respective changes in financial position 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 June 8, 2011, on our consideration of the TOWNSHIP OF LOWER MAKEFIELD'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 the 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 15 and pages 59 through 63 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 of any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's basic financial statements as a whole. The combining statements listed on the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining other governmental funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

June 8, 2011

STANLEY N BOOZ, LLC
Certified Public Accountants

Stanley N. Booz, LLC

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

Our discussion and analysis of the Township of Lower Makefield's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Assets.

FINANCIAL HIGHLIGHTS

- Makefield Highlands Golf Course completed its sixth full year of operations since opening on July 1, 2004. Income before depreciation was \$483,597 for the year. Response to the Course has been extremely favorable and in 2010, despite season-long weather issues coupled with a recovering economy, the course fared very well when compared to some competitors. Rounds played were up for the year when compared to the prior year numbers, and this trend is expected to continue albeit at a slow pace as the economy continues to recover. The debt service refinancing that took place in 2010 yielded significant interest expense savings and as a result the course had positive net income on both a cash and accrual basis.
- In 2009 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the township owned Makefield Highlands Golf Course resides. The township paid for the property in July of 2001 with proceeds from a bond issue. The property was condemned as part of the acquisition, and a price determined to be fair market value was paid to the owner. Since that time, the previous owner of the land has brought suit against the township seeking additional funds for the acquisition of the property. The case has been in litigation for several years with the township prevailing in an earlier decision. In early 2010 the Pennsylvania Supreme Court decided to hear the case and allow as evidence, 2 key pieces that the township has wanted presented as part of its defense. These pieces of evidence, dealing with appraisals at the time of condemnation, are pivotal to the Township's position. The case with the new evidence is expected to be heard in late 2011.
- The assets of the Township exceeded its liabilities by \$84,564,538 down \$2,281,615 from last year.
- The General Fund balance remains above the "Safe Harbor" range, which is 5-8% of General Fund revenues.
- Sewer rates had no increase in 2010, but passed a 15% increase on to its customers in 2011. This rate increase will allow for the Township to continue building the Capital reserve within its origins, and has set aside an additional \$500,000 in the 2011 budget to allocate here.
- The Township owned Pool operations had no rate increase in 2010. Revenues from members were down slightly in 2010 as the membership did decline some. This decline was offset by additional revenue as the pool sold for the first time guest pass booklets, so overall pool revenue was up slightly in 2010. The pool has positive net income before depreciation of \$111,827.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

FINANCIAL HIGHLIGHTS, continued

- The township refinanced 2 bond issues during 2010 which resulted in savings of approximately \$900,000 over a three-year period, beginning in 2010. A 3rd bond issue refinancing took place in 2010 as well that had savings of approximately \$500,000 and these savings are being spread over an 8 year period coterminous with the maturation of the bonds. One bond issue (2005) affects the golf course while the others (2001B and 2003) affect the township's Debt Service Fund.
- The township enacted a Local Services Tax in 2010, charging \$52 per annum to all employees within the township's geographic boundaries. This source of revenue generated over \$100,000 to Lower Makefield in 2010 and that figure is expected to increase in 2011, the 2nd year of the tax. The annual charge is capped by regulations. There were no other fees or tax increases during 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the township. The components of the report include the Independent Auditors' Report, Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements and Notes to the Basic Financial Statements. This report also contains other Required and Supplementary Information in addition to the basic financial statements.

The Independent Auditors' Report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

Management's Discussion and Analysis (MD&A), prepared by Township management, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the Statement of Net Assets, Statement of Activities, Fund Financial Statements and Notes to the Basic Financial Statements. Statements of Net Assets and Activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Township.

- The Statement of Net Assets focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS, *continued*

- The Statement of Activities focuses on gross and net costs of Township programs and the extent to which such programs rely upon taxes and other revenue. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self supporting and/or subsidized by other sources.
- Fund Financial Statements focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column "Other Governmental Funds." Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net assets, revenues, expenses and changes in net assets and cash flows. The Proprietary Funds represent the Township's Sewer, Pool, and Golf Funds and can be found in more detail beginning with the Statement of Net Assets, Proprietary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

Other Required Supplementary Information (RSI) is additional information consisting of budgetary comparisons for the General Fund and trends data on infrastructure condition.

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Assets and Statement of Activities

Our analysis of the Township as a whole begins with the Statement of Net Assets. One of the most important questions asked about the Township's finances is "What is the Township's overall financial condition as compared to the previous year?" 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. In these statements, we divide the Township into two kinds of activities:

- **Governmental Activities** – Most of the Township's basic services are reported here, including police, public works, planning and zoning, library, parks and recreation, and administration. Real estate and business taxes, fees and charges and grants finance most of these activities.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

REPORTING THE TOWNSHIP AS A WHOLE, continued

Statement of Net Assets and Statement of Activities, continued

- **Business-Type Activities** – The Township charges a fee to customers to help it cover most of the cost of certain services it provides. The Township's sewer system, pool and golf course are reported here.

The analysis below focuses on the net assets and changes in net assets of the Township's governmental and business type activities.

NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2010	2009	2010	2009	2010	2009
Assets						
Cash and Cash Equivalents	\$ 4,184,892	\$ 4,610,269	\$ 2,027,675	\$ 1,945,627	\$ 6,212,567	\$ 6,555,896
Other Assets	1,201,968	1,159,690	1,904,592	1,632,745	3,106,580	2,792,435
Capital Assets	80,583,565	81,113,081	33,513,549	34,380,986	114,097,114	115,494,067
Total Assets	<u>\$ 85,970,445</u>	<u>\$ 86,883,040</u>	<u>\$ 37,445,816</u>	<u>\$ 37,959,358</u>	<u>\$ 123,416,261</u>	<u>\$ 124,842,398</u>
Liabilities						
Other Liabilities	\$ 1,171,900	\$ 1,335,426	\$ 995,134	\$ 861,946	\$ 2,294,168	\$ 2,197,372
Long-Term Debt Outstanding	14,303,037	14,738,224	22,381,652	22,786,811	36,557,555	37,525,035
Total Liabilities	<u>15,474,937</u>	<u>16,073,650</u>	<u>23,376,786</u>	<u>23,648,757</u>	<u>38,851,723</u>	<u>39,722,407</u>
Net Assets						
Invested in Capital Assets	66,283,277	67,319,207	11,131,897	11,593,805	77,415,174	78,913,012
Restricted	3,806,647	3,167,865			3,806,647	3,167,865
Unrestricted	405,584	322,318	2,937,133	2,716,796	3,342,717	3,039,114
Total Net Assets	<u>70,495,508</u>	<u>70,809,390</u>	<u>14,069,030</u>	<u>14,310,601</u>	<u>84,564,538</u>	<u>85,119,991</u>
Total Liabilities and Net Assets	<u>\$ 85,970,445</u>	<u>\$ 86,883,040</u>	<u>\$ 37,445,816</u>	<u>\$ 37,959,358</u>	<u>\$ 123,416,261</u>	<u>\$ 124,842,398</u>

Cash and cash equivalents represent 4.9% of the Township of Lower Makefield's total governmental assets in 2010 and 5.3% in 2009. Cash and cash equivalents represent 5.4% in 2010 and 5.1% in 2009 of the Township of Lower Makefield's total business-type assets. Both categories of the township's cash position remain healthy.

The largest portion of the Township's governmental assets, 93.7%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment.) In 2009 this portion was 93.4%. Because the Township uses these capital assets to provide services to residents, these assets are not available for future spending.

Assets in the business-type activity column reflect the Township's investment in its sewer system, community pool and golf course. The Township operates and maintains 13 pump stations and approximately 230 miles of sewer lines. The community pool consists of four swimming pools, a snack bar area and bathhouse. The golf course is an 18-hole upscale affordable municipal course with practice facility, clubhouse, maintenance building and historic manor house.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

REPORTING THE TOWNSHIP AS A WHOLE, continued

Statement of Net Assets and Statement of Activities, continued

Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
Program Revenues	2010	2009	2010	2009	2010	2009
Charges for Services	\$ 1,094,367	\$ 1,223,049	\$ 8,311,812	\$ 7,817,469	\$ 9,406,179	\$ 9,040,518
Operating Grants and Contributions	2,235,567	2,199,785			2,235,567	2,199,785
General Revenues						
Property Taxes	7,845,560	7,740,217			7,845,560	7,740,217
Real Estate Transfer Tax	1,027,741	799,733			1,027,741	799,733
Per Capita Taxes	209,143	211,022			209,143	211,022
Public Utility Taxes	12,627	12,374			12,627	12,374
Franchise Taxes	609,571	582,615			609,571	582,615
Investment Earnings	12,660	29,138	13,966	17,600	26,626	46,738
Miscellaneous	569,607	670,716	9,820	19,640	579,427	690,356
Gain on Sale of Capital Assets	11,194	9,146			11,194	9,146
Total Revenues	<u>13,628,037</u>	<u>13,477,795</u>	<u>8,335,598</u>	<u>7,854,709</u>	<u>21,963,635</u>	<u>21,332,504</u>
Expenses						
General Government	2,061,891	2,022,714			2,061,891	2,022,714
Public Safety	7,249,126	7,153,433			7,249,126	7,153,433
Public Works	2,735,423	3,260,059			2,735,423	3,260,059
Parks and Recreation	1,149,169	977,303			1,149,169	977,303
Community Development	80,898	35,867			80,898	35,867
Interest on Long Term Debt	662,806	595,460			662,806	595,460
Sewer			4,908,313	4,864,115	4,908,313	4,864,115
Community Pool			773,958	731,222	773,958	731,222
Golf Course			2,544,906	2,745,692	2,544,906	2,745,692
Total Expenses	<u>13,939,313</u>	<u>14,044,836</u>	<u>8,227,177</u>	<u>8,341,029</u>	<u>22,166,490</u>	<u>22,385,865</u>
Excess/(Deficiency) Before Transfers	(311,276)	(567,041)	108,421	(486,320)	(202,855)	(1,053,361)
Transfers in	1,031,182	961,076			1,031,182	961,076
Transfers Out	<u>(1,033,788)</u>	<u>(923,885)</u>	<u>(349,992)</u>	<u>(349,992)</u>	<u>(1,383,780)</u>	<u>(1,273,877)</u>
Change in Net Assets	(313,882)	(529,850)	(241,571)	(836,312)	(555,453)	(1,366,162)
Net Assets Beginning of the Year	<u>70,809,390</u>	<u>71,339,240</u>	<u>14,310,601</u>	<u>15,146,913</u>	<u>85,119,991</u>	<u>86,486,153</u>
Net Assets End of the Year	<u>\$ 70,495,508</u>	<u>\$ 70,809,390</u>	<u>\$ 14,069,030</u>	<u>\$ 14,310,601</u>	<u>\$ 84,564,538</u>	<u>\$ 85,119,991</u>

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

REPORTING THE TOWNSHIP AS A WHOLE, continued

Total expenses exceed total revenue by \$311,276 in 2010, in contrast to total expenses exceeding total revenues by \$529,850 in 2009 for governmental activities. In 2010 there was no tax increase in any funds compared to a 1/4 millage increase in tax revenue in 2009 in the Fire Fund. As indicated below, while revenues increased by less than \$200,000, there was a significant decrease in spending by the township in 2010. Expenses were down across the board as the township cut spending to confront the challenging economic times. Some examples include no salary increases for township staff in 2010 and benefits savings by increasing deductibles for staff health insurance. Both of these initiatives saved several hundred thousand dollars during 2010. In 2010, total expenses exceeded total revenues by \$108,421 as compared to total expenses exceeding total revenues by \$439,905 in 2009 for business type activities. This excess of revenues were a result of golf course expenses being down \$200,000 as a result of the bond issue refinancing from the previous year and golf revenues being higher than the prior year by \$150,000.

