

TOWNSHIP OF LOWER MAKEFIELD

Financial Statements
And
Supplementary Information
December 31, 2012

TOWNSHIP OF LOWER MAKEFIELD

Financial Statement and Supplementary Information December 31, 2012

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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** as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the **Township of Lower Makefield's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Township of Lower Makefield**, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required information on Pages 3 through 13 and 52 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 supplementary information described in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



LOPEZ, TEODOSIO & LARKIN, LLC
Langhorne, Pennsylvania

June 17, 2013

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012.

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, 2012. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Position.

FINANCIAL HIGHLIGHTS

- Makefield Highlands Golf Course completed its eighth full year of operations since opening on July 1, 2004. Income before depreciation was \$505,448 for the year. Response to the Course has been extremely favorable and in 2012 rounds were up from the previous years as the economy continues to recover, and the Course fared very well when compared to some competitors. 2012 marked the third consecutive year of the current management team being in place, with different service and incentive fees reflected. At the end of 2012, the contract to manage the course was extended for another, three-year term.
- In 2009 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the Township owned Makefield Highlands Golf Course resides. The Township paid for the property in July of 2001 with proceeds from a bond issue. The property was condemned as part of the acquisition, and a price determined to be fair market value was paid to the owner. Since that time, the previous owner of the land has brought suit against the Township seeking additional funds for the acquisition of the property. The case has been in litigation for several years with the Township prevailing in an earlier decision. As more fully described on page 13, the lawsuit settled in early 2013.
- The assets of the Township exceeded its liabilities by \$85,648,780, up \$1,805,708 from last year.
- The General Fund balance remains above the "Safe Harbor," which is 5-8% of General Fund revenues. For fiscal 2012, the General Fund had an increase in its fund balance of over \$250,000 despite no tax increases.
- Sewer rates had no increase in 2012. The cash position of the Sewer Fund remains strong, receivables are stable and the allowance for bad debt is small by comparison (less than 1%). The Sewer Fund began the creation of a capital reserve within its origins in 2010, and has set aside approximately \$500,000 to fund future capital needs during the previous three years. Another \$500,000 is budgeted for 2013. This Sewer Capital Reserve Fund has a balance of over \$450,000 currently, has funded almost \$1.5 million in capital projects from inception, and in fiscal 2012 was the recipient of almost \$700,000 in grant monies.
- The Township owned pool operations had no rate increase in 2012 and membership appears to be stable although there has been a slight decline from the previous year's participation. Revenues from members were down slightly in 2012, approximately \$15,000 or 2%. The pool has positive net income before depreciation of \$45,963.
- The Township enacted a Local Services Tax in 2010 and 2012 was the third full year of this revenue source, which charges \$52 per annum to all employees within the Township's geographic boundaries. In 2012, the Township received over \$230,000 from this revenue item and we expect that this is the maximum Lower Makefield will receive since the tax is capped by regulations and our employee base is stable. In fiscal 2011, the Township also received just over \$230,000 from this revenue source. Accordingly, there are approximately 4,500 employees registered in the Township.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Together, they provide a comprehensive financial look at the Township. The components of the report include the Independent Auditor's 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.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 Position, Statement of Activities, Fund Financial Statements and Notes to the Basic Financial Statements. Statements of Net Position 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 Position 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 revenues. 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 position, revenues, expenses and changes in net position 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 Position, Proprietary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

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

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net position and Statement of Activities

Our analysis of the Township as a whole begins with the Statement of Net Position. 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 Positions 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:

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

- **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 position (Table 1) and changed in net position (Table 2) of the Township's governmental and business type activities.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets						
Cash and Cash Equivalents	\$ 5,057,753	\$ 4,876,853	\$ 2,616,802	\$ 1,967,453	\$ 7,674,555	\$ 6,844,306
Other Assets	1,041,109	895,621	2,238,961	2,336,742	3,280,070	3,232,363
Capital Assets	78,190,631	78,710,248	32,638,459	32,547,429	110,829,090	111,257,677
Total Assets	84,289,493	84,482,722	37,494,222	36,851,624	121,783,715	121,334,346
Liabilities						
Other Liabilities	389,094	2,573,526	1,220,871	1,004,098	1,609,965	3,577,624
Long-Term Liabilities	13,067,667	13,508,647	21,457,303	21,946,211	34,524,970	35,454,858
Total Liabilities	13,456,761	16,082,173	22,678,174	22,950,309	36,134,935	39,032,482
Net Position						
Invested in Capital Assets	66,637,462	64,449,181	11,646,729	11,088,212	78,284,191	75,537,393
Restricted	3,271,145	4,775,818	-	-	3,271,145	4,775,818
Unrestricted	924,125	716,758	3,169,319	2,813,103	4,093,444	3,529,861
Total Net Position	\$70,832,732	\$69,941,757	\$14,816,048	\$13,901,315	\$ 85,648,780	\$ 83,843,072

