

**TOWNSHIP OF LOWER MAKEFIELD**

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FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2007

# TOWNSHIP OF LOWER MAKEFIELD

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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, 2007, 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, 2007, 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.

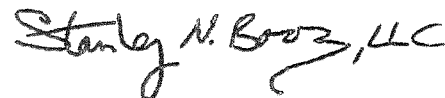
In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2008, on our consideration of the TOWNSHIP OF LOWER MAKEFIELD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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.

The Management's Discussion and Analysis and budgetary comparison information, trend data on infrastructure condition and pension plan funding progress on pages 3 through 15 and pages 59 through 63, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's basic financial statements. 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 basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the financial statements taken as a whole.

June 23, 2008

STANLEY N. BOOZ, LLC  
*Certified Public Accountants*

Handwritten signature of Stanley N. Booz, LLC in black ink.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. 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 third full year of operations since opening on July 1, 2004. Income before depreciation was \$362,317 for the year. Response to the Course has been extremely favorable and in 2007, despite early season weather issues, total revenue exceeded budget despite the number of rounds played falling below budget. This is indicative of the alternative sources of revenue that the course is developing, most notably the driving range and the food and beverage area.
- The assets of the Township exceeded its liabilities by \$86,260,570 up \$806,022 from last year.
- The General Fund balance remains above the "Safe Harbor" range, which is 5-8% of General Fund revenues.
- The development of Memorial Park, the site of the 9-11 memorial, was completed during the year, and to date a total of \$1,464,235 was spent and capitalized on the project.
- Sewer rates and revenues remained stable in 2007. The lease with the Sewer Authority was extended in August of 2006, for a term of 25 years, or through December, 2031.
- During fiscal year 2007, Lower Makefield Township contracted with the firm of Howard Woods and Associate, to explore the possibility of selling the township owned and operated sewer system. Howard Woods and Associates explored the feasibility of just such a sale by initiating contact with potential buyers and preparing a comprehensive Request for Proposal, RFP. At the time of this audit report, Lower Makefield Township was entertaining an offer from a qualified provider, to sell the sewer system during the 2008 fiscal/calendar year.
- The Township owned Pool operations had record revenue and membership in 2007 with revenues of \$773,000, an increase of 2.4% over prior year. Membership fees in 2008, for the 11<sup>th</sup> consecutive year, remain flat with no increases in the fee schedule. A major renovation is planned to begin at the pool at the close of the 2008 season and will total approximately \$1.5 million.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

### 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.
- 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.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

- 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.
- **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.



# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

### NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Cash and Cash Equivalents	\$ 6,611,233	\$ 8,069,928	\$ 3,914,520	\$ 5,505,727	\$ 10,525,753	\$ 13,575,655
Other Assets	890,251	909,442	1,425,134	1,381,796	2,315,385	2,291,238
Capital Assets	80,155,488	79,571,156	36,552,010	36,149,544	116,707,498	115,720,700
<b>Total Assets</b>	<b>\$ 87,656,972</b>	<b>\$ 88,550,526</b>	<b>\$ 41,891,664</b>	<b>\$ 43,037,067</b>	<b>\$ 129,548,636</b>	<b>\$ 131,587,593</b>
<b>Liabilities</b>						
Other Liabilities	\$ 1,198,691	\$ 1,935,295	\$ 868,253	\$ 1,234,296	\$ 2,066,944	\$ 1,309,887
Long-Term Debt Outstanding	17,171,428	18,313,701	24,049,694	24,649,753	41,221,122	42,963,454
<b>Total Liabilities</b>	<b>18,370,119</b>	<b>20,248,996</b>	<b>24,917,947</b>	<b>25,884,049</b>	<b>43,288,066</b>	<b>44,273,341</b>
<b>Net Assets</b>						
Invested in Capital Assets	63,901,623	62,102,589	12,501,716	11,499,791	76,403,339	73,602,380
Restricted	5,382,418	5,649,168			5,382,418	5,649,168
Unrestricted	2,812	549,773	4,472,001	5,653,227	4,474,813	6,203,000
<b>Total Net Assets</b>	<b>69,286,853</b>	<b>68,301,530</b>	<b>16,973,717</b>	<b>17,153,018</b>	<b>86,260,570</b>	<b>85,454,548</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 87,656,972</b>	<b>\$ 88,550,526</b>	<b>\$ 41,891,664</b>	<b>\$ 43,037,067</b>	<b>\$ 129,548,636</b>	<b>\$ 131,587,593</b>

Cash and cash equivalents represent 7.5% of the Township of Lower Makefield's total governmental assets in 2007 and 9.2% in 2006. Cash and cash equivalents represent 9.3% in 2007 and 12.8% in 2006 of the Township of Lower Makefield's total business-type assets. While cash and cash equivalents remained relatively steady within the governmental funds, the more significant upward change in the business-type funds was caused mainly by additional bond issue from 2006 that relates to the sewer fund.

The largest portion of the Township's governmental assets, 91.4%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment.) In 2006 this portion was 90.6%. 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, 2007

**CHANGES IN NET ASSETS**

Revenues	Governmental Activities			Business-Type Activities			Total Primary Government		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Program Revenues</b>									
Charges for Services	1,138,023	1,334,169	1,297,180	7,876,779	7,712,971	7,753,158	9,014,802	9,047,140	9,050,338
Operating Grants and Contributions	2,863,436	1,605,898	3,653,691		52,861	12,079	2,863,436	1,658,759	3,665,770
Capital Grants and Contributions	18,867	878,797	28,429	9,945	85,185	105,450	28,812	963,982	133,879
<b>General Revenues</b>									
Property Taxes	6,580,580	6,427,745	5,596,113				6,580,580	6,427,745	5,596,113
Real Estate Transfer Tax	1,657,098	1,385,826	1,925,165				1,657,098	1,385,826	1,925,165
Per Capita Taxes	202,703	209,391	203,643				202,703	209,391	203,643
Public Utility Taxes	11,951	12,638	11,360				11,951	12,638	11,360
Franchise Taxes	473,394	445,438	434,823				473,394	445,438	434,823
Investment Earnings	517,897	743,576	461,353	261,019	223,643	117,021	778,916	967,219	578,374
Miscellaneous	363,751	137,754	95,045	88,186			451,937	137,754	95,045
Gain on Sale of Capital Assets	122,086	209,200	51,035			900	122,086	209,200	51,935
<b>Total Revenues</b>	<b>13,949,786</b>	<b>13,390,432</b>	<b>13,757,837</b>	<b>8,235,929</b>	<b>8,074,660</b>	<b>7,988,608</b>	<b>22,185,715</b>	<b>21,465,092</b>	<b>21,746,445</b>
<b>Expenses</b>									
General Government	2,128,514	2,412,593	1,532,938				2,128,514	2,412,593	1,532,938
Public Safety	6,318,501	5,511,832	5,959,072				6,318,501	5,511,832	5,959,072
Public Works	2,417,718	1,925,678	2,208,563				2,417,718	1,925,678	2,208,563
Parks and Recreation	1,094,493	857,619	1,021,083				1,094,493	857,619	1,021,083
Community Development	63,413	41,032					63,413	41,032	
Interest on Long Term Debt	820,270	846,674	767,162				820,270	846,674	767,162
Sewer				4,496,545	4,163,598	4,000,439	4,496,545	4,163,598	4,000,439
Community Pool				700,074	627,812	601,372	700,074	627,812	601,372
Golf Course				3,009,907	3,033,998	2,828,038	3,009,907	3,033,998	2,828,038
<b>Total Expenses</b>	<b>12,842,909</b>	<b>11,595,428</b>	<b>11,488,818</b>	<b>8,206,526</b>	<b>7,825,408</b>	<b>7,429,849</b>	<b>21,049,435</b>	<b>19,420,836</b>	<b>18,918,667</b>
<b>Excess/(Deficiency) Before Transfers</b>	<b>1,106,877</b>	<b>1,795,004</b>	<b>2,269,019</b>	<b>29,403</b>	<b>249,252</b>	<b>558,759</b>	<b>1,136,280</b>	<b>2,044,256</b>	<b>2,827,778</b>
<b>Transfers</b>	<b>208,704</b>	<b>198,768</b>	<b>180,696</b>	<b>(208,704)</b>	<b>(198,768)</b>	<b>(180,696)</b>			
<b>Transfers-Other</b>	<b>(330,258)</b>						<b>(330,258)</b>		
<b>Change in Net Assets</b>	<b>985,323</b>	<b>1,993,772</b>	<b>2,449,715</b>	<b>(179,301)</b>	<b>50,484</b>	<b>378,063</b>	<b>806,022</b>	<b>2,044,256</b>	<b>2,827,778</b>
<b>Net Assets Beginning of the Year</b>	<b>68,301,530</b>	<b>66,307,758</b>	<b>63,858,043</b>	<b>17,153,018</b>	<b>17,102,534</b>	<b>16,724,471</b>	<b>85,454,548</b>	<b>83,410,292</b>	<b>80,582,514</b>
<b>Net Assets End of the Year</b>	<b>69,286,853</b>	<b>68,301,530</b>	<b>66,307,758</b>	<b>16,973,717</b>	<b>17,153,018</b>	<b>17,102,534</b>	<b>86,260,570</b>	<b>85,454,548</b>	<b>83,410,292</b>

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

Total revenues exceed total expenses by \$1,106,877 in 2007 and \$1,795,004 in 2006 for governmental activities. This indicates that the Township is operating at a level to meet its operating commitments. Total revenues exceeded total expenses by \$29,403 in 2007 for business type activities. In 2006, total revenues exceeded total expenses by \$249,252 for business-type activities. While the sewer and pool funds show a positive change in net assets for 2007, the golf course fund shows a negative change in net assets caused by a high level of depreciation expense.

### Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2007 was \$13,949,786 and \$13,390,432 in 2006. Revenue by source were as follows:

<u>Revenue</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Property Taxes Levied for General Purposes	6,580,580	6,427,745	47.17%	48.00%
Real Estate Transfer Tax	1,657,098	1,385,826	11.88%	10.35%
Per Capita Taxes	202,703	209,391	1.45%	1.56%
Public Utility Taxes	11,951	12,638	0.09%	0.09%
Franchise Taxes	473,394	445,438	3.39%	3.33%
Investment Earnings	517,897	743,576	3.71%	5.55%
Miscellaneous	363,751	137,754	2.61%	1.03%
Gain on Sale of Capital Assets	122,086	209,200	0.88%	1.56%
Charges for Services	1,138,023	1,334,169	8.16%	9.96%
Operating Grants and Contributions	2,882,303	2,484,695	20.66%	18.56%
	13,949,786	13,390,432	100.00%	100.00%

As seen above, revenues were higher in 2007 than in 2006, and is primarily due to increases in our deed transfer tax and operating grants/contributions. Operating grants and contributions were higher in 2007 due primarily to several street project grants that were completed and whose revenue was recognized. These grants were previously in the deferred liability section of the balance sheet. Also, the real estate transfer tax shows a large increase for the current year and is due to recognition of a governmental accounting change where the township is responsible for recognizing revenue if it is collected within 60 days of the close of the fiscal as it is deemed available. This being the first year we have adopted this rule, fiscal 2007 has 13 payments for the real estate transfer tax revenues whereas fiscal 2006 only has 12.

Investment income, which is comprised of bank interest on the five Township interest-bearing accounts, trended downward in 2007 as interest rates decreased from a high of 6.01% during 2006 to a low of 4.45% during 2007. Despite a volatile market, rates at the end of 2007 were in the 5% range.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

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 2007 were \$12,842,909 and \$11,595,428 in 2006. Expenditures by source were as follows:

<u>Expenses</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Government	2,128,514	2,412,593	16.57%	20.81%
Public Safety	6,318,501	5,511,832	49.20%	47.53%
Highways and Streets	2,417,718	1,925,678	18.83%	16.61%
Culture and Recreation	1,094,493	857,619	8.52%	7.40%
Community Development	63,413	41,032	0.49%	0.35%
Interest on Long Term Debt	820,270	846,674	6.39%	7.30%
	12,842,909	11,595,428	100.00%	100.00%

Total governmental expenditures increased approximately 5.8% from 2006 to 2007.

Business type activities include the Township's Sewer System, Community Pool and Golf Course. Total revenue from sewer activities for 2007 is \$4,502,989 compared to \$4,441,798 in 2006. Charges for services account for approximately 90.1% of revenue in 2007. Expenditures to operate the system total \$4,496,545 for 2007 and \$4,163,598 for 2006. Total revenue from community pool activities is \$772,643 for 2007 and \$754,712 for 2006. Charges for services account for 85.5% of revenue in 2007. Expenditures to operate the pool total \$700,074 for 2007 and \$ 627,812 for 2006. Total revenue from golf course activities is \$2,960,297 for 2007 and \$ 2,878,150 for 2006. Charges for services account for approximately 98.3% of revenue in 2007. Expenditures to operate the course total \$3,009,907 in 2007 and \$3,033,998 for 2006.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund had a deficiency of revenue over expenses for 2007 of \$211,006 and a deficiency of revenue over expenditures in 2006 of \$144,788. An operating deficit of \$970,511 had been anticipated and while revenues trailed expenses by the figured mentioned, they exceeded their budget by \$493,935. The largest item responsible for this budget variance was taxes which came in \$268,000 over budget, and the primary reason was the real estate deed transfer tax, since 2007 has 13 payments reflected as opposed to 12 due to our change in recognition of this revenue, as directed by GASB. On the expenditure side, the township came in \$229,000 under budget in our highways and streets budget, caused by several factors, most notably a decrease in weather related expenditures since the area experienced a mild winter. The remaining budget variance is caused by a combination of factors affecting both revenue and expenditures.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### FOR THE YEAR ENDED DECEMBER 31, 2007

The Township had no budget adjustments during the 2007 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, 2007, total \$116,707,498 and were \$115,720,700 in 2006 (net of accumulated depreciation). Township investment in capital assets includes land and land improvements, buildings and building improvements, equipment, vehicles and infrastructure. 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 2007 include:

New Ford F450 Ambulance	\$	129,356
Improvements to Patterson Farm		52,076
Improvements to Snipes Soccer Complex		56,416
Sewer Capital Infrastructure – The Canal Interceptor Project		1,726,984
Capital Improvements to the Garden of Reflection		202,838
New Tractor for Sewer Basins		17,592
Police Crown Victoria		26,270
Police Crown Victoria		26,270
Chevy Tahoe Truck		42,591
Capital Improvements to Memorial Park		58,824
Infrastructure Improvements to Brock Creek, Creamery Road and Black Rock Road		492,344

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

### Capital Assets at Year End, Net of Depreciation Years Ended December 31, 2007 and 2006

	Governmental Activities		Business-Type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 18,418,249	\$ 18,418,249	\$4,197,081	\$ 4,197,081	\$ 22,615,330	\$ 22,615,330
Infrastructure	48,995,649	48,995,649			48,995,649	48,995,649
Construction in Progress		2,383,408	4,532		4,532	2,383,408
<b>TOTAL CAPITAL ASSETS NOT DEPRECIATED</b>	<b>67,413,898</b>	<b>69,797,306</b>	<b>4,201,613</b>	<b>4,197,081</b>	<b>71,615,511</b>	<b>73,994,387</b>
Land Improvements	4,843,464	1,634,259	7,907,927	8,116,387	12,751,391	9,750,646
Plant & Pools			21,307,225	20,465,553	21,307,225	20,465,553
Buildings & Improvements	5,060,772	5,191,380	2,355,279	2,676,110	7,416,051	7,867,490
Furniture & Equipment	379,901	522,612	779,966	694,413	1,159,867	1,217,025
Vehicles	1,553,139	1,590,755			1,553,139	1,590,755
Infrastructure	904,314	834,844			904,314	834,844
<b>TOTAL CAPITAL ASSETS DEPRECIATED</b>	<b>12,741,590</b>	<b>9,773,850</b>	<b>32,350,397</b>	<b>31,952,463</b>	<b>45,091,987</b>	<b>41,726,313</b>
<b>TOTALS</b>	<b>\$ 80,155,488</b>	<b>\$ 79,571,156</b>	<b>\$ 36,552,010</b>	<b>\$ 36,149,544</b>	<b>\$ 116,707,498</b>	<b>\$ 115,720,700</b>

\*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 65 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 A and E in the financial statements.

### Debt

At December 31, 2007, the Township had \$40,300,955 in outstanding debt compared to \$42,118,321 last year. Of the outstanding debt at December 31, 2007, \$1,907,035 is due within one year. The following shows a breakdown of debt by type.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

### Outstanding Debt at Year End (Net of Premiums, Discounts, and Amortization)

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Governmental Activities		
General Obligation Bonds, Series 2003	\$6,535,680	\$7,044,423
General Obligation Bonds, Series 2006	661,605	678,740
General Obligation Notes		
Series A of 2001	1,179,000	1,740,000
Series B of 2001	4,655,000	4,655,000
Series of 2004	2,834,000	2,919,000
Notes Payable		
PEMA	110,679	119,511
Bucks County		
Land Purchase	-	-
Equipment Purchase	-	-
PNC Bank	274,598	311,894
	<u>16,250,562</u>	<u>17,468,568</u>
Business Type Activities		
General Obligation Bonds		
Series of 2003	-	-
Series of 2005	7,181,782	7,569,811
Series of 2006	8,362,611	8,573,942
General Obligation Notes		
Series A of 2002	3,470,000	3,470,000
Series B of 2002	5,036,000	5,036,000
	<u>24,050,393</u>	<u>24,649,753</u>
	<u>\$40,300,955</u>	<u>\$42,118,321</u>

The Township had no new debt service issues in 2007. During 2007, Makefield Highlands Golf Course made its 1<sup>st</sup> significant principal payment to their debt by paying \$390,000 during the month of June.