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2010 was \$13,618,162 and \$13,477,796 in 2009. Revenues by source were as follows:

<u>Revenue</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Property Taxes Levied for General Purposes	\$ 7,845,560	\$ 7,740,217	57.57%	57.43%
Real Estate Transfer Tax	1,027,741	799,733	7.54%	5.93%
Per Capita Taxes	209,143	211,022	1.53%	1.57%
Public Utility Taxes	12,627	12,374	0.09%	0.09%
Franchise Taxes	609,571	582,615	4.48%	4.32%
Investment Earnings	12,660	29,138	0.09%	0.22%
Miscellaneous	569,607	670,716	4.18%	4.98%
Gain on Sale of Capital Assets	11,194	9,146	0.08%	0.07%
Charges for Services	1,094,367	1,223,049	8.03%	9.07%
Operating Grants and Contributions	<u>2,235,567</u>	<u>2,199,785</u>	<u>16.41%</u>	<u>16.32%</u>
	\$ 13,628,037	\$ 13,477,795	100.00%	100.00%

As seen above, revenues were stable in total for the most part when comparing 2010 to 2009; however, despite the increase from 2009, the Deed Transfer Tax continues to be a cause for concern. In December of 2009, the Township approved the enactment of a Local Services Tax, or LST at the legally allowed maximum of \$52 per annum for all people working within the Township borders making more than \$12,000 per annum. This new source of revenue generated over \$100,000 in 2010.

Investment income, which is comprised of bank interest on the five Township interest-bearing accounts, continued its downward trend in 2010 as interest rates decreased from a high of 5.01% during 2007 to a low of less than 1/4 of 1% during 2010. With the fed rates at or near 0% we expect interest income to remain at or below their current levels for the near future and certainly throughout 2011.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

REPORTING THE TOWNSHIP AS A WHOLE, continued

Governmental Activities, continued

The Township's governmental programs consist of various operating departments, among them police, public works, planning and zoning, park and recreation and several administrative departments. Total expenditures for fiscal year 2010 were \$13,939,313 and \$14,044,836 in 2009. Expenditures by source were as follows:

<u>Expenses</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General Government	\$ 2,061,891	\$ 2,022,714	14.79%	14.40%
Public Safety	7,249,126	7,153,433	52.00%	50.93%
Public Works	2,735,423	3,260,059	19.62%	23.21%
Culture and Recreation	1,149,169	977,303	8.24%	6.96%
Community Development	80,898	35,867	0.58%	0.26%
Interest on Long Term Debt	662,806	595,460	4.75%	4.24%
	<u>\$ 13,939,313</u>	<u>\$ 14,044,836</u>	<u>100.00%</u>	<u>100.00%</u>

Total governmental expenditures decreased approximately 0.8% from 2009 to 2010.

Business type activities include the Township's Sewer System, Community Pool and Golf Course. Total revenue from sewer activities for 2010 is \$4,844,148 compared to \$4,527,722 in 2009. Charges for services account for approximately 99.3% of revenue in 2010, compared with 98.7% in 2009. Expenditures to operate the system total \$4,908,313 for 2010 and \$4,864,115 for 2009. Total revenue from community pool activities is \$790,489 for 2010 and \$784,355 for 2009. Charges for services account for 98.0% of revenue in 2010, while these charges equaled 88.5% of 2009 revenues. Expenditures to operate the pool total \$773,958 for 2010 and \$731,222 for 2009. Total revenue from golf course activities is \$2,696,301 for 2010 and \$2,542,263 for 2009. Charges for services account for approximately 99.7% of revenue in 2010, and 99.7% in 2009. Expenditures to operate the course total \$2,544,906 in 2010 and \$2,745,692 for 2009.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund had an excess of revenues over expenditures for 2010 of \$201,872 compared with excess of expenditures over revenues in 2009 of \$250,111. An operating deficit of \$296,101 had been budgeted for fiscal 2010, so the General Fund outperformed the budget by almost \$500,000. The reasons for the out-performance of the budgeted results are several, and most notably on the revenue side. Rents and franchise fees were higher than budget by over \$200,000, police fines were ahead of budget by \$45,000, recycling revenue was up by over \$100,000, police overtime reimbursement was ahead of budget by \$90,000 and state aid for pension contributions came in \$35,000 over budget. The Real Estate Deed Transfer Tax lagged budget by over \$100,000 but outperformed the prior year by over \$200,000. The newly enacted Local Services Tax generated over \$100,000 but missed budget as well, these 2 areas of revenue shortfalls were offset by other revenues during the year. On the expenditure side, the township came in right at budget in total general fund expenses, within \$10,000 of the projected total of \$9.8 million.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS, *continued*

The Township had no budget adjustments during the 2010 fiscal year. It is the Township's policy that unused appropriations lapse at the close of the fiscal year. The Township does not "carry over" surpluses into the new year and maintains budgetary control at the fund level.

As mentioned in the Financial Highlights section, the General Fund balance remains above the "Safe Harbor" range.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township of Lower Makefield's investment in capital assets for its governmental and business-type activities as of December 31, 2010, total \$114,097,114 and were \$115,494,067 in 2009 (net of accumulated depreciation). Township investment in capital assets includes land and land improvements, buildings and building improvements, equipment, vehicles and infrastructure (see Table 3). Infrastructure includes roadways, bike paths, curbing and sidewalks, storm sewers, basins, bridges and culverts, easements, streetlights and signs.

Additions to capital assets, land and improvements during 2010 include:

Pedestrian Connector Bridge	\$	80,127
GMC Dump Truck		83,505
LED Light Replacement Project		314,112
Golf Course Tractors and Equipment		112,696
Golf Course Land Improvements		14,960
Police and Sewer Vehicles		96,770
Sewer Lining of Buck Creek		59,500
Sewer Capital Contribution – Morrisville		80,000
Sewer Capital Contribution – Yardley		21,859
Jacobsen Mower – Park and Recreation		46,000

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Capital Assets, continued

Capital Assets at Year End, Net of Depreciation Years Ended December 31, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 19,517,249	\$ 19,517,249	\$ 4,202,081	\$ 4,202,081	\$ 23,719,330	\$ 23,719,330
Infrastructure	49,471,776	49,471,776			49,471,776	49,471,776
Construction in Progress	3,685	3,685	63,130	63,130	66,815	66,815
TOTAL CAPITAL ASSETS NOT DEPRECIATED	68,992,710	68,992,710	4,265,211	4,265,211	73,257,921	73,257,921
Land Improvements	4,712,540	4,734,086	7,288,944	7,476,359	12,001,484	12,210,445
Plant & Pools			19,124,451	19,842,617	19,124,451	19,842,617
Buildings & Improvements	4,852,690	5,048,124	2,398,066	2,136,713	7,250,756	7,184,837
Furniture & Equipment	205,016	215,173	436,877	660,086	641,893	875,259
Vehicles	1,192,454	1,420,967			1,192,454	1,420,967
Infrastructure	628,155	702,021			628,155	702,021
TOTAL CAPITAL ASSETS DEPRECIATED	11,590,855	12,120,371	29,248,338	30,115,775	40,839,193	42,236,146
TOTALS	\$ 80,583,565	\$ 81,113,081	\$ 33,513,549	\$ 34,380,986	\$ 114,097,114	\$ 115,494,067

*Land is recorded at historical cost; market values are significantly higher.

Depreciable capital assets are depreciated using the straight-line method. Useful lives are as follows:

	<u>Years</u>
Infrastructure	20
Land improvements	5-40
Plant and pools	4-40
Building and building improvements	40
Furniture and equipment	5
Vehicles	3-10

In the case of road, curb, sidewalk and bike path infrastructure, the Township has elected to use the modified approach. Please see page 61 in the Required Supplementary Information section of the financial statements for a more detailed description of the method. Additional information on the Township's capital assets can be found in Notes 1 and 5 in the financial statements.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Debt, continued

At December 31, 2010, the Township had \$35,726,613 in outstanding debt compared to \$36,610,011 last year. Of the outstanding debt at December 31, 2010, \$1,509,782 is due within one year. The following shows a breakdown of debt by type.

	<u>2010</u>	<u>2009</u>
Governmental Activities		
General Obligation Bonds, Series 2003	\$	\$ 5,602,544
General Obligation Bonds, Series 2006	605,730	625,100
General Obligation Bonds, Series 2010	4,990,000	
General Obligation Bonds, Series A of 2010	5,083,841	
General Obligation Notes		
Series B of 2001		4,655,000
Series of 2004	2,557,000	2,653,000
Notes Payable		
PEMA	83,097	92,475
PNC Bank	152,427	195,081
	<u>13,472,095</u>	<u>13,823,200</u>
Business Type Activities		
General Obligation Bonds		
Series of 2005		6,368,627
Series of 2006	7,673,518	7,912,184
Series of 2010	6,075,000	
General Obligation Notes		
Series A of 2002	3,470,000	3,470,000
Series B of 2002	5,036,000	5,036,000
	<u>22,254,518</u>	<u>22,786,811</u>
	<u>\$ 35,726,613</u>	<u>\$ 36,610,011</u>

The Township had no new debt service issues in 2010 but as mentioned in the opening statements several existing issues were refinanced during 2010. The new bonds of 2010 have the same maturity as the bonds being refinanced.

During the process of refinancing the Township went through the normal rating process and Moody's Investor Services not only reaffirmed the Township's stability in our bond rating, but raised the township from a AA2 rating to AA1.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

The Township of Lower Makefield services an area of 18 square miles and a population of 32,681 (2000 U.S. Census). The Township is located in the southeastern portion of Bucks County, just across the river from Trenton, New Jersey and 25 miles northeast of Philadelphia. Economically, the Township is largely residential in nature, with some agricultural activity. Commercial development can be found on a limited basis, most of which support the residential community. With the recent development of land into office buildings, more employment opportunities can be found within the Township than in prior years.

The following shows the amount of total tax assessments broken down by type, and the source is from the Bucks County Board of Assessments.

Assessments by Land Use Codes

<u>Type</u>	<u>Assessment</u>
Residential	\$ 474,537,630
Taxable Vacant/Miscellaneous	2,176,340
Government/School	23,400
Industrial - Not in a Park	124,400
Main Street - Commercial	214,460
Apartments	8,490,940
Motel - Hotel	1,027,200
Commercial	4,508,720
Mobile Home Parks	
Office Buildings - Not in a Park	21,118,660
Office Buildings - In a Park	775,910
Shopping Centers	4,896,000
Institutional	10,428,960
Utility	
Utility - Government	1,773,680
Exempt	18,641,690
TOTAL ASSESSMENTS	<u>\$ 548,737,990</u>

The 2011 assessment (affecting the next years budget) is lower than the previous assessment by approximately \$1.5 million. Within the total there are some differences; Apartments and Institutional are up while Residential assessments are down, a trend throughout the County. The impact of the assessment changes in 2011 are minimal as the overall decrease totals just under \$1.5 million, or .003% of the total assessment. The decrease in residential assessments is being watched closely throughout the state.

Development within the Township continues its downward trend; thus reducing 2010 developer rate fees, such as park and recreation fee-in-lieu fees, traffic impact fees and basin maintenance fees.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES, continued

Economic Factors, continued

As shown in the data below, the Township of Lower Makefield is considerably wealthier than Bucks County as a whole. Both Bucks County and the Township of Lower Makefield are substantially wealthier than the Commonwealth of Pennsylvania and the nation. Several factors that create this wealth are the higher educational levels of our residents and the Township's ideal location for commuting to New York and Philadelphia, where higher paying jobs can be found.

	<u>Lower Makefield Township</u>	<u>Bucks County</u>	<u>Pennsylvania</u>	<u>United States</u>
Per capita income	\$ 43,983	\$ 27,430	\$ 20,880	\$ 21,857
Median family income	106,908	68,727	49,184	50,046
Percentage of population below poverty level	2.7%	4.5%	11.0%	12.4%

Source: U.S. Census Bureau (2000 Census)

Next Year's Budget

The total millage for 2011 will remain at 15.12, with no increase over the 2010 millage. There was a shifting of a 3/4 millage from Debt Service Fund to the General Fund for 2011.

Real estate transfer taxes are budgeted at \$1,045,000, a decrease of 9% from last year's budget number, and down from the high point of \$1,925,000 actually received in 2005. The nationwide housing market is still very volatile, and Lower Makefield is not immune to this volatility. We are hopeful that the housing market and related credit markets will continue to stabilize during 2011, and we are carefully monitoring these and related revenue areas to determine what action, if any is necessary.

Interest income is budgeted at similar amounts in the 2011 budget as they were in 2010 due to the numerous interest rate reductions planned or having already taken place since 2008. The Federal Reserve Bank is holding their rates at or near 0% in an effort to help stimulate the economy, and the rates on our cash and related investments are trending very low as a result. During 2008, the township began to diversify some of our cash positions in light of the recent events in the banking industry and we continued this in 2009 and 2010. We will continue to diversify our holdings in an effort to maximize our interest earning potential and to safeguard the Township's cash position.