Cash and cash equivalents represent 6.0% of the **Township of Lower Makefield's** governmental activities assets in 2012 and 5.7% in 2011. Cash and cash equivalents 7.0% in 2012 and 5.3% in 2011 of the **Township of Lower Makefield's** total business type assets. Both areas of the Township's cash represented slight increases over the prior year, and the Township's cash position remains healthy.

The largest portion of the Township's governmental activities assets, 92.8%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment). In 2011, this portion was 93.2%. 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 thirteen 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, 2012

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for services	\$ 1,446,054	\$ 1,298,127	\$ 9,223,133	\$ 8,790,473	\$ 10,669,187	\$ 10,088,600
Operating grants and contributions	2,484,292	2,461,185	-	-	2,484,292	2,461,185
Capital grants	198,802	-	677,230	-	876,032	-
General Revenues						
Property taxes	7,802,931	7,728,258	-	-	7,802,931	7,728,258
Real estate transfer tax	947,488	783,853	-	-	947,488	783,853
Local services taxes / per-capita taxes	437,981	479,274	-	-	437,981	479,274
Public utility taxes	12,253	12,716	-	-	12,253	12,716
Franchise taxes	674,572	649,653	-	-	674,572	649,653
Investment earnings	14,768	64,733	4,791	22,193	19,559	86,926
Miscellaneous	573,537	601,864	-	-	573,537	601,864
Gain on sale of capital assets	(21,575)	(495,001)	-	-	(21,575)	(495,001)
Total revenues	14,571,103	13,584,662	9,905,154	8,812,666	24,476,257	22,397,328
Expenses						
General government	2,308,694	2,050,298	-	-	2,308,694	2,050,298
Public safety	8,120,852	7,731,495	-	-	8,120,852	7,731,495
Highways and streets	2,151,665	2,790,276	-	-	2,151,665	2,790,276
Culture and recreation	1,045,480	1,157,533	-	-	1,045,480	1,157,533
Community development	94,800	33,457	-	-	94,800	33,457
Interest on long-term debt	262,147	417,822	-	-	262,147	417,822
Sewer	-	-	5,324,078	5,301,584	5,324,078	5,301,584
Sewer capital reserve	-	-	94,783	-	94,783	-
Community pool	-	-	636,266	765,451	636,266	765,451
Golf course	-	-	2,631,784	2,563,354	2,631,784	2,563,354
Total expenses	13,983,638	14,180,881	8,686,911	8,630,389	22,670,549	22,811,270
Exces (deficiency) before transfers	587,465	(596,219)	1,218,243	182,277	1,805,708	(413,942)
Transfers						
Transfers in	1,056,174	680,017	1,535,868	-	2,592,042	680,017
Transfers out	(752,664)	(330,025)	(1,839,378)	(349,992)	(2,592,042)	(680,017)
Change in Net Postion	890,975	(246,227)	914,733	(167,715)	1,805,708	(413,942)
Net position - beginning of the year	69,941,760	70,187,987	13,901,315	14,069,030	83,843,075	84,257,017
Net position end - of the year	\$70,832,735	\$69,941,760	\$14,816,048	\$13,901,315	\$ 85,648,783	\$ 83,843,075

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

Total revenue exceed total expenses by \$587,465 in 2012, in contrast to total expenses exceeding total revenues by \$596,219 in 2011 for governmental activities. In 2012, there was no tax increase in any township funds. Revenues are significantly higher, but the majority of the factor was the loss incurred in 2011 on the sale of real estate. Without this one time item, revenues in 2012 are higher by just under \$400,000, or 2.9%. In 2012, total revenues exceeded total expenses by \$1,281,243 and by \$182,277 in 2011 for business type activities. This excess of revenues due to a \$670,000 grant received in the sewer capital reserve fund and an increase in golf course revenues by 10%.