## 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.

## TOWNSHIP OF LOWER MAKEFIELD

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

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

<u>Type</u>	<u>Assessment</u>
Residential	474,779,850
Taxable Vacant/Miscellaneous	2,350,700
Government/School	32,760
Industrial - Not in a Park	484,760
Main Street - Commercial	167,920
Apartments	8,058,020
Motel - Hotel	1,027,200
Commercial	4,378,800
Mobile Home Parks	-
Office Buildings - Not in a Park	18,966,880
Office Buildings - In a Park	51,040
Shopping Centers	5,233,360
Institutional	9,552,980
Utility	-
Utility - Government	1,759,880
Exempt	<u>18,633,880</u>
<b>TOTAL ASSESSMENTS</b>	<b><u>545,478,030</u></b>

Development within the Township continues its downward trend; thus reducing 2007 developer related fees, such as park and recreation fee-in-lieu fees, traffic impact fees and basin maintenance fees.

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)



# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2007

### Next Year's Budget

The total millage for 2008 will be 14.87, a 15.5% increase over the 2007 millage of 12.87. This 2 millage increase is entirely in the General Fund, increasing the millage here to 9.5 from 7.5.

Real estate transfer taxes are budgeted at \$1,400,000, a slight decrease to last year's budget number, but down from the high point of \$1,925,000 actually received in 2005. Also, as mentioned previously, due to recognition of tax revenues according to GASB, the township recognized a 13<sup>th</sup> payment in fiscal 2007, those real estate transfer taxes received in early February for January transactions. According to GASB, if the revenues are received within 60 days of the end of the fiscal year they are deemed available and we are to account for them. So we recognized 13 payments in Fiscal 2007 and will recognize 12 going forward. This had an impact on the General Fund budgetary analysis, as depicted in the required supplementary section of the financial statements, found on page 59.

Interest income is budgeted at lower amounts in the 2008 budget due to the numerous interest rate reductions planned or having already taken place in 2007. The recent action and planned action by the Federal Reserve Bank to stimulate the economy indicates that the township may fall short of budget here, as there have been several significant interest rate reductions in early 2008.

Contractual salaries for both the police and public works employees, along with all administrative staff will receive increases of 4%.

As was done in 2007, the Liquid Fuels fund will help support the public works payroll in 2008. In 2007, over \$150,000 in salaries was covered by the Liquid Fuels entitlement, in 2008 this number will remain the same. The Liquid Fuels fund also covers the related employer payroll taxes.

Overall health benefits in the 2007 budget showed a lesser increase 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. Also, several unplanned staff vacancies allowed us to realize some savings in this area as well. Health care costs in 2008 are budgeted at a higher level, reflecting an increase of approximately 10% from the 2007 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 \$650,940 for 2008, a slight increase (3%) over the 2007 budget of \$631,820. The opening of two dual slides (one speed and one flume) at the pool in 2005 increased membership dollars dramatically, however, the membership has stabilized hence the small budget increase in 2008. Total membership numbers from all categories was 2,099 in 2007 and 2,050 in 2006. As mentioned in the earlier highlights, the pool complex will be undergoing a planned renovation at the end of the 2008 season, with the project expected to cost between \$1.5 and \$2 million dollars. For the 11<sup>th</sup> consecutive year there were no increases in the pool membership fee schedule, and this is expected to change for 2009.

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

# **TOWNSHIP OF LOWER MAKEFIELD**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

### **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 Brian McCloskey, Director of Finance, 1100 Edgewood Road, Yardley, PA 19067.

**TOWNSHIP OF LOWER MAKEFIELD**

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 6,557,210	\$ 3,914,520	\$ 10,471,730
Accounts receivable, net	700,965	1,246,068	1,947,033
Internal balances	123,806	(123,806)	
Inventory		28,531	28,531
Prepaid expenses	15,642	630	16,272
Restricted assets			
Escrow deposits	54,023		54,023
Deferred charges, net of amortization	49,838	273,713	323,551
<b>Total</b>	<b>7,501,484</b>	<b>5,339,656</b>	<b>12,841,140</b>
<b>Capital assets:</b>			
Land	18,418,249	4,197,081	22,615,330
Construction in progress		4,532	4,532
Infrastructure	50,609,909		50,609,909
Land improvements	6,545,617	8,742,133	15,287,750
Plant and pools		39,089,557	
Buildings and building improvements	7,502,823	2,855,977	10,358,800
Furniture and equipment	2,933,995	1,485,601	4,419,596
Vehicles	3,961,637		3,961,637
Accumulated depreciation	(9,816,742)	(19,822,871)	(29,639,613)
<b>Total capital assets</b>	<b>80,155,488</b>	<b>36,552,010</b>	<b>116,707,498</b>
<b>TOTAL ASSETS</b>	<b>\$ 87,656,972</b>	<b>\$ 41,891,666</b>	<b>\$ 129,548,638</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 304,204	\$ 439,769	\$ 743,973
Accrued expenses	450,059	311,868	761,927
Accrued interest	144,747		144,747
Member deposits	1,400		1,400
Deferred revenue	244,258	116,618	360,876
Escrow deposits	54,023		54,023
Long-term liabilities			
Due within one year	1,270,441	636,594	1,907,035
Due in more than one year	15,900,987	23,413,100	39,314,087
<b>TOTAL LIABILITIES</b>	<b>18,370,119</b>	<b>24,917,949</b>	<b>43,288,068</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	63,901,623	12,501,716	76,403,339
Restricted for			
Capital projects	3,444,415		3,444,415
Debt service	2,583		2,583
Other purposes	1,935,420		1,935,420
Unrestricted	2,812	4,472,001	4,474,813
<b>TOTAL NET ASSETS</b>	<b>69,286,853</b>	<b>16,973,717</b>	<b>86,260,570</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 87,656,972</b>	<b>\$ 41,891,666</b>	<b>\$ 129,548,638</b>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
General government	\$ 2,128,514	\$ 476,269	\$ 276,135	\$ (1,376,110)	\$
Public safety	6,318,501	179,198	835,345	(5,303,958)	
Public works	2,417,718	307,760	1,593,769	(516,189)	
Parks and recreation	1,094,493	174,796	158,187	(742,643)	
Community development	63,413			(63,413)	
Interest on long-term debt	820,270			(820,270)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>12,842,909</b>	<b>1,138,023</b>	<b>2,863,436</b>	<b>(8,822,583)</b>	<b>(143,777)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Sewer	4,377,656	4,223,934	9,945		43,732
Community pool	700,074	743,806			(100,868)
Golf course	3,009,907	2,909,039			
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>8,087,637</b>	<b>7,876,779</b>	<b>9,945</b>		<b>(200,913)</b>
<b>TOTAL ALL ACTIVITIES</b>	<b>\$ 20,930,546</b>	<b>\$ 9,014,802</b>	<b>\$ 2,863,436</b>	<b>(8,822,583)</b>	<b>(200,913)</b>
<b>GENERAL REVENUES</b>					
Property taxes, levied for general purposes				6,580,580	
Transfer taxes				1,657,098	
Per capita and occupation privilege taxes				202,703	
Public utility taxes				11,951	
Franchise taxes				473,394	
Investment earnings				517,897	261,019
Gain on sale of capital assets				122,086	
Depreciation, net of related capital contributions				363,751	(118,889)
Miscellaneous				208,704	88,186
Transfers in				(330,258)	(208,704)
Transfers out					
<b>TOTAL GENERAL REVENUES</b>				<b>9,807,906</b>	<b>21,612</b>
<b>CHANGE IN NET ASSETS</b>				<b>985,323</b>	<b>(179,301)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>				<b>68,301,530</b>	<b>17,153,018</b>
<b>NET ASSETS AT END OF YEAR</b>				<b>\$ 69,286,853</b>	<b>\$ 16,973,717</b>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