Contractual salaries for both the police and public works employees, along with all administrative staff received no increases in 2010 and modest increases are in place for 2011, approximately 2.25%. Both of the Township's collective bargaining agreements expired in 2009. The new contracts called for the wage freezes in 2010, followed by minimal increases over the remaining 3 years.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES, continued

Next Year's Budget, continued

As was done in the past, the Liquid Fuels Fund will help support the public works payroll in 2011. In 2010, over \$150,000 in salaries was covered by the Liquid Fuels entitlement; in 2011 this number will remain at approximately \$150,000. The Liquid Fuels Fund also covers the related employer payroll taxes.

Overall health benefits in the 2010 budget showed a decrease in comparison to the last several years. This was due to a change in the level of benefits for the Personal Choice medical plan and the Benefits Concepts prescription plan that went into effect January 1, 2006. The township enacted much higher deductibles to offset rising premium costs during 2010. Health care costs in 2011 are budgeted at a higher level than 2010, reflecting an increase of approximately 8-10% from the 2010 actual results, as we are a community rated client of Independence Blue Cross and this is the expected increase.

Pool membership fees are budgeted at equal levels in 2011 as compared to 2010. The Sewer Fund had a rate increase of 15% passed onto residents for the 2011 budget, this was initially planned in 2010 but deferred due to operational efficiencies that allowed the township to wait an additional year before the increase.

Continual analysis and review is required by all department heads to ensure that departments operate within their respective budgets.

LITIGATION

In 2008 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the Township owned Makefield Heights Golf Course resides. The Township paid for the property in July of 2001 with proceeds from a bond issue. The property was condemned as part of the acquisition, and a price determined to be fair market value was paid to the borrower. Since that time, the previous owner of the land has brought suit against the Township seeking additional funds for the acquisition of the property. The case has been in litigation for several years with the Township prevailing in an earlier decision.

The value of this latest judgment, including interest, is over \$2 million dollars. The township has appealed this decision and has not paid any additional funds to the previous owner. It is the township's position that the latest judgment is unacceptable and will defend this vigorously. No reserves have been made as of the date of this audit report. As mentioned previously, the Pennsylvania Supreme Court has agreed to hear the case and admit previously denied evidence on behalf of the township. The hearing is scheduled for late in 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the monies it receives and disburses. If you have any questions about this report or to request additional financial information, please contact Terry Fedorchak, Township Manager, 1100 Edgewood Road, Yardley, PA 19067.

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 4,184,892	\$ 2,027,675	\$ 6,212,567
Accounts receivable, net	710,307	1,565,911	2,276,218
Internal balances	91,474	(91,474)	0
Inventory		50,310	50,310
Prepaid expenses	133,965	26,733	160,698
Restricted assets			
Escrow deposits	38,155		38,155
Deferred charges, net of amortization	228,087	353,112	581,199
Total	5,386,880	3,932,267	9,319,147
Capital assets:			
Land	19,517,249	4,202,081	23,719,330
Construction in progress	3,685	63,130	66,815
Infrastructure	50,995,098		50,995,098
Land improvements	7,402,841	8,762,910	16,165,751
Plant and pools		39,517,785	39,517,785
Buildings and building improvements	7,878,170	2,872,107	10,750,277
Furniture and equipment	3,172,563	1,747,932	4,920,495
Vehicles	4,603,097		4,603,097
Accumulated depreciation	(12,989,138)	(23,652,396)	(36,641,534)
Total capital assets	80,583,565	33,513,549	114,097,114
TOTAL ASSETS	\$ 85,970,445	\$ 37,445,816	\$ 123,416,261
LIABILITIES			
Accounts payable	\$ 656,393	\$ 628,135	\$ 1,284,528
Accrued expenses	181,211	230,785	411,996
Accrued interest	26,604		26,604
Member deposits	1,400		1,400
Deferred revenue	268,137	136,214	404,351
Escrow deposits	38,155		38,155
Long-term liabilities			
Due within one year	883,615	635,738	1,519,353
Due in more than one year	13,419,422	21,745,914	35,165,336
TOTAL LIABILITIES	15,474,937	23,376,786	38,851,723
NET ASSETS			
Invested in capital assets, net of related debt	66,283,277	11,131,897	77,415,174
Restricted for			
Capital projects	1,024,323		1,024,323
Debt service	308,430		308,430
Other purposes	2,473,894		2,473,894
Unrestricted	405,584	2,937,133	3,342,717
TOTAL NET ASSETS	70,495,508	14,069,030	84,564,538
TOTAL LIABILITIES AND NET ASSETS	\$ 85,970,445	\$ 37,445,816	\$ 123,416,261

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
GOVERNMENTAL ACTIVITIES						
General government	\$ 2,061,891	\$ 401,973	\$ 2,025	\$	\$ (1,657,893)	\$
Public safety	7,249,126	160,856	1,106,095		(5,982,175)	
Public works	2,735,423	391,915	1,085,765		(1,257,743)	
Parks and recreation	1,149,169	139,623	41,682		(967,864)	
Community development	80,898				(80,898)	
Interest on long-term debt	662,806				(662,806)	
TOTAL GOVERNMENTAL ACTIVITIES	13,939,313	1,094,367	2,235,567		(10,609,379)	
BUSINESS-TYPE ACTIVITIES						
Sewer	4,585,009	4,844,148				259,139
Sewer reserve-Capital		4,660				4,660
Community pool	773,958	790,489				16,531
Golf course	2,544,906	2,696,301				151,395
TOTAL BUSINESS-TYPE ACTIVITIES	7,903,873	8,335,598				431,725
TOTAL ALL ACTIVITIES	\$ 21,843,186	\$ 9,429,965	\$ 2,235,567	\$	(10,609,379)	431,725
GENERAL REVENUES						
Property taxes, levied for general purposes					7,845,560	
Transfer taxes					1,027,741	
Per capita and occupation privilege taxes					209,143	
Public utility taxes					12,627	
Franchise fees					609,571	
Investment earnings					12,660	
Depreciation, net of related capital contributions						(323,304)
Miscellaneous					569,607	
Gain on sale of capital assets					11,194	
Transfers in					1,031,182	500,000
Transfers out					(1,033,788)	(849,992)
TOTAL GENERAL REVENUES					10,295,497	(673,296)
CHANGE IN NET ASSETS					(313,882)	(241,571)
NET ASSETS AT BEGINNING OF YEAR					70,809,390	14,310,601
NET ASSETS AT END OF YEAR					\$ 70,495,508	\$ 14,069,030

TOWNSHIP OF LOWER MAKEFIELD
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Capital Reserve Fund	Street Project Fund	9-11 Memorial Fund	Debt Service Fund	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash	\$ 1,333,499	\$ 658,291	\$ 567,215	\$ 191,168	\$ 212,411	\$ 75,672	\$ 1,146,636	\$ 4,184,892
Accounts receivable	550,222	19,222	51,823	7	26,052	8,872	54,109	710,307
Interfund receivable					130,269			130,269
Prepaid expenses	26,608							26,608
Restricted assets								
Escrow deposits	38,155							38,155
TOTAL ASSETS	\$ 1,948,484	\$ 677,513	\$ 619,038	\$ 191,175	\$ 368,732	\$ 84,544	\$ 1,200,745	\$ 5,090,231
LIABILITIES								
Accounts payable	\$ 234,516	\$ 74,017	\$ 53,659	\$ 2,186	\$	\$ 1,715	\$ 290,300	\$ 656,393
Accrued expenses	472,067						17,508	489,575
Interfund payable	135				38,660			38,795
Deferred revenue	79,729	138,431	6,121		21,642	7,350	14,864	268,137
Member deposits							1,400	1,400
Escrow deposits	38,155							38,155
TOTAL LIABILITIES	824,602	212,448	59,780	2,186	60,302	9,065	324,072	1,492,455
FUND BALANCES								
Reserved for:								
Capital projects		465,065	559,258		308,430			1,024,323
Debt service								308,430
Unreserved, reported in:								
General fund	1,123,882			188,989		75,479	876,673	1,123,882
Special revenue funds								1,141,141
TOTAL FUND BALANCES	1,123,882	465,065	559,258	188,989	308,430	75,479	876,673	3,597,776
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,948,484	\$ 677,513	\$ 619,038	\$ 191,175	\$ 368,732	\$ 84,544	\$ 1,200,745	\$ 5,090,231

TOWNSHIP OF LOWER MAKEFIELD

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

DECEMBER 31, 2010

TOTAL GOVERNMENTAL FUND BALANCES	\$	3,597,776
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$93,572,703 and the accumulated depreciation is \$12,989,138		80,583,565
Prepaid expenses for interest are recorded as expenditures in the governmental funds. The Statement of Net Assets includes this amount as an asset.		107,357
Deferred charges for issuance of debt, net of amortization are recorded as expenditures in the governmental funds. The Statement of Net Assets includes these amounts as assets		228,087
Accrued expenses are adjusted for accrued vacation included in compensated absences		308,364
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of:		
Accrued interest		(26,604)
Bonds and notes payable, including premiums		(13,472,095)
Accumulated compensated absences		<u>(830,942)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>70,495,508</u>

See accompanying notes to the basic financial statements

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

FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Capital Reserve	Street Project	9-11 Memorial Fund	Debt Service	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
REVENUES								
Real estate taxes	\$ 5,101,688				\$ 1,359,268	\$ 460,346	\$ 924,258	\$ 7,845,560
Real estate transfer taxes	1,027,741							1,027,741
Other taxes	209,143							209,143
Licenses, permits and fees	934,911							934,911
Fines, forfeits and costs	123,861							123,861
Interest earnings	972	479	237	104	377	45	571	2,785
Rental income	305,756	25,000					54,790	385,546
Intergovernmental revenues	707,039	125,000	68,965			393,322	709,046	2,003,372
Charges for services	616,561					27,430	132,010	776,001
Contributions	2,025		17,500	41,682			9,353	70,560
Miscellaneous income	59,543						43,428	102,971
TOTAL REVENUES	9,089,240	150,479	86,702	41,786	1,359,645	881,143	1,873,456	13,482,451
EXPENDITURES								
General government	1,649,500	111,812						1,761,312
Public safety	4,719,236					768,193	127,144	5,614,573
Public works	1,031,695			100,666			976,783	2,008,478
Parks and recreation							580,684	681,350
Community development			80,898					80,898
Capital outlay	37,533	401,997	80,127				129,505	649,162
Insurance	314,949				943,032	19,370		314,949
Employee benefits	1,699,788				419,299	27,260		1,699,788
Debt service								
Principal								
Interest								
TOTAL EXPENDITURES	9,452,701	513,809	161,025	100,666	1,362,331	814,823	1,814,116	14,219,471
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(363,461)	(363,330)	(74,323)	(58,880)	(2,686)	66,320	59,340	(737,020)
OTHER FINANCING SOURCES (USES)								
Proceeds of refunding bonds					10,870,472			10,870,472
Payments to refunded bond escrow agent					(10,758,656)			(10,758,656)
Refund prior year expenditure	116,257					611	7,649	124,517
Gain on sale of capital assets	11,194							11,194
Operating transfers in	790,480				240,702			1,031,182
Operating transfers (out)	(352,598)	(335,000)	(30,009)					(1,033,788)
TOTAL OTHER FINANCING SOURCES (USES)	565,333	(335,000)	(30,009)		352,518	(36,325)	(271,596)	244,921
NET INCREASE (DECREASE) IN FUND BALANCES	201,872	(698,330)	(104,332)	(58,880)	349,832	29,995	(212,256)	(492,099)
FUND BALANCES, BEGINNING	922,010	1,163,395	663,590	247,869	(41,402)	45,484	1,088,929	4,089,875
FUND BALANCES, ENDING	\$ 1,123,882	\$ 465,065	\$ 559,258	\$ 188,989	\$ 308,430	\$ 75,479	\$ 876,673	\$ 3,597,776