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2012 was \$14,571,107 and \$13,584,662 in 2011. Revenue by source was as follows:

<u>Revenue</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Property taxes	\$ 7,802,931	\$ 7,728,258	53.55%	56.89%
Real estate transfer tax	947,488	783,853	6.50%	5.77%
Local services taxes / per-capita taxes	437,981	479,274	3.01%	3.53%
Public utility taxes	12,253	12,716	0.08%	0.09%
Franchise taxes	674,572	649,653	4.63%	4.78%
Investment earnings	14,768	64,733	0.10%	0.48%
Miscellaneous	573,537	601,864	3.94%	4.43%
Gain on sale of capital assets	(21,575)	(495,001)	-0.15%	-3.64%
Charges for Services	1,446,054	1,298,127	9.92%	9.56%
Operating grants and contributions	198,802	-	1.36%	0.00%
Capital grants	2,484,292	2,461,185	17.06%	18.11%
	<u>\$ 14,571,103</u>	<u>\$ 13,584,662</u>	<u>100.00%</u>	<u>100.00%</u>

As seen above, revenues increased measurably when comparing 2012 and 2011, by almost \$700,000 or 5%; however, the Deed Transfer tax despite an increase over the prior year continues to be a cause for concern. Charges for services have increased due to the building of the age restricted housing unit, the Township has received almost \$200,000 in additional permit related fees in 2012; we do not expect this to continue into 2013. In December of 2009, the Township approved the enactment of a Local Services Tax, or LST at the legally allowed maximum of \$52 per annum for all people working within the Township borders making more than \$12,000 per annum. This revenue source yielded over \$230,000 in 2012, about the same as in 2011. Also, in FY2011 there was a large loss associated with the sale of a property, the Township did not encounter this type of transaction in 2012.

Investment income, which is comprised of bank interest on the five Township interest bearing accounts, remained at a historic low in 2012 as interest rates decreased from a high of 5.01% during 2007 to a low of less than ¼ of 1% during 2012. The Township did switch banks during fiscal 2012 and as such did realize higher interest revenue on funds. With the fed rates at or near 0%, we expect interest income to remain at or below their current levels for the near future and certainly throughout 2013.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Governmental Activities (Continued)

The Township's governmental programs consist of various operating departments, among them police, public works, planning and zoning, park and recreation and several administrative departments. Total expenditures for fiscal 2012 were \$13,983,638 and \$14,180,881 in 2011. Expenditures by source were as follows:

<u>Expenses</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General government	\$ 2,308,694	\$ 2,050,298	16.51%	14.46%
Public safety	8,120,852	7,731,495	58.07%	54.52%
Highways and streets	2,151,665	2,790,276	15.39%	19.68%
Culture and recreation	1,045,480	1,157,533	7.48%	8.16%
Community development	94,800	33,457	0.68%	0.24%
Interest on long-term debt	262,147	417,822	1.87%	2.94%
	<u>\$ 13,983,638</u>	<u>\$ 14,180,881</u>	<u>100.00%</u>	<u>100.00%</u>

Total governmental expenditures decreased approximately 7.9% from 2012 to 2011. The primary reasons are: A decrease in interest expense (\$148,000 or 35%), a decrease of over \$250,000 in liquid fuels expenditures (43% decline – although more is budgeted for 2013), over \$150,000 of outside labor and overtime when compared to the prior year, and also a reallocation of \$358,000 of expense to our balance sheet as the Township purchased land in FY12.