	General Fund	Capital Reserve Fund	Street Project Fund	9-11 Memorial Fund	Debt Service Fund	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash	\$ 1,087,630	\$ 2,450,605	\$ 784,284	\$ 336,022	\$ 174,043	\$ 56,865	\$ 1,667,761	\$ 6,557,210
Accounts receivable	515,965	29,656	121,215		2,600	243	31,286	700,965
Employee advances	76,787	98,276			3,801	6,421	472,479	657,764
Interfund receivable	15,640							15,640
Prepaid expenses								
Restricted assets	36,523		17,500					54,023
Escrow deposits								
<b>TOTAL ASSETS</b>	<b>\$ 1,732,545</b>	<b>\$ 2,578,537</b>	<b>\$ 922,999</b>	<b>\$ 336,022</b>	<b>\$ 180,444</b>	<b>\$ 63,529</b>	<b>\$ 2,171,526</b>	<b>\$ 7,985,602</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 219,916	\$ 739	\$ 8,796	\$ 10,490	\$	\$ 1,434	\$ 62,828	\$ 304,203
Accrued expenses	345,482	780	67,831				35,966	450,059
Interfund payables	16,614		141,476		177,861	14,657	183,350	533,958
Member deposits							1,400	1,400
Deferred revenue	98,727	145,531						244,258
Escrow deposits	36,523		17,500					54,023
<b>TOTAL LIABILITIES</b>	<b>717,262</b>	<b>147,050</b>	<b>235,603</b>	<b>10,490</b>	<b>177,861</b>	<b>16,091</b>	<b>283,544</b>	<b>1,587,901</b>
<b>FUND BALANCES</b>								
Reserved for:								
Capital projects		2,431,487	687,396	325,532	2,583			3,444,415
Debt service								2,583
Unreserved, reported in:								
General fund	1,015,283					47,438	1,887,982	1,015,283
Special revenue funds								1,935,420
<b>TOTAL FUND BALANCES</b>	<b>1,015,283</b>	<b>2,431,487</b>	<b>687,396</b>	<b>325,532</b>	<b>2,583</b>	<b>47,438</b>	<b>1,887,982</b>	<b>6,397,701</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,732,545</b>	<b>\$ 2,578,537</b>	<b>\$ 922,999</b>	<b>\$ 336,022</b>	<b>\$ 180,444</b>	<b>\$ 63,529</b>	<b>\$ 2,171,526</b>	<b>\$ 7,985,602</b>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

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

DECEMBER 31, 2007

TOTAL GOVERNMENTAL FUND BALANCES	\$ 6,397,701
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 \$89,972,230 and the accumulated depreciation is \$9,816,742	80,155,488
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	49,839
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	(144,747)
Bonds and notes payable, including premiums	(16,250,561)
Accumulated compensated absences	<u>(920,867)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 69,286,853</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, 2007

	General	Capital Reserve	Street Project	9-11 Memorial Fund	Debt Service	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Real estate taxes	\$ 3,842,822	\$	\$	\$	\$ 1,359,302	\$ 332,048	\$ 1,046,408	\$ 6,580,580
Real estate transfer taxes	1,657,098							1,657,098
Other taxes	214,654							214,654
Licenses, permits and fees	894,892							894,892
Fines, forfeits and costs	80,649							80,649
Interest earnings	107,297	136,886	73,085	30,264	44,016	12,486	112,295	516,329
Rental income	244,957	25,000					32,505	302,462
Intergovernmental revenues	560,701		332,024	18,867	275,000	358,158	695,872	2,240,622
Charges for services	421,379					23,900	137,645	582,924
Contributions	2,220		201,979	156,395			285,481	444,096
Miscellaneous income							51,171	253,150
<b>TOTAL REVENUES</b>	<b>8,026,669</b>	<b>161,886</b>	<b>607,088</b>	<b>205,526</b>	<b>1,678,318</b>	<b>726,592</b>	<b>2,361,377</b>	<b>13,767,456</b>
<b>EXPENDITURES</b>								
General government	1,693,019	16,940			244			1,710,203
Public safety	4,019,403					680,124		4,824,177
Public works	1,006,689		14,208	98,957				1,799,624
Parks and recreation								747,788
Community development		11,730						63,413
Capital outlay	52,076	203,180	880,372	202,838		129,356	156,630	1,624,452
Insurance	313,903							313,903
Employee benefits	1,447,678							1,447,678
Debt service					1,207,129			1,224,264
Principal					732,333			761,646
Interest								
<b>TOTAL EXPENDITURES</b>	<b>8,532,768</b>	<b>231,850</b>	<b>894,580</b>	<b>301,795</b>	<b>1,939,706</b>	<b>855,928</b>	<b>1,760,521</b>	<b>14,517,148</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(506,099)</b>	<b>(69,964)</b>	<b>(287,492)</b>	<b>(96,269)</b>	<b>(261,388)</b>	<b>(129,336)</b>	<b>600,856</b>	<b>(749,692)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Refund prior year expenditure	63,571					97	2,833	66,501
Gain on sale of fixed assets	2,086					120,000		122,086
Operating transfers in	354,791				282,848			637,639
Operating transfers (out)	(330,258)		(104,420)			(54,289)	(270,226)	(759,193)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>90,190</b>		<b>(104,420)</b>		<b>282,848</b>	<b>65,808</b>	<b>(267,393)</b>	<b>67,033</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<b>(415,909)</b>	<b>(69,964)</b>	<b>(391,912)</b>	<b>(96,269)</b>	<b>21,460</b>	<b>(63,528)</b>	<b>333,463</b>	<b>(682,659)</b>
<b>FUND BALANCES, BEGINNING</b>	<b>1,431,192</b>	<b>2,501,451</b>	<b>1,079,308</b>	<b>421,801</b>	<b>(18,877)</b>	<b>110,966</b>	<b>1,554,519</b>	<b>7,080,360</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,015,283</b>	<b>\$ 2,431,487</b>	<b>\$ 687,396</b>	<b>\$ 325,532</b>	<b>\$ 2,583</b>	<b>\$ 47,438</b>	<b>\$ 1,887,982</b>	<b>\$ 6,397,701</b>

**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, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (682,659)
<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>	
Expenditures for capital assets of \$1,624,452 less current year depreciation of \$1,040,120	584,332
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	1,213,189
Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	(75,733)
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	<u>(53,806)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 985,323</u>

See accompanying notes to the basic financial statements



**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF NET ASSETS (DEFICIT)  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2007

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 2,356,563	\$ 532,972	\$ 1,024,985	\$ 3,914,520
Accounts receivable	1,243,755	2,313		1,246,068
Interfund receivables	17,384			17,384
Inventory			28,531	28,531
Prepaid expenses	595	35		630
<b>TOTAL CURRENT ASSETS</b>	<u>3,618,297</u>	<u>535,320</u>	<u>1,053,516</u>	<u>5,207,133</u>
<b>CAPITAL ASSETS</b>				
Property, plant and equipment	37,345,521	3,181,685	15,847,675	56,374,881
Accumulated depreciation	(16,088,163)	(2,277,951)	(1,456,757)	(19,822,871)
	<u>21,257,358</u>	<u>903,734</u>	<u>14,390,918</u>	<u>36,552,010</u>
<b>OTHER ASSETS</b>				
Deferred charges, net of accumulated amortization	128,479		145,234	273,713
<b>TOTAL ASSETS</b>	<u>\$ 25,004,134</u>	<u>\$ 1,439,054</u>	<u>\$ 15,589,668</u>	<u>\$ 42,032,856</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	404,587	19,551	\$ 15,631	439,769
Accrued expense	238,275	10,984	62,609	311,868
Interfund payables	31,130	42,457	67,603	141,190
Deferred revenue	17,408		99,210	116,618
Current portion of long-term debt	236,594		400,000	636,594
<b>TOTAL CURRENT LIABILITIES</b>	<u>927,994</u>	<u>72,992</u>	<u>645,053</u>	<u>1,646,039</u>
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>				
Bonds and notes payable	8,126,016		15,287,084	23,413,100
<b>TOTAL LIABILITIES</b>	<u>9,054,010</u>	<u>72,992</u>	<u>15,932,137</u>	<u>25,059,139</u>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	12,816,142	903,623	(1,218,049)	12,501,716
Unrestricted	3,133,982	462,439	875,580	4,472,001
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>15,950,124</u>	<u>1,366,062</u>	<u>(342,469)</u>	<u>16,973,717</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>\$ 25,004,134</u>	<u>\$ 1,439,054</u>	<u>\$ 15,589,668</u>	<u>\$ 42,032,856</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	ENTERPRISE FUNDS			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
OPERATING REVENUES				
Charges for services	\$ 4,220,638	\$ 739,714	\$ 2,909,039	\$ 7,869,391
Miscellaneous	13,241	4,092		17,333
TOTAL OPERATING REVENUES	<u>4,233,879</u>	<u>743,806</u>	<u>2,909,039</u>	<u>7,886,724</u>
OPERATING EXPENSES				
Operations	3,506,659	607,523	1,960,249	6,074,431
Depreciation	500,035	92,551	411,927	1,004,513
TOTAL OPERATING EXPENSES	<u>4,006,694</u>	<u>700,074</u>	<u>2,372,176</u>	<u>7,078,944</u>
OPERATING INCOME	<u>227,185</u>	<u>43,732</u>	<u>536,863</u>	<u>807,780</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	181,670	28,837	51,258	261,765
Tapping fees	88,186			88,186
Interest expense	(364,668)		(626,777)	(991,445)
Bond discount	(1,534)		(1,272)	(2,806)
Amortization	(5,506)		(9,682)	(15,188)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(101,852)</u>	<u>28,837</u>	<u>(586,473)</u>	<u>(659,488)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND FUND TRANSFERS	<u>125,333</u>	<u>72,569</u>	<u>(49,610)</u>	<u>148,292</u>
CONTRIBUTIONS AND FUND TRANSFERS				
Depreciation, net of related capital contributions	(118,889)			(118,889)
Transfers out	(144,375)	(64,329)		(208,704)
TOTAL CONTRIBUTIONS AND FUND TRANSFERS	<u>(263,264)</u>	<u>(64,329)</u>		<u>(327,593)</u>
CHANGE IN NET ASSETS	<u>(137,931)</u>	<u>8,240</u>	<u>(49,610)</u>	<u>(179,301)</u>
TOTAL NET ASSETS (DEFICIT), BEGINNING	<u>16,088,055</u>	<u>1,357,822</u>	<u>(292,859)</u>	<u>17,153,018</u>
TOTAL NET ASSETS (DEFICIT), ENDING	<u>\$ 15,950,124</u>	<u>\$ 1,366,062</u>	<u>\$ (342,469)</u>	<u>\$ 16,973,717</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2007