TOWNSHIP OF LOWER MAKEFIELD

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

FOR THE YEAR ENDED DECEMBER 31, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (313,882)
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.</p>	
Depreciation of \$1,178,678 less current year expenditures for capital assets of \$649,162	529,516
<p>Proceeds from bonds are revenue and repayment of bond principal is an expenditure in the Governmental Funds, but the proceeds increase long-term liabilities, net of the repayment, in the Statement of Net Assets. Also, Governmental Funds report the effect of premiums when debt is issued, but these amounts are deferred and amortized in the Statement of Activities</p>	
	(649,220)
<p>Accrued vacation requires the use of current financial resources and therefore is reported as expenditures in governmental funds</p>	
	(305)
<p>Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds</p>	
	(63,214)
<p>In the Governmental Funds, interest on long-term debt is reported as interest expense when due, but in the Statement of Activities it is accrued</p>	
	<u>5,006</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (492,099)</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD
COMBINED STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
ASSETS					
CURRENT ASSETS					
Cash	\$ 493,677	\$ 308,363	\$ 742,424	\$ 483,211	\$ 2,027,675
Accounts receivable	1,560,577	11	4,695	628	1,565,911
Interfund receivable			38,795	161,359	200,154
Inventory			50,310		50,310
Prepaid expenses			26,733		26,733
TOTAL CURRENT ASSETS	<u>2,054,254</u>	<u>308,374</u>	<u>862,957</u>	<u>645,198</u>	<u>3,870,783</u>
CAPITAL ASSETS					
Property, plant and equipment	37,806,163	3,323,121	16,036,661		57,165,945
Accumulated depreciation	(18,533,736)	(2,562,654)	(2,556,006)		(23,652,396)
	<u>19,272,427</u>	<u>760,467</u>	<u>13,480,655</u>	<u>0</u>	<u>33,513,549</u>
OTHER ASSETS					
Deferred charges, net of accumulated amortization	111,961		241,151		353,112
TOTAL ASSETS	<u>\$ 21,438,642</u>	<u>\$ 1,068,841</u>	<u>\$ 14,584,763</u>	<u>645,198</u>	<u>\$ 37,737,444</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$ 593,292	\$ 2,838	\$ 30,967	\$ 1,038	\$ 628,135
Accrued expense	46,466	5,300	39,519	139,500	230,785
Interfund payable	161,359		130,269		291,628
Deferred revenue			136,214		136,214
Current portion of long-term debt	243,292		392,446		635,738
TOTAL CURRENT LIABILITIES	<u>1,044,409</u>	<u>8,138</u>	<u>729,415</u>	<u>140,538</u>	<u>1,922,500</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION					
Bonds and notes payable	7,430,226		14,315,688		21,745,914
TOTAL LIABILITIES	<u>8,474,635</u>	<u>8,138</u>	<u>15,045,103</u>	<u>140,538</u>	<u>23,668,414</u>
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt	11,598,909	760,467	(1,227,479)		11,131,897
Unrestricted	1,365,098	300,236	767,139	504,660	2,937,133
TOTAL NET ASSETS (DEFICIT)	<u>12,964,007</u>	<u>1,060,703</u>	<u>(460,340)</u>	<u>504,660</u>	<u>14,069,030</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 21,438,642</u>	<u>\$ 1,068,841</u>	<u>\$ 14,584,763</u>	<u>\$ 645,198</u>	<u>\$ 37,737,444</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS (DEFICIT)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
OPERATING REVENUES					
Charges for services	\$ 4,808,427	\$ 774,924	\$ 2,687,491	\$	\$ 8,270,842
Miscellaneous	25,631	15,339			40,970
TOTAL OPERATING REVENUES	<u>4,834,058</u>	<u>790,263</u>	<u>2,687,491</u>		<u>8,311,812</u>
OPERATING EXPENSES					
Operations	3,748,607	678,662	1,853,947		6,281,216
Depreciation	489,761	95,296	332,202		917,259
TOTAL OPERATING EXPENSES	<u>4,238,368</u>	<u>773,958</u>	<u>2,186,149</u>		<u>7,198,475</u>
OPERATING INCOME	<u>595,690</u>	<u>16,305</u>	<u>501,342</u>		<u>1,113,337</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on investments	270	226	8,810	4,660	13,966
Tapping fees	9,820				9,820
Interest expense	(339,171)		(338,740)		(677,911)
Amortization	(5,506)		(19,699)		(25,205)
Bond discount	(1,964)		(318)		(2,282)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(336,551)</u>	<u>226</u>	<u>(349,947)</u>	<u>4,660</u>	<u>(681,612)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND FUND TRANSFERS	<u>259,139</u>	<u>16,531</u>	<u>151,395</u>	<u>4,660</u>	<u>431,725</u>
CONTRIBUTIONS AND FUND TRANSFERS					
Depreciation, net of related capital contributions	(323,304)				(323,304)
Transfers in/(out)	(749,996)	(99,996)		500,000	(349,992)
TOTAL CONTRIBUTIONS AND FUND TRANSFERS	<u>(1,073,300)</u>	<u>(99,996)</u>		<u>500,000</u>	<u>(673,296)</u>
CHANGE IN NET ASSETS	(814,161)	(83,465)	151,395	504,660	(241,571)
TOTAL NET ASSETS (DEFICIT), BEGINNING	<u>13,778,168</u>	<u>1,144,168</u>	<u>(611,735)</u>		<u>14,310,601</u>
TOTAL NET ASSETS (DEFICIT), ENDING	<u>\$ 12,964,007</u>	<u>\$ 1,060,703</u>	<u>\$ (460,340)</u>	<u>\$ 504,660</u>	<u>\$ 14,069,030</u>

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 4,576,404	\$ 774,924	\$ 2,682,807	\$	\$ 8,034,135
Cash payments to suppliers	(3,248,219)	(328,984)	(1,071,472)	(21,449)	(4,670,124)
Cash payments to employees	(261,074)	(316,397)	(670,587)		(1,248,058)
Cash payments to other governments	(23,400)	(20,614)	(70,227)		(114,241)
Net cash provided by (used in) operating activities	<u>1,043,711</u>	<u>108,929</u>	<u>870,521</u>	<u>(21,449)</u>	<u>2,001,712</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in/out	(749,996)	(99,996)		500,000	(349,992)
Tapping fees	9,820				9,820
Net cash provided by (used in) noncapital financing activities	<u>(740,176)</u>	<u>(99,996)</u>		<u>500,000</u>	<u>(340,172)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(213,492)		(159,634)		(373,126)
Bond proceeds			6,633,863		6,633,863
Bond costs			(121,845)		(121,845)
Principal paid on long-term debt	(240,630)		(6,805,000)		(7,045,630)
Interest paid on long-term debt	(339,171)		(338,739)		(677,910)
Net cash used in capital and related financing activities	<u>(793,293)</u>		<u>(791,355)</u>		<u>(1,584,648)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Earnings from investments	270	226	0	4,660	5,156
Net increase (decrease) in cash and cash equivalents	(489,488)	9,159	79,166	483,211	82,048
CASH AND CASH EQUIVALENTS:					
Beginning of year	<u>983,165</u>	<u>299,204</u>	<u>663,258</u>		<u>1,945,627</u>
End of year	<u>\$ 493,677</u>	<u>\$ 308,363</u>	<u>\$ 742,424</u>	<u>\$ 483,211</u>	<u>\$ 2,027,675</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2010**

	Enterprise Funds			Sewer Capital Reserve Fund	Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 595,690	\$ 16,305	\$ 501,342	\$	\$ 1,113,337
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	489,761	95,296	332,202		917,259
(Increase) decrease in					
Accounts receivable	(232,023)	15	(4,682)	(628)	(237,318)
Interfund receivable			(38,795)	(161,359)	(200,154)
Inventory			850		850
Prepaid expenses	5,655		(22,733)		(17,078)
Increase (decrease) in					
Accounts payable and accrued expenses	23,269	(2,687)	(50,719)	140,538	110,401
Interfund payable	161,359		130,269		291,628
Deferred revenue			22,787		22,787
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,043,711</u>	<u>\$ 108,929</u>	<u>\$ 870,521</u>	<u>\$ (21,449)</u>	<u>\$ 2,001,712</u>
SUPPLEMENTAL DISCLOSURES					
Noncash investing and financing activities					
Depreciation, net of related capital assets contributions					<u>\$ 330,706</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

**COMBINED STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Pension Trust Funds		Deferred Retirement	Unemployment Compensation		Total Fiduciary Funds
	Police Pension	Non-Uniform Pension	Option Plan Fund	Trust Fund	Agency Fund	
ASSETS						
Cash and cash equivalents	\$ 224,252	\$ 127,150	\$	\$ 64,260	\$ 204,930	\$ 620,592
Investments	7,511,165	4,512,431	334,962			12,358,558
Accounts receivable				2	93,005	93,007
TOTAL ASSETS	<u>7,735,417</u>	<u>4,639,581</u>	<u>334,962</u>	<u>64,262</u>	<u>297,935</u>	<u>13,072,157</u>
LIABILITIES						
Accounts payable					114,213	114,213
Due to developers					183,722	183,722
TOTAL LIABILITIES					<u>297,935</u>	<u>297,935</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES (Schedule of funding progress for the plan is on page 62).						
	<u>\$ 7,735,417</u>	<u>\$ 4,639,581</u>	<u>\$ 334,962</u>	<u>\$ 64,262</u>	<u>\$</u>	<u>\$ 12,774,222</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Pension</u>	<u>Trust Funds</u>	<u>Deferred Retirement</u>	<u>Unemployment Compensation</u>	<u>Total Fiduciary Funds</u>
	<u>Police Pension</u>	<u>Non-Uniform Pension</u>	<u>Option Plan Fund</u>	<u>Trust Fund</u>	
ADDITIONS					
Contributions					
Employer	\$ 212,688	\$ 301,072	\$	\$	\$ 513,760
Investment income (loss)	826,027	482,658	11,329	33	1,320,047
Transfers in					
Police Pension Fund			95,397		95,397
State aid	352,598				352,598
TOTAL ADDITIONS	<u>1,391,313</u>	<u>783,730</u>	<u>106,726</u>	<u>33</u>	<u>2,281,802</u>
DEDUCTIONS					
Administrative expenses	102,746	38,505			141,251
Benefits	350,987	142,478	145,447	19,423	658,335
Transfer out to DROP Fund	95,397				95,397
TOTAL DEDUCTIONS	<u>549,130</u>	<u>180,983</u>	<u>145,447</u>	<u>19,423</u>	<u>894,983</u>
CHANGE IN NET ASSETS	842,183	602,747	(38,721)	(19,390)	1,386,819
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES					
BEGINNING OF YEAR	<u>6,893,234</u>	<u>4,036,834</u>	<u>373,683</u>	<u>83,652</u>	<u>11,387,403</u>
END OF YEAR	<u>\$ 7,735,417</u>	<u>\$ 4,639,581</u>	<u>\$ 334,962</u>	<u>\$ 64,262</u>	<u>\$ 12,774,222</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Lower Makefield, Yardley, Pennsylvania (the Township), formed in 1692, exists as a Second Class Township and is a “local government unit” as defined under the Local Government Unit Debt Act of the General Assembly of the Commonwealth of Pennsylvania.

The five-member governing body of the Township is the Board of Supervisors. A Township Manager is appointed by, and serves at the discretion of, the Board of Supervisors to administer the daily operations of the Township. Principal services provided by the Township include public safety, maintenance of the roads and highways, culture and recreation, maintenance of the sewer system and general governmental administration.

The financial statements of the Township have been prepared in conformity with U.S. generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its Proprietary Funds provided they do not conflict with or contradict GASB pronouncements. Pronouncements of the FASB issued after November 30, 1989, are not applied in the preparation of the financial statements of the Proprietary Funds.

The most significant of the Township’s accounting policies are described below.

Reporting Entity

In evaluating the Township as a reporting entity, management has addressed all potential component units for which the Township may or may not be financially accountable and, as such, be included in the Township’s financial statements. In accordance with GASB Statement No. 14, the Township is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Management has elected to include the Municipal Sewer Authority of the Township of Lower Makefield (the Authority) as a blended component unit in the December 31, 2010 annual financial report. The authority is reported as if it were part of the Township because its sole purpose is to finance and construct the Township’s facilities. The Authority issues a separately audited financial statement. Copies of this report may be obtained from the Township Finance Director.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reporting Entity, continued

Management has elected not to include the following potential component units in the December 31, 2010 annual financial report:

- Yardley-Makefield Fire Company
- Lower Makefield Farmland Preservation, Inc.
- Yardley-Makefield Rescue Squad

These entities are under the direction of a separate independent board. These entities are organized under a separate charter and, therefore, not included in the annual financial report.

Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Township are grouped into the categories governmental, proprietary and fiduciary.

The Township reports the following major Governmental Funds:

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Reserve Fund (Capital Project Fund)

The Capital Reserve Fund is used to account for financial resources to be used for acquisitions or construction of major capital assets (other than those financed by the Street Project Fund, the 9-11 Memorial Fund, and Proprietary Funds).

Street Project Fund (Capital Project Fund)

The Street Project Fund is used to account for financial resources that are used for the repair or construction of street projects not funded by the Liquid Fuels Funds.

9-11 Memorial Fund

The 9-11 Memorial Fund is used to account for financial resources that are used for expenses of the Garden of Reflection.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting, continued

The Township reports the following major Proprietary Funds:

Sewer Fund

The Sewer Fund accounts for the activities of the sewer system infrastructure, sewage pumping stations and collection systems.

Community Pool Fund

The Community Pool Fund accounts for the operations of the Township's municipal pool.

Golf Course Fund

The Golf Course Fund accounts for the construction and operation of the Township's municipal golf course.

Sewer Capital Reserve Fund (Capital Project Fund)

The Sewer Capital Reserve Fund is used to account for financial resources to be used for acquisitions or construction of major capital assets for the Sewer Fund.

Additionally, the Township reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Township's Special Revenue Funds include: Liquid Fuels, Hydrant, Ambulance, Fire Protection, Parks and Recreation, Street Light, Parks and Recreation Fee-in-Lieu, Library, 9-11 Memorial and Traffic Impact.

Pension Trust Funds

The Pension Trust Funds are used to account for the assets and liabilities held by the Township in a trustee capacity for the police officers and non-uniform employees pension plans.

Deferred Retirement Option Plan Fund

The Deferred Retirement Options Plan Fund is used to account for the assets and liabilities held by the Township in a trustee capacity for police officers within 48 months of retirement (See Note 10).

Unemployment Compensation Trust Fund

The Unemployment Compensation Trust Fund is used to account for the assets and liabilities related to the Township's self-insured unemployment compensation coverage.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting, continued

Agency Fund

The Agency Fund accounts for the assets held as an agent for the various developer escrows.

Basis of Presentation and Accounting

Government-Wide Financial Statement

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differ from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Township and for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

As a general rule, the effect of the interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the Township. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Other Governmental Funds are aggregated and presented in a single column. Fiduciary Funds are reported by fund type.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Fund Financial Statements, continued

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which report on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets (deficit). The statement of revenues, expenses and changes in net assets (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' ongoing operations. The principal operating revenues of the Township's Enterprise Funds are sewer charges, golf fees and pool membership fees. Operating expenses for the Township's Enterprise Funds include supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash Equivalents

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Investments

Investments are valued at fair value. Investment income attributable to the Township's concentration accounts is allocated to the Township's various funds based on the ratio of each participating fund's average balance to the total pooled average balance.

State statutes authorize the Township to invest in obligations of the U.S. Treasury, short-term obligations of the U.S. Government or its agencies or instrumentalities, obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision and insured certificates of deposit.

Short-Term Interfund Receivables / Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables / payables".

Inventory and Prepaid Expenditures / Expenses

Inventories are valued at cost using the average-cost method. Inventory in the Golf Course Fund is capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

The inventories on hand in the Golf Course Fund at December 31, 2010, consist of the following:

Pro Shop	\$ 35,657
Food and Beverage	<u>14,653</u>
	<u>\$ 50,310</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures / expenses in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructures (e.g., roads, bridges, curbs, sidewalks, drainage systems and lighting systems) and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 (amount not rounded) or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased on constructed. Donated capital assets are recorded at estimated fair market value at the date of donation

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Capital Assets, continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest and real estate taxes incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed and associated land.

Property, plant and equipment of the Township are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20
Land Improvements	5-40
Plant and Pools	4-40
Building and Building Improvements	40
Furniture and Equipment	5
Vehicles	3-10

Long-Term Obligations

In the government-wide financial statements and Proprietary Funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Funds statement of net assets (deficit). Bond / note premiums and discounts, as well as issuance costs and deferred loss on early retirement of debt, are deferred and amortized over the life of the bonds. Bond / notes payable are reported net of the applicable bond premium or discount. Bond / note issue costs and deferred loss on early retirement of debt are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Funds recognize bond / note premiums and discounts, as well as bond / note issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Deferred Revenue

Deferred revenue arises when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Township before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Township has a legal claim to the resources, the liability for deferred revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

Fund Equity

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Real Estate Tax Calendar

Property taxes are levied no later than the fourth Monday in March of each year based on assessed values as of the preceding January 1 for all real property located in the Township. Taxpayers are granted discounts if payments are made by April 30 and are subject to penalties if payments are not made by June 30. An elected tax collector monitors, collects and remits property taxes to the Township.

The Township also annually levies a \$10 per capita tax on all residents over the age of 18. In addition, a Local Services Tax on all people employed within the township boundaries with annual salaries over \$12,000 are assessed at \$52 annual charge. Real estate transfer taxes received by the Township are .5% on the transfer of title of real property in the Township.

The tax collector, who is responsible for collecting taxes on behalf of the Township, County and School District, is an elected official. The Township regards the tax collector’s office as a separate entity and, therefore, does not account for its activity in the financial statements.

Compensated Absences

The Township accounts for compensated absences by complying with GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires a liability be reported for certain compensated absences as the benefits are earned by employees instead of when they are paid. Certain Township employees are entitled to vacation pay based on years of service. Police officers are entitled to a maximum of 60 days sick pay upon retirement. In addition, per the terms of the Township’s police contract, officers are due certain other benefits after retirement.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Compensated Absences, continued

These benefits include six months of medical and life insurance coverage and supplemental cash payments. A new CBA was enacted effective January 1, 2010 which would extend the 30 month window an additional 60 months if an officer elects to retire by December 31, 2010.

Deferred Charges

Deferred charges consist of bond and note issue costs and deferred loss on early retirement of debt, which are amortized over the life of the debt.

	Deferred Charges	Accumulated Amortization	Net
Governmental Activities	\$ 240,711	\$ (12,624)	\$ 228,087
Business-Type Activities			
Sewer Fund	137,656	(25,695)	111,961
Golf Course Fund	310,453	(69,302)	241,151
	448,109	(94,997)	353,112
	\$ 688,820	\$ (107,621)	\$ 581,199

2. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township follows state statute as it relates to custodial credit risk. As of December 31, 2010, the carrying amount of the Township's deposits was \$6,514,190. The Township's bank balance was \$6,749,228, of which \$5,999,228 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the Township's name	\$ 5,999,228
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TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, continued

Investments

As of December 31, 2010, the Township had the following investments and maturities in its Pension Trust and Deferred Retirement Option Plan Funds:

<u>Investment Type</u>	<u>Fair Value</u>			<u>Totals</u>
	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>	<u>Deferred Retirement Option Plan</u>	
Bond Mutual Funds	\$ 2,744,328	\$ 1,652,638	\$	\$ 4,396,966
Equities	1,615,223	887,330		2,502,553
Mutual Funds	3,151,614	1,972,463	334,962	5,124,077
Investment Contract				334,962
Total	\$ 7,511,165	\$ 4,512,431	\$ 334,962	\$ 12,358,558
<u>Investment Type</u>	<u>Investment Maturities</u>			<u>Totals</u>
	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Five to Ten Years</u>	
U.S. Government Mutual Funds	\$ 4,396,966	\$	\$	\$ 4,396,966
Equities	2,502,553			2,502,553
Mutual Funds	5,124,077			5,124,077
Investment Contract	334,962			334,962
Total	\$ 12,358,558	\$	\$	\$ 12,358,558

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, continued

Investments, continued

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Township's Pension Trust Funds' investment policy limits investments to the following criteria:

<u>Asset Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Cash	0%	10%
Fixed Income	30%	50%
Equities	50%	70%

Restrictions

Fixed Income

- Average credit quality – AA, maximum of 10% in BBB.
- Minimum issuer credit quality – investment grade.
- Duration range – 80% to 120% of index duration.
- No maturity may exceed 30 years.

Equities

- Mutual funds are acceptable vehicles for equity allocation.
The allocation may include international and small cap funds.

The Township's Pension Trust Funds met these requirements. All other investments of the Township follow state statute as it relates to interest rate risk.

Credit Risk

The Township's Pension Trust Funds' credit risk policy is described under interest rate risk restrictions. The Township's investments in corporate bonds have ratings ranging from A1 to AA3 by Moody's.

Concentration of Credit Risk

The Township's Pension Trust Funds' concentration of credit risk is described in Note 7.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

3. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	Governmental Type Funds							Total Governmental Funds
	General Fund	Capital Reserve Fund	Street Project Fund	Debt Service Fund	Fire Protection Fund	Total Government Funds	Total Governmental Funds	
Taxes	\$ 211,889	\$	\$	\$ 26,030	\$ 8,872	\$ 17,976	\$ 264,767	
Interest	56	26	19	22		14	137	
Other Fees and Assessments	338,277	19,196	51,804			36,126	445,403	
Totals	\$ 550,222	\$ 19,222	\$ 51,823	\$ 26,052	\$ 8,872	\$ 54,116	\$ 710,307	
	<u>Proprietary Funds</u>							
	<u>Enterprise Funds</u>		<u>Fiduciary Funds</u>					
Taxes	\$	\$						
Interest	18	5						
Other Fees and Assessments	3,221							
Sewer Billings Due from Developers	1,562,672	93,000						
Totals	\$ 1,565,911	\$ 93,005						

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

Interfund receivable / payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Capital Reserve Fund	Sewer Fund	\$ 161,359
Golf Course Fund	Debt Service Fund	\$ 91,709
Golf Course Fund	General Fund	\$ 135

The purpose for all receivables and payables is an advance of funds.

Interfund transfers are summarized as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 790,480	\$ 352,598
Capital Reserve Fund		335,000
Street Project Fund		30,009
Fire Protection Fund		36,936
Debt Service Fund	240,702	
Other Governmental Funds		279,245
Enterprise Funds		
Sewer Fund		749,996
Community Pool Fund		99,996
Sewer Capital Reserve Fund	500,000	
Pension Trust Funds		
Police Pension	352,598	95,397
Option Plan Fund	95,397	
Total	<u>\$1,979,177</u>	<u>\$1,979,177</u>

The Township typically transfers budgeted dollar amounts from the General Fund to the Pension Trust Fund to fund the Township's current year minimum municipal obligation.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2010	Additions	Disposals	Balance December 31, 2010
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 19,517,249	\$	\$	\$ 19,517,249
Infrastructure	49,471,776			49,471,776
Construction in Progress	3,685			3,685
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	68,992,710			68,992,710
Capital Assets Being Depreciated				
Infrastructure	1,523,322			1,523,322
Land Improvements	6,996,603	406,238		7,402,841
Buildings and Improvements	7,878,170			7,878,170
Furniture and Equipment	3,080,180	92,382		3,172,562
Vehicles	4,531,883	150,541	79,327	4,603,097
	24,010,158	649,161	79,327	24,579,992
Accumulated Depreciation	(11,889,787)	(1,178,677)	79,327	(12,989,137)
TOTAL CAPITAL ASSETS, NET	12,120,371	(529,516)		11,590,855
TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	81,113,081	(529,516)		80,583,565
BUSINESS ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	4,202,081			4,202,081
Construction in Progress	63,130			63,130
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	4,265,211			4,265,211
Capital Assets Being Depreciated				
Land Improvements	8,747,950	14,960		8,762,910
Plant and Pools	39,356,425	161,360		39,517,785
Buildings and Improvements	2,855,977	16,130		2,872,107
Furniture and Equipment	1,567,255	180,677		1,747,932
TOTAL CAPITAL ASSETS BEING DEPRECIATED	52,527,607	373,127		52,900,734
Accumulated Depreciation	(22,411,832)	(1,260,351)		(23,652,396)
TOTAL CAPITAL ASSETS, NET	30,115,775	(867,437)		29,248,338
TOTAL BUSINESS ACTIVITY CAPITAL ASSETS, NET	34,380,986	(867,437)		33,513,549
TOTAL CAPITAL ASSETS, NET	\$ 115,494,067	\$ (1,396,953)	\$	\$ 114,097,114