Business type activities include the Township's Sewer System, Community Pool and Golf Course. Total revenue from sewer activities for 2012 is \$5,594,754 compared to \$5,464,747 in 2011. Charges for services account for approximately 96.6% of revenue in 2012, compared with 98.2% in 2011. The main reason for this is due to the increase in tapping fees from the new age restricted development being built. Expenditures to operate the system total \$5,324,078 for 2012 and \$4,972,067 for 2011. Total revenue from community pool activities is \$718,319 for 2012 and \$733,486 for 2011. Charges for services account for 97.9% of revenue in 2012, while these charges equaled 97.8% of 2011 revenues. Expenditures to operate the pool total \$636,266 for 2012 and \$765,451 for 2011. There was significant decrease in depreciation expense in 2012 when compared to 2011 as certain assets became fully depreciated in the prior year. Total revenue from golf course activities is \$2,849,561 for 2012 and \$2,607,699 for 2011. Charges for services account for approximately 99.9% of revenue in 2012, and 99.8% in 2011. Expenditures to operate the course total \$2,631,784 in 2012 and \$2,563,354 for 2011.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund had an excess of revenues over expenditures for 2012 of \$259,028 and an excess of revenues over expenditures in 2011 of \$491,120. An operating deficit of \$284,592 had been budgeted for fiscal 2012, so the General Fund outperformed the budget by over \$415,000. The reasons for the out performance of the budgeted results are several, most notably on the revenue side, including over \$50,000 in cable franchise fees, \$25,000 in cell tower rental revenue \$70,000 from PEMA relief monies, \$120,000 in additional permit and fee related revenue from building, recycling revenues \$25,000 greater than budget. Insurance dividends and rebates also exceeded budgeted amounts by over \$90,000. Other revenue items with positive variances include insurance reimbursements and the Local Services Tax (\$30,000), miscellaneous revenues (insurance reimbursements and such, \$55,000) these items helped offset the decline in the Real Estate Deed Transfer Tax, which lagged budget by almost \$100,000 and this was made up by the items mentioned above. On the expenditure side, the Township came within \$12,000 of our total budget, coming in just slightly less than expected.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

The Township had no budget adjustments during the 2012 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, 2012, total \$ 110,829,090 and were \$111,257,677 in 2011 (net of accumulated depreciation). Township investment in capital assets includes land and land improvements, building improvements, equipment, vehicles and infrastructure (see Table 3). Infrastructure includes roadways, bike paths, curbing and sidewalks, storm sewers, basins, bridges and culverts, easements, streetlights and signs.

Additions to capital assets, land and improvements during 2012 include:

Edgewood Village Sewer Connection	\$896,426
Land Acquisition (Sweeny Property)	\$358,000
LMT Sewer Pump Station Improvement	\$145,058
Sewer Capital Contribution – Morrisville	\$134,594
Police Vehicles	\$108,192
Golf Course Renovations and Improvements	\$ 67,271
Sewer Capital Contribution – Yardley Borough	\$ 60,947
Tractors	\$ 23,858
Other Land Improvements	\$ 12,176
ADA Compliant Swim Chairs	\$ 11,153
Portable Generator	\$ 10,507

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 19,274,451	\$ 18,916,451	\$ 4,202,081	\$ 4,202,081	\$ 23,476,532	\$ 23,118,532
Construction in Progress	3,685	3,685	14,713	-	18,398	3,685
Infrastructure	<u>49,524,483</u>	<u>49,524,483</u>	<u>-</u>	<u>-</u>	<u>49,524,483</u>	<u>49,524,483</u>
Total Capital Assets						
Not Depreciated	<u>68,802,619</u>	<u>68,444,619</u>	<u>4,216,794</u>	<u>4,202,081</u>	<u>73,019,413</u>	<u>72,646,700</u>
Land Improvements	7,469,553	7,457,377	8,071,438	8,064,191	15,540,991	15,521,568
Plant and Pools	1,470,615	1,470,615	41,977,841	40,729,662	43,448,456	42,200,277
Buildings and Improvements	7,196,252	7,196,252	3,140,291	3,125,096	10,336,543	10,321,348
Furniture and Equipment	3,208,032	3,208,032	1,334,283	1,269,803	4,542,315	4,477,835
Vehicles	4,569,351	4,530,460	-	-	4,569,351	4,530,460
Total Capital Assets						
Depreciated	<u>23,913,803</u>	<u>23,862,736</u>	<u>54,523,853</u>	<u>53,188,752</u>	<u>78,437,656</u>	<u>77,051,488</u>
Accumulated depreciation	<u>(14,525,791)</u>	<u>(13,597,107)</u>	<u>(26,102,188)</u>	<u>(24,843,404)</u>	<u>(40,627,979)</u>	<u>(38,440,511)</u>
Total capital assets	<u>\$ 78,190,631</u>	<u>\$ 78,710,248</u>	<u>\$ 32,638,459</u>	<u>\$ 32,547,429</u>	<u>\$ 110,829,090</u>	<u>\$ 111,257,677</u>

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

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 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, 2012, the Township had \$34,140,565 in outstanding debt and compensated absences compared to \$35,454,858 last year. Of the outstanding debt at December 31, 2012, \$1,666,626 is due within one year. Table 4 shows a breakdown of debt by type.