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 4,234,081	\$ 747,182	\$ 2,909,040	\$ 7,890,303
Cash payments to suppliers	(3,449,115)	(225,864)	(1,362,001)	(5,036,980)
Cash payments to employees	(315,445)	(294,602)	(716,907)	(1,326,954)
Cash payments to other governments	(21,063)	(20,907)	(96,675)	(138,645)
Net cash provided by operating activities	<u>448,458</u>	<u>205,809</u>	<u>733,457</u>	<u>1,387,724</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Advances to other funds	(144,375)	(64,329)		(208,704)
Tapping fees	88,186			88,186
Net cash used in noncapital financing activities	<u>(56,189)</u>	<u>(64,329)</u>		<u>(120,518)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(1,511,367)	(4,532)	(9,969)	(1,525,868)
Principal paid on long-term debt	(212,865)		(390,000)	(602,865)
Interest paid on long-term debt	(364,668)		(626,777)	(991,445)
Net cash used in capital and related financing activities	<u>(2,088,900)</u>	<u>(4,532)</u>	<u>(1,026,746)</u>	<u>(3,120,178)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Earnings from investments	181,670	28,837	51,258	261,765
Net increase (decrease) in cash and cash equivalents	(1,514,961)	165,785	(242,031)	(1,591,207)
<b>CASH AND CASH EQUIVALENTS:</b>				
Beginning of year	<u>3,871,524</u>	<u>367,187</u>	<u>1,267,016</u>	<u>5,505,727</u>
End of year	<u>\$ 2,356,563</u>	<u>\$ 532,972</u>	<u>\$ 1,024,985</u>	<u>\$ 3,914,520</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2007

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 227,185	\$ 43,732	\$ 536,863	\$ 807,780
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	500,035	92,551	411,927	1,004,513
(Increase) decrease in				
Accounts receivable	1,323	1,684		3,007
Interfund receivables	(17,384)			(17,384)
Inventory			(13,751)	(13,751)
Prepaid expenses	(595)	(35)	4,646	4,016
Increase (decrease) in				
Accounts payable and accrued expenses	(292,490)	25,420	(113,432)	(380,502)
Interfund payables	31,130	42,457	(108,002)	(34,415)
Deferred revenue	(746)		15,206	14,460
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 448,458</b>	<b>\$ 205,809</b>	<b>\$ 733,457</b>	<b>\$ 1,387,724</b>
 <b>SUPPLEMENTAL DISCLOSURES</b>				
Noncash investing and financing activities				
Depreciation, net of related capital assets contributed of \$209,618	\$ (118,889)			

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, 2007**

	Pension Trust Funds	Deferred Retirement	Unemployment Compensation	Agency Fund	Total Fiduciary Funds	
	Police Pension	Non-Uniform Pension	Option Plan Fund	Trust Fund		
<b>ASSETS</b>						
Cash	\$ 234,717	\$ 226,455	\$	\$ 82,881	\$ 211,768	\$ 755,821
Investments	7,770,719	4,019,001	196,580			11,986,300
Accounts receivable	27,854	15,023		353	102,796	146,026
<b>TOTAL ASSETS</b>	<b>8,033,290</b>	<b>4,260,479</b>	<b>196,580</b>	<b>83,234</b>	<b>314,564</b>	<b>12,888,147</b>
<b>LIABILITIES</b>						
Accounts payable					129,903	129,903
Due to developers					184,661	184,661
<b>TOTAL LIABILITIES</b>					<b>314,564</b>	<b>314,564</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>						
(a schedule of funding in progress for the plan is on page 62).						
	<b>\$ 8,033,290</b>	<b>\$ 4,260,479</b>	<b>\$ 196,580</b>	<b>\$ 83,234</b>	<b>\$</b>	<b>\$ 12,573,583</b>

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, 2007

	<u>Pension</u>	<u>Trust Funds</u>	<u>Deferred</u>	<u>Unemployment</u>	<u>Total</u>
	<u>Police</u>	<u>Non-Uniform</u>	<u>Retirement</u>	<u>Compensation</u>	<u>Fiduciary</u>
	<u>Pension</u>	<u>Pension</u>	<u>Option</u>	<u>Trust</u>	<u>Funds</u>
	<u>Plan Fund</u>		<u>Plan Fund</u>	<u>Fund</u>	
<b>ADDITIONS</b>					
Contributions					
Employer	\$ 23,397	\$ 268,812	\$	\$	\$ 292,209
Investment income	418,969	214,667	5,940	4,348	643,924
Transfers in					
Police Pension Fund			84,622		84,622
State aid	330,258				330,258
<b>TOTAL ADDITIONS</b>	<u>772,624</u>	<u>483,479</u>	<u>90,562</u>	<u>4,348</u>	<u>1,351,013</u>
<b>DEDUCTIONS</b>					
Administrative expenses	73,710	31,747			105,457
Benefits	260,180	98,502			358,682
Transfer out to DROP Fund	84,622				84,622
<b>TOTAL DEDUCTIONS</b>	<u>418,512</u>	<u>130,249</u>	<u></u>	<u></u>	<u>548,761</u>
<b>CHANGE IN NET ASSETS</b>	354,112	353,230	90,562	4,348	802,252
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>					
<b>BEGINNING OF YEAR</b>	<u>7,679,178</u>	<u>3,907,249</u>	<u>106,018</u>	<u>78,886</u>	<u>11,771,331</u>
<b>END OF YEAR</b>	<u>\$ 8,033,290</u>	<u>\$ 4,260,479</u>	<u>\$ 196,580</u>	<u>\$ 83,234</u>	<u>\$ 12,573,583</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2007

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, 2006 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, 2007 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 the completion of the Garden of Reflection and Memorial Park.

**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.

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. The Township's Special Revenue Funds include: Liquid Fuels, Hydrant, Ambulance, Fire Protection, Parks and Recreation, Street Light, Five Mile Woods, Basin Maintenance, Parks and Recreation Fee-in-Lieu, Library, 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.

**Agency Fund**

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

**TOWNSHIP OF LOWER MAKEFIELD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**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 nonrestricted 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 as 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, 2007, consist of the following:

Pro Shop	\$ 21,420
Food and Beverage	<u>7,111</u>
	<u>\$ 28,531</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, 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 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 within 60 days of billing and are subject to penalties if payments are not made within 120 days from the billing date. 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, real estate transfer taxes are levied at a rate of .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. These benefits include six months of medical and life insurance coverage and supplemental cash payments.

**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Deferred Charges**

Deferred charges consist of bond and note issue costs, which are amortized over the life of the debt.