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS, continued

The net book value of each capital assets category for governmental and business activity is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
GOVERNMENTAL ACTIVITIES			
Capital Assets Not Being Depreciated			
Land	\$ 19,517,249	\$	\$ 19,517,249
Construction in Progress	3,685		3,685
Infrastructure	49,471,776		49,471,776
Capital Assets Being Depreciated			
Infrastructure	1,523,322	(895,167)	628,155
Land Improvements	7,402,841	(2,690,301)	4,712,540
Buildings and Improvements	7,878,170	(3,025,480)	4,852,690
Furniture and Equipment	3,172,562	(2,967,546)	205,016
Vehicles	4,603,097	(3,410,643)	1,192,454
TOTAL GOVERNMENTAL ACTIVITIES	<u>93,572,702</u>	<u>(12,989,137)</u>	<u>80,583,565</u>
BUSINESS ACTIVITIES			
Capital Assets Not Being Depreciated			
Land	4,202,081		4,202,081
Construction in Progress	63,130		63,130
Capital Assets Being Depreciated			
Land Improvements	8,762,910	(1,473,966)	7,288,944
Plant and Pools	39,517,785	(20,393,334)	19,124,451
Buildings and Improvements	2,872,107	(474,041)	2,398,066
Furniture and Equipment	1,747,932	(1,311,055)	436,877
TOTAL BUSINESS ACTIVITIES	<u>57,165,945</u>	<u>(23,652,396)</u>	<u>33,513,549</u>
TOTALS	<u>\$ 150,738,647</u>	<u>\$ (36,641,533)</u>	<u>\$ 114,097,114</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 88,793
Public Safety	318,609
Public Works	402,179
Parks & Recreation	369,097
Total	<u>\$ 1,178,678</u>

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Township for the year ended December 31, 2010:

	Principal Outstanding January 1, 2010	Additions	Deletions / Maturities	Principal Outstanding December 31, 2010	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds:					
Series of 2003	\$ 5,590,000	\$	\$ (5,590,000)	\$	\$
Series of 2006	625,100		(19,370)	605,730	19,370
Series of 2010		4,990,000		4,990,000	60,000
Series A of 2010		5,600,000	(795,000)	4,805,000	620,000
General Obligation Notes:					
Series B of 2001	4,655,000		(4,655,000)		
Series of 2004	2,653,000		(96,000)	2,557,000	100,000
Notes Payable					
Commonwealth of PA, PEMA	92,475		(9,378)	83,097	9,567
Bucks County:					
Land Purchase					
Equipment Purchase					
PNC Bank	195,081		(42,654)	152,427	44,536
Deferred Amounts:					
Issuance Premiums	12,544	276,172	(9,875)	278,841	32,213
TOTALS	<u>13,823,200</u>	<u>10,866,172</u>	<u>(11,217,272)</u>	<u>13,472,095</u>	<u>885,686</u>
Compensated Absences	915,024		(84,082)	830,942	
TOTAL GOVERNMENTAL ACTIVITIES	<u>14,738,224</u>	<u>10,866,172</u>	<u>(11,301,359)</u>	<u>14,303,037</u>	<u>885,686</u>
BUSINESS ACTIVITIES					
General Obligation Bonds:					
Series of 2005	6,385,000		(6,385,000)		
Series of 2006	7,944,900		(240,630)	7,704,270	245,630
Series of 2010		6,495,000	(420,000)	6,075,000	380,000
General Obligation Notes:					
Series A of 2002	3,470,000			3,470,000	
Series B of 2002	5,036,000			5,036,000	
Deferred Amounts					
Issuance Net Premiums	(49,089)	127,134	18,337	96,382	10,108
TOTAL BUSINESS-TYPE ACTIVITIES	<u>22,786,811</u>	<u>6,622,134</u>	<u>(7,027,293)</u>	<u>22,381,652</u>	<u>635,738</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 37,525,035</u>	<u>\$17,488,306</u>	<u>\$ (18,328,652)</u>	<u>\$ 36,684,689</u>	<u>\$ 1,521,424</u>

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and notes payable at December 31, 2010, consisted of:

General Obligation Note, Series of 2004, payable to Delaware Valley Regional Finance Authority (DVRFA) for the purpose of acquiring open space and constructing Township parks and facilities; principal was payable annually beginning June, 2006, interest was payable monthly beginning December, 2004, at a variable rate, with maturity scheduled for June, 2028. \$ 2,557,000

General Obligation Bonds, Series A of 2010, issued in 2010 for the purpose of currently refunding the Township's General Obligation Bonds, Series of 2003, of \$5,590,000 principal was payable annually beginning December, 2010, interest was payable semiannually beginning December 2010 at rates ranging from 1% to 4%. 4,805,000

General Obligation Note, Series B of 2010, payable to BNY Mellon for the purpose of advance refunding the Township's General Obligation Note Series B of 2001 of \$4,655,000 and refunding the General Obligation Bond Series of 2005 of \$6,385,000 and pay the costs of issuing the bonds; principal is payable annually beginning June, 2010, interest is payable semiannually beginning June, 2010, at rates ranging from 2% to 3%, with maturity scheduled for December, 2021. 11,065,000

Note payable to the Commonwealth of Pennsylvania Emergency Management Agency for the purpose of constructing an emergency services building and related improvements; the note was issued to the Yardley-Makefield Rescue Squad; the Township assumed payments on the note in July, 2001, with the acquisition of The Rescue Squad Building; principal and interest are due monthly at a rate of 2% through January, 2019. 83,097

SUBTOTAL \$ 18,510,097

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD \$ 18,510,097

Note payable to PNC Bank for the purpose of construction of an emergency services building and related improvements; principal and interest is payable quarterly at a rate of 4.46% through January, 2014; a corresponding note receivable from the Rescue Squad has been established for repayment of principal plus accrued interest to the Township 152,427

General Obligation Note, Series A of 2002, payable to DVRFA for the purpose of construction of a municipal golf course; principal will be payable annually beginning June, 2022, interest was payable monthly beginning June, 2003, at a variable rate not to exceed 3.5%, with maturity scheduled for June, 2028. 3,470,000

General Obligation Note, Series B of 2002, payable to DVRFA for the purpose of construction a municipal golf course; principal will be payable annually beginning June, 2022, interest was payable monthly beginning June, 2003, at a variable rate not to exceed 3.5%, with maturity scheduled for June, 2028. 5,036,000

General Obligation Bonds, Series of 2006, issued in 2006 for the purpose of advance refinancing a portion of the 2003 Series that pertains to the sewer system and with funding current sewer system renovations and purchase of fire equipment; principal was payable annually beginning in September, 2006, interest was payable semi-annually beginning in September, 2006, at fixed intervals, ranging from 3.50% to 4.50%, with maturity scheduled for June, 2021. 8,310,000

\$ 35,478,524

In 2010 the Township issued General Obligation Bonds Series of 2010 and Series A of 2010 for \$11,485,000 and \$5,600,000, respectively. The bonds were for the purpose of refunding a General Obligation Note, Series B of 2001 of \$4,655,000, and General Obligation Bonds Series of 2005 of \$6,385,000 and Series of 2003 of \$5,590,000.

The refunding reduced total debt service payments over the next eleven years by \$1,533,691.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as interest expense over the remaining life of the old debt. The total deferred loss was \$129,261 and 7,674 was expensed in 2010. The deferred loss balance at December 31, 2010 is \$121,587.

Funds to repay outstanding bonds and notes will be provided from future taxes, other general revenues and charges for services. Total interest expense paid during the year ended December 31, 2010, was \$1,124,470. Interest costs incurred and charged to expenditures for the year ended December 31, 2010, were \$27,260 in the Fire Fund, \$419,299 in the Debt Service Fund, \$339,171 in the Sewer Fund and \$338,740 in the Golf Course Fund.

Bond Issuance and Advance Refunding

In prior years and 2010, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2010, the Township's portion of bonds outstanding that are considered defeased is \$4,803,000 and will be liquidated in 2011.

Debt Service Requirements

A summary of long-term debt service requirements to maturity, including principal and interest, other than compensated absences is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2011	1,479,103	1,217,301	2,696,404
2012	1,515,644	1,178,115	2,693,759
2013	1,851,626	1,133,082	2,984,708
2014	1,864,668	1,080,108	2,944,776
2015	1,922,193	1,017,915	2,940,108
2016 to 2020	10,194,290	4,129,573	14,323,863
2021 to 2025	7,343,000	2,572,676	9,915,676
2026 to 2030	7,228,000	1,192,932	8,420,932
2031 to 2032	2,080,000	80,719	2,160,719
	<u>\$ 35,478,524</u>	<u>\$ 13,602,421</u>	<u>\$ 49,080,945</u>

The Township is subject to the Local Governmental Unit Debt Act of the Commonwealth of Pennsylvania, which limits the amount of net bonded debt the Township may have outstanding as of a point of time. The Township's bonded indebtedness as of the statement of net assets date is not excess of statutory limits.

The various bond indentures contain limitations and restrictions on annual debt service requirements, maintenance of flow of monies through various sinking funds. Management believes the Township is in compliance with all such significant financial limitations and restrictions.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS

Description of Plans

The Township of Lower Makefield sponsors a single employer defined benefit pension plan for both police officers and non-police employees of the Township. These plans are included in the Pension Trust Fund of the Township and are controlled by various ordinances adopted pursuant to Pennsylvania Act 205.

At January 1, 2010 (the most recent valuation date), the Township's pension plan membership consisted of:

	Police Pension Plan	Non-Uniform Pension Plan
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	16	22
Current Employees	30	38
TOTAL MEMBERSHIP	46	60

Police Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement and disability benefits as well as the return of members' contributions in the event of death. For the year ended December 31, 2010 the plan's assets were managed by Glenmede Trust Company. All benefits vest after 12 years of credited service. Employees who retire at or after age 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average salary. Final average salary is the employee's average base salary over the last three years of credited service. Covered employees are not currently required to contribute to the pension plan. If an employee leaves covered employment or dies before age 65, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

Non-Uniform Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement benefits as well as death and disability benefits. For the year ended December 31, 2009, the plan's assets were managed by Glenmede Trust Company. All benefits vest after five years of credited service. Employees who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit paid monthly for life in an amount equal to 2.00% of average annual compensation multiplied by credited service up to 30 years. Final average salary is the employee's average salary, including overtime, over the three years of credited service. Employees with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

Covered employees are not currently required by statute to contribute to the pension plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the amounts necessary to fund the plans. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Summary of Significant Accounting Policies

Basis of Accounting

Pension plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments

Investments are reported at fair value. Market related value of assets is used to determine the indicated contribution.

Financial Reporting

A separate financial statement is not issued on the pension plans.

Contributions

Act 205 requires that annual contributions to the plan be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

Plan Expenses

Plan expenses are paid from plan assets.

Concentrations

At December 31, 2010, there were no investments of the Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations and mutual funds) in any one organization that represented 5% or more of net assets available for benefits ($\$7,735,418 \times .05 = \$386,771$). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

At December 31, 2010, there were no investments of the Non-Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5% or more of net assets available for benefits ($\$4,639,580 \times .05 = \$231,979$). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

Schedules of Contributions from the Employer and Other Contributing Entities

Police Pension Plan

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2005	\$ 348,424	\$ 286,824	\$ 61,600	\$	\$ 348,424	100.00%
2006	316,627	305,764	10,863		316,627	100.00%
2007	353,655	330,258	23,397		353,655	100.00%
2008	343,677	328,192	15,485		343,677	100.00%
2009	325,502	312,801	12,701		325,502	100.00%
2010	565,286	352,598	212,688		565,286	100.00%

Non-Uniform Pension Plan

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2005	\$ 203,574	\$	\$ 203,574	\$	\$ 203,574	100.00%
2006	280,732		280,732		280,732	100.00%
2007	268,812		268,812		268,812	100.00%
2008	241,835		241,835		241,835	100.00%
2009	220,264		220,264		220,264	100.00%
2010	301,072		301,072		301,072	100.00%

*Per minimum municipal obligation calculation, adopted by resolution by Board of Supervisors.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Police Pension Plan

Valuation date	January 1, 2010
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	19.17 years
Assets valuation method	5 year fresh start smoothing method
Actuarial assumptions	
Investment rate of return	8% per annum
Projected salary increases	5% compounded annually

Non-Uniform Pension Plan

Valuation date	January 1, 2010
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	12.28 years
Assets valuation method	5 year fresh start smoothing method
Actuarial assumptions	
Investment rate of return	8% per annum
Projected salary increases	5% compounded annually

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. TRANSACTIONS WITH DEVELOPERS

In connection with the development agreements for the construction of residential housing within the Township, the Township receives contributions from developers to finance various infrastructure and related costs and to fund legal, engineering and other costs of administering regulatory responsibilities concerning development of real estate.