The Township had no new debt service issues in 2012 or any refinancing of existing issues. Of the previous issues refinanced, savings were taken up front in the first three years of the refinancing in several cases and in others the savings were spread across the remaining term of the bonds. In the year 2013 will see an increase in principal payments, \$184,000 in government funds and \$140,000 in its business funds.

During the process of refinancing, the Township went through the normal rating process and Moody's Investor Services reaffirmed the Township's AA2 rating. This was based on 2010 audited financial statements and unaudited statements from 2011 through the first half of the year. The Township continues to meet the requirements of the rating agencies through quarterly and annual reporting, and by exercising strong fiduciary stewardship.

Outstanding debt at year end (net of premiums, discounts, and amortization) years ended December 31, 2012 and 2011.

<u>Government Activities</u>	<u>2012</u>	<u>2011</u>
General Obligation Bonds, Series 2011	\$ 602,535	\$ 609,780
General Obligation Bonds, Series 2010	4,911,510	4,979,938
General Obligation Bonds, Series A of 2010	3,712,028	4,370,715
General Obligation Notes		
Series A of 2001		
Series A of 2010 (formerly Series B of 2001)		
Series of 2004	2,353,000	2,457,000
Notes Payable		
PEMA	63,770	73,531
PNC Bank	61,527	107,991
	11,704,370	12,598,955

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt (Continued)

<u>Business Type Activites</u>	<u>2012</u>	<u>2011</u>
General Obligation Bonds		
Series of 2011	7,533,741	7,745,211
Series of 2010	5,417,562	5,695,000
General Obligation Notes		
Series A of 2002	3,470,000	3,470,000
Series B of 2002	5,036,000	5,036,000
	<u>21,457,303</u>	<u>21,946,211</u>
Net OPEB obligation	384,405	307,524
Compensated Absences	978,892	909,692
	<u>384,405</u>	<u>307,524</u>
Total Long-Term Liabilities	<u>\$ 34,524,970</u>	<u>\$ 35,762,382</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

The **Township of Lower Makefield** services an area of eighteen square miles and a population of 32,681 (2000 United States Census). The Township is located in the southeastern portion of Bucks County, just across the river from Trenton, New Jersey and twenty-five 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.

Table 5 below shows the amount of total tax assessments broken down by type, and the source is from the Bucks County Board of Assessment:

<u>Assessments by Land Use Codes</u>		
<u>Type</u>	<u>Current Assessment</u>	<u>Prior Assessment</u>
Residential	\$ 470,672,610	\$ 471,855,580
Taxable Vacant/Miscellaneous	2,617,490	2,100,360
Government/School	23,400	23,400
Industrial - Not in a Park	124,400	124,400
Main Street - Commercial	124,750	161,260
Apartments	8,593,620	8,593,620
Motel - Hotel	1,027,200	1,027,200
Commercial	5,620,440	5,475,990
Mobile Home Parks	-	-
Office Buildings - Not in a Park	21,542,820	21,092,480
Office Buildings - In a Park	1,108,170	1,108,170
Shopping Centers	4,357,670	4,896,000
Institutional	10,488,640	10,392,060
Utility	-	-
Utility - Government	1,773,680	1,773,680
Exempt	18,577,050	18,641,690
Total Assessments	<u>\$ 546,651,940</u>	<u>\$ 547,265,890</u>

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Economic Factors (Continued)

The current assessment is lower than the previous assessment by approximately \$615,000. Within the total there are some differences; office buildings not in a park are up while residential assessments are down, a trend throughout the County. The impact of the assessment changes in 2012 is minimal as the overall decrease totals just under \$615,000, or .0011% of the total assessment. The decrease in residential assessments is being watched closely throughout the state.

Development within the Township continues its downward trend; however, during 2012 development on an age restricted housing development did commence and as such the Township realized over \$200,000 in permit and fee related revenue in our General Fund, other funds such as Park and Recreation fee in lieu fees, traffic impact fees did not see any influx of revenues from this project.