	Deferred Charges	Accumulated Amortization	Net
Governmental Activities	\$ 69,963	\$ (20,125)	\$ 49,838
Business-Type Activities			
Sewer Funds	137,656	(9,177)	128,479
Golf Course Fund	209,089	(63,855)	145,234
	346,745	(73,032)	273,713
	\$ 416,708	\$ (93,157)	\$ 323,551

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, 2007, the carrying amount of the Township's deposits was \$11,278,374. The Township's bank balance was \$11,396,447, of which \$11,254,573 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	<u>\$ 11,254,573</u>
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**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

DECEMBER 31, 2007

2. DEPOSITS AND INVESTMENTS, continued

**Investments**

As of December 31, 2007, 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>	
U.S. Government Obligations	\$ 632,271	\$ 321,029	\$	\$ 953,300
U.S. Government Agencies	794,777	433,411		1,228,188
Corporate Bonds	811,009	424,211		1,235,220
Mortgage Backed Securities	414,079	220,435		634,514
Equities	2,082,382	1,079,968		3,162,350
Mutual Funds	3,036,201	1,539,947		4,576,148
Investment Contract			196,580	196,580
<b>Total</b>	<b>\$ 7,770,719</b>	<b>\$ 4,019,001</b>	<b>\$ 196,580</b>	<b>\$ 11,986,300</b>
<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 Obligations	\$ 347,101	\$ 218,567	\$ 387,632	\$ 953,300
U.S. Government Agencies	50,219	970,659	207,310	1,228,188
Corporate Bonds		615,207	620,013	1,235,220
Mortgage Backed Securities			634,514	634,514
Equities	3,162,350			3,162,350
Mutual Funds	4,576,148			4,576,148
Investment Contract	196,580			196,580
<b>Total</b>	<b>\$ 8,332,398</b>	<b>\$ 1,804,433</b>	<b>\$ 1,849,469</b>	<b>\$ 11,986,300</b>



**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

DECEMBER 31, 2007

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	Nonmajor Funds		
Taxes	\$ 324,750	\$	\$	\$	\$	\$	\$	\$ 324,750
Interest	6,510	10,460	4,081	2,600	243	5,716		29,610
Other Fees and Assessments	184,705	19,196	117,134			25,570		346,605
Totals	<u>\$ 515,965</u>	<u>\$ 29,656</u>	<u>\$ 121,215</u>	<u>\$ 2,600</u>	<u>\$ 243</u>	<u>\$ 31,286</u>		<u>\$ 700,965</u>
	Proprietary Funds							
	Enterprise Funds	Fiduciary Funds						Total
Taxes	\$	\$						
Interest	12,859	43,230						
Other Fees and Assessments	27,488							
Sewer Billings Due from Developers	1,205,721	102,796						
Totals	<u>\$ 1,246,068</u>	<u>\$ 146,026</u>						

**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

DECEMBER 31, 2007

4. INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

Interfund receivables and payables are summarized as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 76,787	\$ 16,614
Capital Reserve Fund	98,276	
Street Project Fund		141,476
Debt Service Fund	3,801	177,861
Fire Protection Fund	6,421	14,657
Other Governmental Funds	472,479	183,350
Enterprise Funds		
Sewer Fund	17,384	31,130
Community Pool Fund		42,457
Golf Course Funds		67,603
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 675,148</u>	<u>\$ 675,148</u>

Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the year is referred to as “due from / due to other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. The amounts between Other Governmental Funds and the Golf Course Fund are interfund borrowings to purchase equipment.

Interfund transfers are summarized as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 354,791	\$ 330,258
Debt Service Fund	282,848	
Other Governmental Funds		428,935
Enterprise Funds		
Sewer Fund		144,375
Community Pool Fund		64,329
Golf Course Fund		
Pension Trust Funds		
Police Pension	330,258	84,622
Deferred Retirement Option Plan Fund	84,622	
	<u>                    </u>	<u>                    </u>
Total	<u>\$1,052,519</u>	<u>\$1,052,519</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, 2007	Additions	Disposals and Reclassifications	Balance December 31, 2007
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated				
Land	\$ 18,418,249	\$	\$	\$ 18,418,249
Infrastructure	48,995,649	125,089	341,048	49,461,786
Construction in Progress	2,383,408	(2,383,408)		
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>69,797,306</b>	<b>(2,258,319)</b>	<b>341,048</b>	<b>67,880,035</b>
Capital Assets Being Depreciated				
Infrastructure	1,489,171		(341,048)	1,148,123
Land Improvements	3,088,848	3,456,769		6,545,617
Buildings and Improvements	7,446,754	56,069		7,502,823
Furniture and Equipment	2,855,337	78,658		2,933,995
Vehicles	4,111,718	291,275	(441,356)	3,961,637
	18,991,828	3,882,771	(782,404)	22,092,195
Accumulated Depreciation	(9,217,978)	(1,040,120)	441,356	(9,816,742)
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>9,773,850</b>	<b>2,842,651</b>	<b>(341,048)</b>	<b>12,275,453</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<b>79,571,156</b>	<b>584,332</b>		<b>80,155,488</b>
<b>BUSINESS ACTIVITIES</b>				
Capital Assets Not Being Depreciated				
Land	4,197,081			4,197,081
Construction in Progress		4,532		4,532
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>4,197,081</b>	<b>4,532</b>		<b>4,201,613</b>
Capital Assets Being Depreciated				
Land Improvements	8,732,164	9,969		8,742,133
Plant and Pools	37,368,574	1,720,983		39,089,557
Buildings and Improvements	2,855,977			2,855,977
Furniture and Equipment	1,485,601			1,485,601
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>50,442,316</b>	<b>1,730,952</b>		<b>52,173,268</b>
Accumulated Depreciation	(18,489,853)	(1,333,018)		(19,822,871)
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>31,952,463</b>	<b>397,934</b>		<b>32,350,397</b>
<b>TOTAL BUSINESS ACTIVITY CAPITAL ASSETS, NET</b>	<b>36,149,544</b>	<b>402,466</b>		<b>36,552,010</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 115,720,700</b>	<b>\$ 986,798</b>	<b>\$</b>	<b>\$ 116,707,498</b>

**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>
<b>GOVERNMENTAL ACTIVITIES</b>			
Capital Assets Not Being Depreciated			
Land	\$ 18,418,249	\$	\$ 18,418,249
Infrastructure	49,461,786		49,461,786
Capital Assets Being Depreciated			
Infrastructure	1,148,123	(709,946)	438,137
Land Improvements	6,545,617	(1,702,153)	4,843,464
Buildings and Improvements	7,502,823	(2,442,051)	5,060,772
Furniture and Equipment	2,933,995	(2,554,094)	379,901
Vehicles	3,961,637	(2,408,498)	1,553,139
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>89,972,230</u>	<u>(9,816,742)</u>	<u>80,155,488</u>
<b>BUSINESS ACTIVITIES</b>			
Capital Assets Not Being Depreciated			
Land	4,197,081		4,197,081
Construction in Progress	4,532		4,532
Capital Assets Being Depreciated			
Land Improvements	8,742,133	(834,206)	7,907,927
Plant and Pools	39,089,557	(17,782,332)	21,307,225
Buildings and Improvements	2,855,977	(500,698)	2,355,279
Furniture and Equipment	1,485,601	(705,635)	779,966
<b>TOTAL BUSINESS ACTIVITIES</b>	<u>56,374,881</u>	<u>(19,822,871)</u>	<u>36,552,010</u>
<b>TOTALS</b>	<u>\$ 146,347,111</u>	<u>\$ (29,639,613)</u>	<u>\$ 116,707,498</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 205,160
Public Safety	248,901
Public Works	325,671
Parks & Recreation	260,388
<b>Total</b>	<u>\$ 1,040,120</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, 2007:

	Principal Outstanding January 1, 2007	Deletions / Maturities	Principal Outstanding December 31, 2007	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>				
General Obligation Bonds:				
Series of 2003	\$ 7,027,175	\$ (507,175)	\$ 6,520,000	\$ 535,000
Series of 2006	678,740	(17,135)	661,605	17,880
General Obligation Notes:				
Series A of 2001	1,740,000	(561,000)	1,179,000	579,000
Series B of 2001	4,655,000		4,655,000	
Series of 2004	2,919,000	(85,000)	2,834,000	89,000
Notes Payable				
Commonwealth of PA, PEMA Bucks County:	119,511	(8,832)	110,679	9,011
Land Purchase				
Equipment Purchase				
PNC Bank	311,894	(37,297)	274,597	38,982
Deferred Amounts:				
Issuance Premiums	17,248	(1,568)	15,680	1,568
<b>TOTALS</b>	<u>17,468,568</u>	<u>(1,218,007)</u>	<u>16,250,561</u>	<u>1,270,441</u>
Compensated Absences	845,134	75,733	920,867	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>18,313,702</u>	<u>(1,142,274)</u>	<u>17,171,428</u>	<u>1,270,441</u>
<b>BUSINESS ACTIVITIES</b>				
General Obligation Bonds:				
Series of 2005	7,590,000	(390,000)	7,200,000	400,000
Series of 2006	8,611,260	(212,865)	8,398,395	240,000
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 Discounts	(57,507)	2,806	(54,701)	(3,406)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>24,649,753</u>	<u>(600,059)</u>	<u>24,049,694</u>	<u>636,594</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>\$ 42,963,455</u>	<u>\$ (1,742,333)</u>	<u>\$ 41,221,122</u>	<u>\$ 1,907,035</u>