The Township also receives developer deposits applicable to plan review and development billing activities. In such instances, the Township is required to hold such deposits in escrow and refund amounts not ultimately required to fund anticipated administrative costs. Potentially refundable deposits are accounted for in Agency Funds, which reflect a liability to various developers of \$183,722 as of December 31, 2010.

9. DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Contributions are invested with an outside trustee, ICMA Retirement Corporation.

On August 21, 2000, the Board of Supervisors passed a resolution to comply with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, reestablishing the ICMA Retirement Corporation Deferred Compensation Plan and Trust. The resolution directs that the assets of the plan shall be held in trust, with the Township serving as Trustee, for the exclusive benefit of plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose. The assets have been removed from the Township's financial statements.

10. DEFERRED RETIREMENT OPTION PLAN

The Township sponsors a Deferred Retirement Option Plan (DROP) for members of the police department who have not retired prior to the implementation date (May 2005) of the DROP. Employees may enter into the DROP on the first day of any month following completion of 25 years of credited service and attaining the age of 55. When electing to participate in the DROP, the employee must resign from employment no less than 12 months and no more than 48 months from the execution of the DROP option. An employee may elect in writing to terminate participation in the DROP any time up to six months before the previously selected resignation date. Once termination is elected, the employee is barred from any future participation in the program.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

10. DEFERRED RETIREMENT OPTION PLAN, continued

After the effective date of the DROP option, the employee shall no longer earn or accrue additional years of continuous service for pension purposes. Earnings or increases in earnings thereafter shall not be recognized or used for the calculation or determination of any benefits payable by the Police Pension Fund. The monthly retirement benefits that would have been payable had the employee elected to cease employment and receive a normal retirement benefit shall, upon the employee commencing participation in the DROP, be paid into the separate account established to receive that participant's monthly pension payments. All other contractual benefits shall continue to accrue, with the exception of those provisions relating to the Police Pension Plan.

Upon the termination date set forth in the employee's DROP option notice or such date as the Township separates the employee from employment, the retirement benefits payable to the employee or employee's beneficiary, if applicable, shall be paid to the employee or beneficiary and shall no longer be paid to the employee's DROP account. Within 30 days following termination of an employee's employment, the balance in the employee's DROP account shall be paid to the employee in a single lump-sum payment or, at the employee's option, in any fashion permitted by law.

The Township has entered into an administrative service agreement with The International City Management Association Retirement Corporation (RC). RC acts as investment adviser to the Vantage Trust (the "Trust"). The Trust is a common law trust governed by an elected Board of Trustees for the commingled investment of retirement funds held by state and local government units for their employees. The Township has adopted the Declaration of Trust of the Trust and agrees to the commingled investments of assets of the DROP within the Trust. Cost of management of the DROP shall be paid directly from the Police Pension Fund and not by the Township.

Any amendments to the DROP Ordinance shall be consistent with the provisions covering deferred retirement option plans set forth in the collective bargaining agreement and shall be binding upon all future DROP participants and existing participants.

No DROP payment shall be made unless and until the Pennsylvania Legislature authorizes the adoption of the DROP program for police officers employed by a Township of the Second Class or a final judicial determination issues from the Pennsylvania Appellate Court that such DROP benefits is lawful for police officers employed by a Township of the Second Class. In the event that either of these two situations occur, the DROP will be modified only to the extent necessary to become compliant with the maximum then allowed by law for DROP programs. If neither of these occur by the DROP date, the participant shall receive his full pension benefits as set forth in the Police Pension Ordinance as if no such DROP election were made.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

11. COMMITMENTS AND CONTINGENT LIABILITIES

Lease Agreement – The Municipal Sewer Authority of the Township of Lower Makefield

At December 1, 1991, the Township entered into a lease agreement with The Municipal Sewer Authority of the Township of Lower Makefield, which superseded the 1978 lease agreement. The Authority leases the sewer system to the Township for operation and use for one dollar (\$1) per annum. The lease expired on March 14, 2005, and was renewed on August 2, 2006 for a period of 25 years, expiring on December 31, 2031. The payments remain at \$1 per annum.

Equipment lease

In May, 2008, the Township entered into a new lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$5,774, including interest, beginning June, 2008 through May, 2012. At the end of the lease term, the Township has the option to purchase the golf carts for the total of all rents still outstanding, including accrued interest, and the termination value of \$112,250. The lease is not being treated as a capital lease because the Township has no intention of purchasing the golf carts at the end of the lease. Therefore, the total value of the equipment has not been included in the capital assets of the Golf Course Fund. Total rent expense for the year ended December 31, 2010, was \$69,291.

The future minimum lease payments are as follows:

Year Ending	
<u>December 31,</u>	
2011	69,288
2012	28,870

Self-Insured Unemployment Compensation

The Township self-insured for unemployment compensation coverage. A reserve of \$64,260 is established at December 31, 2010. During 2010, there were several claims.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

11. COMMITMENTS AND CONTINGENT LIABILITIES, continued

Litigation

The Township is the defendant in several lawsuits arising in the normal course of operations. A matter that is material pending or threatening litigation is a condemnation matter that originated in 1996 and went to trial in 2008, resulting in a judgment against the Township, with a potential liability of over two million dollars. The matter has been appealed to the Commonwealth Court and it is uncertain as to its likely success on appeal. Several issues that have been raised are considered to be meritorious and the terms of success cannot be predicted. Due to the uncertainty of the outcome of this matter, no provision for loss has been recorded. The PA Supreme Court has agreed to hear the case and allow as evidence previous information that was not allowed by the lower courts. This evidence is pivotal to the township's defense. The Township expects this matter to be resolved late in 2010 or early 2011.

12. RISK MANAGEMENT

The Township is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The township participates in a public entity risk pool (Delaware Valley Insurance Trust [DVIT]) operated as a common risk management and insurance program for municipalities. The Trust retains the first \$250,000 of each general liability, police professional liability and automobile liability loss. DVIT assumes the first \$100,000 of each first party property loss public official liability claim. Reinsurance coverage is through commercial companies. The Trust also serves as group purchaser of boiler and machinery and crime and public official policies for its members.

The calculation of premium contributions, loss assessments and any redistribution or surplus is predicated on each participant's individual loss history. An experience modification factor is applied to annual membership contributions.

The Township continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance.

Settled claims resulting from all risks have not exceeded commercial and DVIT insurance coverage in any of the past three years.

13. MUNICIPAL SEWER AUTHORITY

In accordance with agreements with The Municipal Sewer Authority of the Township of Lower Makefield, all repairs, renewals, replacements, improvements, additions and extensions and all real estate made or acquired by (or dedicated to) the Township in connection with the sewer system shall become the property of the Authority and part of the sewer system.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

14. ACQUISITION

On August 31, 2001, the Yardley Makefield Emergency Unit agreed to transfer title and interest in the Emergency Rescue Squad Building to the Township. This was due to the financial problems of the Emergency Unit. The Township capitalized \$1,151,410 (equity in the building). This included assuming \$700,475 of outstanding obligations, payment to the Emergency Unit of \$100,000, a credit of \$56,000 in funds provided to the Emergency Unit in 2000 and a balance due by the Township to the Emergency Unit in the amount of \$294,935. The balance due shall be reduced \$25,000 per year and recognized as rental income by the Township over a period of 12 years. The outstanding balance is \$70,531 at December 31, 2010.

15. MANAGEMENT AGREEMENT

The Township entered into a management agreement with Applied Golf to manage the day-to-day operations of the Makefield Highlands Golf Club.

Applied Golf, a regional firm with a local presence in the township was awarded a 3 year contract beginning January, 2010. The township paid a total of \$93,500 in management fees during 2010.

The fee structure is as follows:

Year 1 - \$8,500 per month
Year 2 - \$8,000 per month
Year 3 - \$7,500 per month

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Township entered into its General Obligation Notes, Series of 2001A, 2001B, 2002A, 2002B and 2004, with the DVRFA. In order to provide funds for the notes, the DVRFA issued Local Government Revenue Bonds, Series of 1997, 1998 and 2002 (DVRFA Bonds). The DVRFA has entered into an interest rate swap agreement related to the DVRFA Bonds to provide variable and fixed rates on loans, to reduce the costs of participants in the loan program and to enhance the ability of participants to manage their interest rate risks. The following is a summary of the Township's general obligation notes with DVRFA and the estimated termination payment at December 31, 2010:

<u>General Obligation Notes</u>	<u>Original Issue Amount</u>	<u>Outstanding at December 31, 2010</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>
Series of 2002A	10,300,000	3,470,000	570,420
Series of 2002B	5,661,000	5,036,000	1,847,266
Series of 2004	<u>3,000,000</u>	<u>2,653,000</u>	<u>937,939</u>
	<u>\$ 18,961,000</u>	<u>\$ 11,159,000</u>	<u>\$ 3,355,625</u>

If the Township defaults on all or a portion of the above-mentioned general obligation notes with DVRFA, it may owe costs, if any, associated with the liquidation or termination of the respective fixed rate swap used by the DVRFA to provide the fixed rate to the Township. The carrying amount of the related interest rate swap at December 31, 2010, on the Township's government-wide and fund financial statements is \$0. The market value of related interest rate swap agreements or estimated Township termination payment is \$937,939 for governmental activities and \$2,417,686 for business activities at December 31, 2010. The fair value increase for the current year is \$624,984 for governmental activities and \$819,048 for business activities.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The costs of the cash and cash equivalents are reasonable estimates of the fair value because the cash equivalents have maturities of, or can be liquidated at par in 90 days or less. The fair values of the derivative financial instruments have been estimated based upon the termination payment the DVRFA would receive (pay) if the associated swap agreements were terminated on December 31, 2010 (Note 16).

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

17. FAIR VALUE OF FINANCIAL INSTRUMENTS, *continued*

A comparison of carrying value and fair value as of December 31, 2010, is as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 6,834,382	\$ 6,948,479
Investments (Note 2)	12,358,558	12,358,558
LIABILITIES		
Bonds payable (Note 6)	\$ 24,180,000	\$ 24,180,000
Notes payable (Note 6)	11,298,524	11,298,524
DERIVATIVE FINANCIAL INSTRUMENTS		
(Note 16)	\$	\$ 3,355,625

18. TERMINATION BENEFITS

The township offered a termination benefit to retirement police officers. For the first 30 months following an officer's retirement, the Township will pay for the officer and eligible covered dependants continued benefit coverage in the Township sponsored medical, major medical, dental, prescription drug and term life insurance programs that are provided to active officers during the same 30 month period.

An additional termination benefit is offered to officers who retire on or before December 31, 2010. All the medical, dental and prescription drug benefits that are provided to employees at the time will be provided for a period of 96 months, as opposed to 30 months, at the Township's cost. After December 31, 2010, the coverage period for the retirees shall revert to the previous 30 months of provided coverage.

19. SUBSEQUENT EVENTS

The Township refinanced 2 bond issues early in 2010 for the Township debt for the Series B of 2001 bonds and the golf course debt for the Series of 2005 bonds. This is expected to result in savings of \$900,000 over a three year period, beginning in 2010.