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.

	Lower Makefield Township	Bucks County	Pennsylvania	United States
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: United States Census Bureau (2000 Census)

Next Year's Budget

The total mileage for 2013 will remain at 15.12 with no increase over the 2012 mileage.

Real estate transfer taxes are budgeted at \$1,045,000, the same as in 2012's budget number, and down from the high point of \$1,925,000 actually received in 2005. The nationwide housing market is still very volatile, and Lower Makefield is not immune to this volatility. We are hopeful that the housing market and related credit markets will begin to show stability and steady improvement during 2013 however, the trends and factors affecting them have shown no such stability over the last several years.

Interest income is budgeted at lower amounts in the 2013 budget due to the Township changing banking relationships during 2012. The Federal Reserve Bank is holding their rates at or near 0% in an effort to help stimulate the economy, and the rates on our cash and related investments are trending very low as a result.

Contractual salaries for both the police and public works employees, along with all administrative staff will receive minimal increases in 2013, the fourth of a four year collective bargaining agreement. Both of the Township's collective bargaining agreements expire in 2013.

As was done in the past, the Liquid Fuels fund will help support the public works payroll in 2013.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Next Year's Budget (Continued)

Overall health benefits in the 2013 are budgeted at lower levels than in 2012. 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, 2009. Also, several unplanned staff vacancies allowed us to realize some savings in this area as well. Health care costs in 2013 are budgeted at a lower level, reflecting the Township's policy of using higher deductible policies to offset an expenditure item that traditionally has cost increases that outpace inflationary factors.

Pool membership fees are budgeted even with 2012 levels. After several years of stable membership numbers, the pool began to decline in 2009 as a result of a volatile and challenging economy. We believe the membership has stabilized, but also that our membership numbers have peaked and are at a level that should remain stable and sustain pool operations.

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

Litigation

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

This suit was resolved in early 2013 and the plaintiff was awarded approximately \$3.23 million. This verdict was handed down by the Pennsylvania Supreme Court and no further appeals are available. The township will be utilizing its debt capacity to fund this award, and revenues from the golf course will pay the new debt service. This matter, now resolved and closed, had been in litigation for many years.

REQUESTS FOR INFORMATION

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

TOWNSHIP OF LOWER MAKEFIELD

Statement of Net Position
December 31, 2012

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Cash	\$ 5,057,753	\$ 2,616,802	\$ 7,674,555
Accounts receivable, net	789,776	1,721,460	2,511,236
Interfund balances	25,000	(25,000)	-
Inventory	-	64,309	64,309
Prepaid expenses	35,444	12,619	48,063
Restricted assets			
Escrow deposits	39,688	-	39,688
Deferred charges, net of amortization	151,201	465,573	616,774
Total	6,098,862	4,855,763	10,954,625
Capital assets			
Net capital assets	78,190,631	32,638,459	110,829,090
Total Assets	84,289,493	37,494,222	121,783,715
Liabilities			
Accounts payable	328,875	912,054	1,240,929
Accrued expenses	-	139,262	139,262
Member deposits	1,400	-	1,400
Escrow deposits	38,288	-	38,288
Long-term liabilities			
Due within one year	1,462,535	632,535	2,095,070
Due in more than one year	11,605,132	20,824,768	32,429,900
Total Liabilities	13,436,230	22,508,619	35,944,849
Deferred Inflows of Resources			
Deferred gift card and rental receipts	20,531	169,555	190,086
Net Position			
Invested in capital assets, net of related debt	66,637,462	11,646,729	78,284,191
Restricted for:			
Capital projects	642,288	-	642,288
Debt service	918,665	-	918,665
Special revenue funds	1,710,192	-	1,710,192
Unrestricted	924,125	3,169,319	4,093,444
Total Net Position	\$ 70,832,732	\$ 14,816,048	\$ 85,648,780