**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

Bonds and notes payable at December 31, 2007, 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. \$ 2,834,000

General Obligation Bonds, Series of 2003, issued in 2003 for the purpose of refunding the Township's General Obligation Bonds, Series of 1997 and 1998; principal was payable annually beginning December, 2003, interest was payable semiannually beginning June 2003 at rates ranging from 1.15% to 4.45%. 6,520,000

General Obligation Note, Series A of 2001, payable to DVRFA for the purpose of refunding the Township's General Obligation Bonds, Series of 1993; principal was payable annually beginning December, 2001, interest was payable monthly beginning July, 2001, at a rate of 4.08%, with maturity scheduled for December, 2009. 1,179,000

General Obligation Note, Series B of 2001, payable to DVRFA for the purpose of renovating buildings and facilities, the acquisition of open space and the acquisition of fire equipment and facilities; principal will be payable annually beginning December, 2010, interest was payable monthly beginning July, 2001, at a rate of 5.01%, with maturity scheduled for December, 2021. 4,655,000

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. 110,679

SUBTOTAL \$ 15,298,679

**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD \$ 15,298,679

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 274,597

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 2005, issued in 2005 for the purpose of refinancing the Township's General Obligation Notes, Series A and B of 2002; principal was payable annually beginning June, 2006, interest was payable semiannually beginning December, 2005, at rates ranging from 2.55% to 4.35%, with maturity scheduled for June, 2021. 7,200,000

SUBTOTAL 31,279,276



**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD	31,279,276
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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.

9,060,000

\$ 40,339,276

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, 2007, was \$1,753,091. Interest costs incurred and charged to expenditures for the year ended December 31, 2007, were \$29,313 in the Fire Fund, \$732,333 in the Debt Service Fund, \$364,668 in the Sewer Fund and \$626,777 in the Golf Course Fund.

**Bond Issuance and Advance Refunding**

In a prior year, 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, 2007, the Township's portion of bonds outstanding that are considered defeased is \$1,335,000.

**TOWNSHIP OF LOWER MAKEFIELD**

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

**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>
2008	\$ 1,907,035	\$ 1,538,215	\$ 3,445,250
2009	1,790,633	1,448,729	3,239,362
2010	1,560,158	1,475,046	3,035,204
2011	1,613,230	1,459,699	3,072,929
2012	1,667,539	1,397,541	3,065,080
2013 to 2017	9,236,077	5,918,929	15,145,006
2018 to 2022	9,326,604	3,785,870	13,122,474
2023 to 2027	6,298,000	2,040,901	8,338,901
2028 to 2032	<u>6,940,000</u>	<u>620,550</u>	<u>7,560,550</u>
	<u>\$ 40,339,276</u>	<u>\$ 19,685,480</u>	<u>\$ 60,024,756</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.

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.

**TOWNSHIP OF LOWER MAKEFIELD**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**7. DEFINED BENEFIT PENSION PLANS, continued**

At January 1, 2007 (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	12	22
Current Employees	32	31
<b>TOTAL MEMBERSHIP</b>	<b>44</b>	<b>53</b>

**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, 2007 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.

**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, 2007, 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 1.75% 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.

**TOWNSHIP OF LOWER MAKEFIELD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

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.

**Plan Expenses**

Plan expenses are paid from plan assets.

**Concentrations**

At December 31, 2007, 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 (\$7,770,719 x .05 = \$388,536). 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

At December 31, 2007, 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 ( $\$4,019,001 \times .05 = \$200,950$ ). 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**

DECEMBER 31, 2007

**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			
2001	\$ 182,451	\$ 182,451	\$	\$	182,451	100.00%
2002	198,739	198,739			198,739	100.00%
2003	204,881	204,881			204,881	100.00%
2004	254,469	254,469			254,469	100.00%
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%

**Non-Uniform Pension Plan**

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2001	\$ 124,100	\$ 63,086	\$ 61,014	\$	124,100	100.00%
2002	136,622	55,454	81,168		136,622	100.00%
2003	142,427	72,982	69,445		142,427	100.00%
2004	163,969	33,755	130,214		163,969	100.00%
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%

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

**TOWNSHIP OF LOWER MAKEFIELD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

DECEMBER 31, 2007

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, 2007
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar (open basis)
Remaining amortization period	15.44 years
Assets valuation method	Fair value
Actuarial assumptions	
Investment rate of return	8%
Projected salary increases	5%

**Non-Uniform Pension Plan**

Valuation date	January 1, 2007
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar (open basis)
Remaining amortization period	16.51 years
Assets valuation method	Fair value
Actuarial assumptions	
Investment rate of return	8%
Projected salary increases	5%

# 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 \$184,661 as of December 31, 2007.

### 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**

Any 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 2004, the Township entered into a lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$4,646, including interest, beginning June 2004 through May 2008. 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 \$119,750. 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, 2007, was \$55,747.

The future minimum lease payments are as follows:

Year Ending <u>December 31,</u>	
2008	\$ 23,230

#### **Self-Insured Unemployment Compensation**

The Township self-insured for unemployment compensation coverage. A reserve of \$83,234 is established at December 31, 2007. During 2007, there were no claims.

#### **Litigation**

The Township is the defendant in several lawsuits arising in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements, and, accordingly no provision for losses had been recorded.

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 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.

### 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 \$170,531 at December 31, 2007.

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 15. MANAGEMENT AGREEMENT

In July 2003, the Township entered into a management agreement with Kemper Sports Management, Inc. to manage the day-to-day operations of the Makefield Highlands Golf Club. Phase II of the agreement began on the date Phase I (pre-opening phase) terminated and shall terminate on the December 31 following the fifth anniversary of the opening date (July 1, 2004). Throughout Phase II, the Township is required to pay \$7,500 per month. This fee will be increased annually by a percentage equal to the Consumer Price Index each year on the anniversary of Phase II. Additionally, the Township will pay, no later than 60 days after the end of each calendar year. The following is the additional incentive fee calculation:

GROSS RECEIPTS BETWEEN	
\$2,000,001 and \$2,500,000.....	5%
\$2,500,001 and \$3,500,000.....	7%
Greater than \$3,500,000.....	10%

The Township paid a total of \$98,540 in management fees and \$50,316 in incentive fees during the year ended December 31, 2007.

### 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, 2007:

<u>General Obligation Notes</u>	<u>Original Issue Amount</u>	<u>Outstanding at December 31, 2007</u>	<u>Fair Value</u>
Series of 2001A	\$ 4,624,000	\$1,179,000	\$ (22,668)
Series of 2001B	4,655,000	4,655,000	(288,339)
Series of 2002A	10,300,000	3,470,000	299,759
Series of 2002B	5,661,000	5,036,000	627,575
Series of 2004	3,000,000	2,834,000	353,167
	<u>\$ 28,240,000</u>	<u>\$ 17,174,000</u>	<u>\$ 969,494</u>

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 16. DERIVATIVE FINANCIAL INSTRUMENTS, *continued*

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, 2006, on the Township's government-wide and fund financial statements is \$0. The fair value or estimated Township termination payment is \$ 969,494 at December 31, 2007.

### 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, 2006 (Note 16).

A comparison of carrying value and fair value as of December 31, 2007, is as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 11,278,374	\$ 11,396,447
Investments (Note 2)	11,986,300	11,986,300
LIABILITIES		
Bonds payable (Note 6)	\$ 22,780,000	\$ 22,780,000
Notes payable (Note 6)	17,559,276	17,559,276
DERIVATIVE FINANCIAL INSTRUMENTS		
(Note 16)	\$	\$ 969,494

### 18. POTENTIAL SALE OF SEWER SYSTEM

During fiscal year 2007, Lower Makefield Township contracted with the firm of Howard Woods and Associates, to explore the possibility of selling the township owned and operated sewer system. Howard Woods and Associates explored the feasibility of a sale by initiating contact with potential buyers and preparing a comprehensive Request for Proposal, RFP. At the time of this audit report, Lower Makefield Township was entertaining an offer from a qualified provider to sell the sewer system during the 2008 fiscal year.