REQUIRED

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
Taxes	\$ 6,458,068	\$ 6,458,068	\$ 6,338,572	\$ (119,496)
Licenses, permits and fees	507,915	507,915	934,911	426,996
Fines, forfeits and costs	82,000	82,000	123,861	41,861
Interest earnings and rental income	248,930	248,930	306,728	57,798
Intergovernmental revenues	556,884	556,884	707,039	150,155
Charges for services	790,200	790,200	616,561	(173,639)
Contributions	11,900	11,900	2,025	(9,875)
Miscellaneous	17,000	17,000	59,543	42,543
TOTAL REVENUES	<u>8,672,897</u>	<u>8,672,897</u>	<u>9,089,240</u>	<u>416,343</u>
EXPENDITURES				
General government	1,282,566	1,282,566	1,649,500	(366,934)
Public safety	4,450,514	4,450,514	4,756,769	(306,255)
Public works	1,069,719	1,069,719	1,031,695	38,024
Insurance	331,092	331,092	314,949	16,143
Employee benefits	1,786,420	1,786,420	1,699,788	86,632
TOTAL EXPENDITURES	<u>8,920,311</u>	<u>8,920,311</u>	<u>9,452,701</u>	<u>(532,390)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(247,414)</u>	<u>(247,414)</u>	<u>(363,461)</u>	<u>(116,047)</u>
OTHER FINANCING SOURCES (USES)				
Refund prior year expenditure	33,083	33,083	116,257	83,174
Sale of capital assets	2,500	2,500	11,194	8,694
Transfers in	796,283	796,283	790,480	(5,803)
Transfers out	(880,553)	(880,553)	(352,598)	527,955
TOTAL OTHER FINANCING SOURCES (USES)	<u>(48,687)</u>	<u>(48,687)</u>	<u>565,333</u>	<u>614,020</u>
NET INCREASE (DECREASE) IN FUND BALANCE	(296,101)	(296,101)	201,872	\$ <u>497,973</u>
FUND BALANCE, BEGINNING	<u>922,010</u>	<u>922,010</u>	<u>922,010</u>	
FUND BALANCE, ENDING	<u>\$ 625,909</u>	<u>\$ 625,909</u>	<u>\$ 1,123,882</u>	

See notes to required supplementary information

TOWNSHIP OF LOWER MAKEFIELD

**BUDGETARY COMPARISON STATEMENT
DEBT SERVICE FUND**

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>Positive</u>
			<u>(Negative)</u>
REVENUES			
Real estate taxes	\$ 1,331,925	\$ 1,359,268	\$ 27,343
Interest earnings	1,255	377	(878)
	<u>1,333,180</u>	<u>1,359,645</u>	<u>26,465</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	870,032	943,032	(73,000)
Interest	607,171	419,299	187,872
	<u>1,477,203</u>	<u>1,362,331</u>	<u>114,872</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(144,023)</u>	<u>(2,686)</u>	<u>141,337</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of refunding bonds		10,870,472	10,870,472
Payments to refunded bond escrow agent		(10,758,656)	(10,758,656)
Transfers in	240,702	240,702	
	<u>240,702</u>	<u>352,518</u>	<u>111,816</u>
NET INCREASE IN FUND BALANCE	96,679	349,832	<u>\$ 253,153</u>
FUND BALANCE, BEGINNING	<u>(41,402)</u>	<u>(41,402)</u>	
FUND BALANCE, ENDING	<u>\$ 55,277</u>	<u>\$ 308,430</u>	

See notes to required supplementary information

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BUDGETARY COMPARISON STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2010

1. BUDGETARY INFORMATION

The Township's process for establishing its annual operating budget involves submission of the budget by the Township Manager to the Board of Supervisors for its approval and adoption. The Township Manager, Finance Director and Budget Review Committee are responsible for the preparation of the annual budget.

The budgetary process consists of the evaluation and review of appropriation requests of the operating directors and various Township departments. Revenue estimates are made throughout the process to determine the amount of Township property taxes and other revenue required to balance the budget.

The Board of Supervisors is required to introduce the budget for the following year by 20 days prior to the end of the fiscal year, after which it is advertised and reviewed at public hearings held by the Board of Supervisors of the Township. After the close of the public hearings, the Board of Supervisors approves and adopts the budget on or before December 31, the close of the Township's fiscal year.

The Township Supervisors may authorize supplemental appropriations for any lawful purpose via resolution. In addition, the Supervisors are permitted to transfer funds from one Township account to another, however, such transfers are not permitted during the first three months of the fiscal year. Appropriations lapse at the close of the fiscal year to the extent they have not been expended. It is the Township's policy to maintain budgetary control at the fund level.

The Township prepares budgets for Governmental Funds on a basis of accounting which is consistent with U.S. generally accepted accounting principles.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2010, expenditures exceeded appropriations in the following General Fund object levels (the legal level of the budgetary control):

General government	\$ 366,934
Public safety	306,255

This over-expenditure was funded by available fund balance in the General Fund.

TOWNSHIP OF LOWER MAKEFIELD

TREND DATA ON INFRASTRUCTURE CONDITION

FOR THE YEAR ENDED DECEMBER 31, 2010

The Township has elected to use the modified approach to account for maintenance of its streets system. The Township annually inspects its streets, and the Township engineers use the Micro PAVER program, developed by the U.S. Army Corps of Engineers, as part of a pavement management system to describe the condition of all roadways in the Township. The streets are rated on their life expectancy before milling and overlay work is needed. The rating is the probable number of years remaining before resurfacing work is needed. The Township's streets as a whole are given an overall rating, indicating the average condition of all streets operated by the Township. The assessment of condition is made by visual and mechanical tests designed to reveal any condition that would reduce highway-user benefits below the maximum level of service. The Township's policy is to maintain the street condition at a level of 65 or better. The results of the last inspection were:

<u>Evaluation</u>	<u>Rating</u>
<u>Period</u> 2007	65

The budgeted expenditures and amounts actually expensed for maintenance and preservation for the past year are as follows:

	<u>Budget</u>	<u>Actual</u>
2010	<u>\$290,000</u>	<u>\$225,000</u>

The prior year actual expenditures were \$91,000 more than the budgeted amount. The current year actual expenditures were \$65,000 less than the budgeted amount.

The next inspection of Township roadways is scheduled to be completed in early 2011.

TOWNSHIP OF LOWER MAKEFIELD

PENSION PLAN FUNDING PROGRESS

FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed, beginning as of January 1, 2007, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Assets in Excess of) AAL	Funded Ratio	Annual Covered Payroll	Unfunded (Assets in Excess of) AAL as a Percentage of Annual Covered Payroll
January 1,	a	b	b-a	a/b	c	(b-a)/c
2001	5,551,269	5,830,396	279,127	95.2%	1,532,797	18.2%
2003	5,432,735	6,658,810	1,226,075	81.6%	1,730,301	70.9%
2005	6,517,334	7,594,862	1,077,528	85.8%	2,225,538	48.4%
2007	7,679,178	8,440,447	761,269	91.0%	2,246,198	33.9%
2009	7,795,871	10,022,136	2,226,265	77.8%	2,301,929	96.7%

Non-Uniform Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Assets in Excess of) AAL	Funded Ratio	Annual Covered Payroll	Unfunded (Assets in Excess of) AAL as a Percentage of Annual Covered Payroll
January 1,	a	b	b-a	a/b	c	(b-a)/c
2001	2,191,322	2,315,191	123,869	94.6%	1,431,783	8.7%
2003	2,302,164	2,878,254	576,090	80.0%	1,629,357	35.4%
2005	2,977,214	3,986,028	1,008,814	74.7%	1,740,803	58.0%
2007	3,907,249	4,426,551	519,302	88.3%	1,592,265	32.6%
2009	4,359,510	5,068,804	709,294	86.0%	1,987,208	35.7%

Source: Township Police and Non-Uniform Employee Retirement Plan Actuarial Valuation Reports.

TOWNSHIP OF LOWER MAKEFIELD

PENSION PLAN FUNDING PROGRESS

FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE OF FUNDING PROGRESS, continued

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Open Space Fund	Traffic Impact Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
ASSETS										
Cash and cash equivalents	\$ 9,641	\$ 14,911	\$ 224,069	\$ 40,448	\$ 88,222	\$ 9,164	\$ 453,063	\$ 280,162	\$ 26,956	\$ 1,146,636
Accounts receivable	116	2,846	48,670	1	3		15	5	2,453	54,109
Interfund receivable										
TOTAL ASSETS	<u>\$ 9,757</u>	<u>\$ 17,757</u>	<u>\$ 272,739</u>	<u>\$ 40,449</u>	<u>\$ 88,225</u>	<u>\$ 9,164</u>	<u>\$ 453,078</u>	<u>\$ 280,167</u>	<u>\$ 29,409</u>	<u>\$ 1,200,745</u>
LIABILITIES										
Accounts payable	\$ 2,656	\$	\$ 6,162	\$	\$	\$	\$ 6,709	\$ 274,773	\$	\$ 290,300
Accrued expenses			17,508							17,508
Interfund payable										0
Deferred revenue		2,368	10,454						2,042	14,864
Member deposits			1,400							1,400
TOTAL LIABILITIES	<u>2,656</u>	<u>2,368</u>	<u>35,524</u>				<u>6,709</u>	<u>274,773</u>	<u>2,042</u>	<u>324,072</u>
FUND BALANCES										
Unreserved for:										
Special revenue funds	7,101	15,389	237,215	40,449	88,225	9,164	446,369	5,394	27,367	876,673
TOTAL FUND BALANCES	<u>7,101</u>	<u>15,389</u>	<u>237,215</u>	<u>40,449</u>	<u>88,225</u>	<u>9,164</u>	<u>446,369</u>	<u>5,394</u>	<u>27,367</u>	<u>876,673</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,757</u>	<u>\$ 17,757</u>	<u>\$ 272,739</u>	<u>\$ 40,449</u>	<u>\$ 88,225</u>	<u>\$ 9,164</u>	<u>\$ 453,078</u>	<u>\$ 280,167</u>	<u>\$ 29,409</u>	<u>\$ 1,200,745</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Open Space Fund	Traffic Impact Fund	Five Mile Woods Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
REVENUES											
Real estate taxes	\$ 7	\$ 140,185	\$ 656,045	\$ 21	\$ 38	\$ 22	\$ 209	\$	\$ 81	\$ 128,028	\$ 924,258
Interest earnings		18	160							15	571
Rental income			54,790								54,790
Intergovernmental revenues			132,010	6,365			2,988		709,046		709,046
Charges for services											132,010
Contributions	35,815		7,613								9,353
Miscellaneous income											43,428
TOTAL REVENUES	35,822	140,203	850,618	6,386	38	22	3,197		709,127	128,043	1,873,456
EXPENDITURES											
Public safety											
Public works	36,609	147,472	580,684			76,967	48,267		667,468	127,144	127,144
Parks and recreation											
Community development			46,000						83,505		129,505
Capital outlay											
TOTAL EXPENDITURES	36,609	147,472	626,684			76,967	48,267		750,973	127,144	1,814,116
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(787)	(7,269)	223,934	6,386	38	(76,945)	(45,070)		(41,846)	899	59,340
OTHER FINANCING SOURCES (USES)											
Refund of prior year expenditure			5,047						2,602		7,649
Operating transfers (out)			(257,611)	(25,000)		(8,120)		11,486			(279,245)
TOTAL OTHER FINANCING SOURCES (USES)			(252,564)	(25,000)		(5,518)		11,486			(271,596)
NET INCREASE (DECREASE) IN FUND BALANCES	(787)	(7,269)	(28,630)	(18,614)	38	(82,463)	(45,070)	11,486	(41,846)	899	(212,256)
FUND BALANCES, BEGINNING	7,888	22,658	265,845	59,063	88,187	91,627	491,439	(11,486)	47,240	26,468	1,088,929
FUND BALANCES, ENDING	\$ 7,101	\$ 15,389	\$ 237,215	\$ 40,449	\$ 88,225	\$ 9,164	\$ 446,369	\$	\$ 5,394	\$ 27,367	\$ 876,673

STANLEY N. BOOZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER OF AMERICAN INSTITUTE OF CPA'S AND PENNSYLVANIA INSTITUTE OF CPA'S

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 Board of Supervisors
TOWNSHIP OF LOWER MAKEFIELD
Yardley, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD as of and for the year ended December 31, 2010, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD'S financial statements, and have issued our report thereon dated June 8, 2011. 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 the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TOWNSHIP OF LOWER MAKEFIELD'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 combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the TOWNSHIP OF LOWER MAKEFIELD'S financial statements are free of material misstatements, 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 statements 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.

This report is intended solely for the information and use of the Township management, 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.

June 8, 2011

STANLEY N BOOZ, LLC
Certified Public Accountants