REQUIRED

SUPPLEMENTARY INFORMATION

**TOWNSHIP OF LOWER MAKEFIELD**

BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 5,446,816	\$ 5,446,816	\$ 5,714,574	\$ 267,758
Fees, licenses and permits	764,633	764,633	894,892	130,259
Interest and rents	393,756	393,756	352,254	(41,502)
Intergovernmental revenues	500,010	500,010	560,701	60,691
Fines and forfeits	89,500	89,500	80,649	(8,851)
Charges for services	548,420	548,420	421,379	(127,041)
Contributions	10,250	10,250	2,220	(8,030)
Miscellaneous	15,050	15,050		(15,050)
TOTAL REVENUES	<u>7,768,435</u>	<u>7,768,435</u>	<u>8,026,669</u>	<u>258,234</u>
EXPENDITURES				
General government	1,818,864	1,818,864	1,693,019	125,845
Public safety	3,469,828	3,469,828	4,019,403	(549,575)
Public works	1,255,253	1,255,253	1,058,765	196,488
Insurance	326,075	326,075	313,903	12,172
Employee benefits	1,549,550	1,549,550	1,447,678	101,872
Miscellaneous	18,500	18,500		18,500
TOTAL EXPENDITURES	<u>8,438,070</u>	<u>8,438,070</u>	<u>8,532,768</u>	<u>(94,698)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(669,635)</u>	<u>(669,635)</u>	<u>(506,099)</u>	<u>163,536</u>
OTHER FINANCING SOURCES (USES)				
Refund prior year expenditure			63,571	63,571
Sale of capital assets	10,000	10,000	2,086	(7,914)
Transfers in	311,591	311,591	354,791	43,200
Transfers out	(622,467)	(622,467)	(330,258)	292,209
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300,876)</u>	<u>(300,876)</u>	<u>90,190</u>	<u>391,066</u>
NET INCREASE (DECREASE) IN FUND BALANCE	(970,511)	(970,511)	(415,909)	554,602
FUND BALANCE, BEGINNING	<u>1,431,192</u>	<u>1,431,192</u>	<u>1,431,192</u>	
FUND BALANCE, ENDING	<u>\$ 460,681</u>	<u>\$ 460,681</u>	<u>\$ 1,015,283</u>	<u>\$ 554,602</u>

See notes to required supplementary information

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2007

### 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, 2007, expenditures exceeded appropriations in the following General Fund object levels (the legal level of the budgetary control):

Public Safety	\$549,575
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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, 2007**

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 Period</u>	<u>Rating</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>
2007	<u>\$300,000</u>	<u>\$197,500</u>

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, 2007

**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 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%

Non-Uniform Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial 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%

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, 2007**

**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, 2007**

	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
<b>ASSETS</b>											
Cash and cash equivalents	\$ (6,224)	\$ 45,927	\$ 99,282	\$ 25,095	\$ 85,174	\$ 290,720	\$ 848,656	\$ 24,410	\$ 234,769	\$ 19,952	\$ 1,667,761
Accounts receivable		219	25,570	107	363	1,227	3,608	108		84	31,286
Interfund receivables		416	224,453	177,861		39,671	29,720			358	472,479
<b>TOTAL ASSETS</b>	<b>\$ (6,224)</b>	<b>\$ 46,562</b>	<b>\$ 349,305</b>	<b>\$ 203,063</b>	<b>\$ 85,537</b>	<b>\$ 331,618</b>	<b>\$ 881,984</b>	<b>\$ 24,518</b>	<b>\$ 234,769</b>	<b>\$ 20,394</b>	<b>\$ 2,171,526</b>
<b>LIABILITIES</b>											
Accounts payable	\$ 2,692	\$ 11,419	\$ 20,342	\$	\$	\$ 265	\$ 0	\$ 6,823	\$ 21,287	\$	\$ 62,828
Accrued expenses			31,064				4,902				35,966
Interfund payables			5,489	177,861				1,400			183,350
Member deposits											1,400
<b>TOTAL LIABILITIES</b>	<b>2,692</b>	<b>11,419</b>	<b>56,895</b>	<b>177,861</b>		<b>265</b>	<b>4,902</b>	<b>8,223</b>	<b>21,287</b>		<b>283,544</b>
<b>FUND BALANCES</b>											
Unreserved for:											
Special revenue funds	(8,916)	35,143	292,410	25,202	85,537	331,353	877,082	16,295	213,482	20,394	1,887,982
<b>TOTAL FUND BALANCES</b>	<b>(8,916)</b>	<b>35,143</b>	<b>292,410</b>	<b>25,202</b>	<b>85,537</b>	<b>331,353</b>	<b>877,082</b>	<b>16,295</b>	<b>213,482</b>	<b>20,394</b>	<b>1,887,982</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ (6,224)</b>	<b>\$ 46,562</b>	<b>\$ 349,305</b>	<b>\$ 203,063</b>	<b>\$ 85,537</b>	<b>\$ 331,618</b>	<b>\$ 881,984</b>	<b>\$ 24,518</b>	<b>\$ 234,769</b>	<b>\$ 20,394</b>	<b>\$ 2,171,526</b>

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	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
<b>REVENUES</b>											
Real estate taxes	\$ 39	\$ 140,155	\$ 778,332	\$ 705	\$ 4,410	\$ 19,956	\$ 38,024	\$ 4,198	\$ 17,517	\$ 127,921	\$ 1,046,408
Interest earnings		3,498	21,750					16,800		2,198	112,295
Rental income			15,705		1,752			100	690,075		32,505
Intergovernmental revenues			3,945					1,692			695,872
Charges for services			135,953	16,043		9,986	259,452				137,645
Contributions											285,481
Miscellaneous income	28,718		22,453								51,171
<b>TOTAL REVENUES</b>	<b>28,757</b>	<b>143,653</b>	<b>978,138</b>	<b>16,748</b>	<b>6,162</b>	<b>29,942</b>	<b>297,476</b>	<b>22,790</b>	<b>707,592</b>	<b>130,119</b>	<b>2,361,377</b>
<b>EXPENDITURES</b>											
Public safety										124,650	124,650
Public works	33,874	143,636	643,929			83,489	4,902		517,728		778,727
Parks and recreation											648,831
Community development						17,592		51,683			51,683
Capital outlay			72,250						66,788		156,630
Debt service											
Principal											
Interest											
<b>TOTAL EXPENDITURES</b>	<b>33,874</b>	<b>143,636</b>	<b>716,179</b>	<b>16,748</b>	<b>6,162</b>	<b>101,081</b>	<b>4,902</b>	<b>51,683</b>	<b>584,516</b>	<b>124,650</b>	<b>1,760,521</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(5,117)</b>	<b>17</b>	<b>261,959</b>	<b>16,748</b>	<b>6,162</b>	<b>(71,139)</b>	<b>292,574</b>	<b>(28,893)</b>	<b>123,076</b>	<b>5,469</b>	<b>600,856</b>
<b>OTHER FINANCING SOURCES (USES)</b>											
Bond issued											
Refund of prior year expenditure			1,843			817		173			2,833
Operating transfers (out)			(257,360)			(12,866)					(270,226)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			<b>(255,517)</b>			<b>(12,049)</b>		<b>173</b>			<b>(267,393)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<b>(5,117)</b>	<b>17</b>	<b>6,442</b>	<b>16,748</b>	<b>6,162</b>	<b>(83,188)</b>	<b>292,574</b>	<b>(28,720)</b>	<b>123,076</b>	<b>5,469</b>	<b>333,463</b>
<b>FUND BALANCES, BEGINNING</b>	<b>(3,799)</b>	<b>35,126</b>	<b>285,968</b>	<b>8,454</b>	<b>79,375</b>	<b>414,541</b>	<b>584,508</b>	<b>45,015</b>	<b>90,406</b>	<b>14,925</b>	<b>1,554,519</b>
<b>FUND BALANCES, ENDING</b>	<b>(8,916)</b>	<b>\$ 35,143</b>	<b>\$ 292,410</b>	<b>\$ 25,202</b>	<b>\$ 85,537</b>	<b>\$ 331,353</b>	<b>\$ 877,082</b>	<b>\$ 16,295</b>	<b>\$ 213,482</b>	<b>\$ 20,394</b>	<b>\$ 1,887,982</b>

# STANLEY N. BOOZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of the governmental 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, 2007, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's financial statements, and have issued our report thereon dated June 23, 2008. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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'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.

We noted certain other matters that we reported to the management of the TOWNSHIP OF LOWER MAKEFIELD in a separate letter dated June 23, 2008.

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.

STANLEY N. BOOZ, LLC  
*Certified Public Accountants*