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Activities
Year Ended December 31, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
Governmental Activities						
General government	\$ 2,308,694	\$ 538,697	\$ 2,844	\$ -	\$ (1,767,153)	\$ -
Public safety	8,120,852	260,977	888,229	-	(6,971,646)	-
Public works	2,151,665	459,903	1,588,409	198,802	95,449	-
Parks and recreation	1,045,480	186,477	4,810	-	(854,193)	-
Community development	94,800	-	-	-	(94,800)	-
Interest on long-term debt	262,147	-	-	-	(262,147)	-
Total Governmental Activities	13,983,638	1,446,054	2,484,292	198,802	(9,854,490)	-
Business Type Activities						
Sewer Fund	5,324,078	5,592,667	-	-	-	268,589
Sewer Reserve - Capital Fund	94,783	64,886	-	677,230	-	647,333
Community Pool Fund	636,266	717,263	-	-	-	80,997
Golf Course Fund	2,631,784	2,848,317	-	-	-	216,533
Total Business Type Activities	8,686,911	9,223,133	-	677,230	-	1,213,452
Total All Activities	\$ 22,670,549	\$ 10,669,187	\$ 2,484,292	\$ 876,032	(9,854,490)	1,213,452
General Revenues (Expenses)						
Property taxes, levied for general purpose					7,802,931	-
Transfer taxes					947,488	-
Local services and per capita taxes					437,981	-
Public utility taxes					12,253	-
Franchise taxes					674,572	-
Investment earnings					14,768	4,791
Miscellaneous					573,537	-
Loss on sale of capital assets					(21,575)	-
Transfers in					1,056,174	1,535,868
Transfer out					(752,664)	(1,839,378)
Total General Revenues (Expenses)					10,745,465	(298,719)
Change in Net Position					890,975	914,733
Net Position at Beginning of Year					69,941,757	13,901,315
Net Position at End of Year					\$ 70,832,732	\$ 14,816,048

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Capital Reserve Fund	Street Project Fund	9-11 Memorial Fund	Debt Service Fund	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash	\$ 2,071,307	\$ 57,522	\$ 456,674	\$ 80,315	\$ 904,230	\$ 161,481	\$ 1,326,224	\$ 5,057,753
Accounts receivable, net	378,341	198,802	51,804	-	14,435	6,838	139,556	789,776
Interfund receivable	25,000	-	-	-	-	-	42,665	67,665
Prepaid expenses	23,780	-	-	-	-	-	11,664	35,444
Restricted assets								
Escrow deposits	38,288	-	-	-	-	-	1,400	39,688
Total Assets	\$ 2,536,716	\$ 256,324	\$ 508,478	\$ 80,315	\$ 918,665	\$ 168,319	\$ 1,521,509	\$ 5,990,326
Liabilities								
Accounts payable	\$ 214,526	\$ 61,992	\$ 9,991	\$ 1,180	\$ -	\$ 1,200	\$ 39,986	\$ 328,875
Accrued expenses	312,935	-	-	-	-	-	16,185	329,120
Interfund payable	12,665	30,000	-	-	-	-	-	42,665
Member deposits	-	-	-	-	-	-	1,400	1,400
Escrow deposits	38,288	-	-	-	-	-	-	38,288
Total Liabilities	\$ 578,414	\$ 91,992	\$ 9,991	\$ 1,180	\$ -	\$ 1,200	\$ 57,571	\$ 740,348
Deferred Inflows of Resources								
Deferred taxes and rental receipts	84,272	219,333	-	-	14,435	6,837	13,828	338,705
Fund Balances								
Assigned:								
Capital projects (deficit)	-	(55,001)	498,487	-	904,230	-	-	443,486
Debt service	-	-	-	-	-	-	-	904,230
Unassigned:								
General fund	1,874,030	-	-	-	-	-	-	1,874,030
Special revenue funds	-	-	-	79,135	-	160,282	1,450,110	1,689,527
Total Fund Balances (Deficit)	1,874,030	(55,001)	498,487	79,135	904,230	160,282	1,450,110	4,911,273
Total Liabilities and Fund Balances	\$ 2,536,716	\$ 256,324	\$ 508,478	\$ 80,315	\$ 918,665	\$ 168,319	\$ 1,521,509	\$ 5,990,326

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
December 31, 2012

Total Governmental Fund Balances	\$ 4,911,273
Amounts reported for governmental activities on the statement of net position 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 \$92,716,422 and the accumulated depreciation is \$14,525,791.	78,190,631
Deferred charges for issuance of debt, net of amortization are recorded as expenditures in the governmental funds. The Statement of Net Position includes these amounts as assets.	151,201
Taxes and grants not collected within 60 days of year-end are not recognized as a receivable in the funds.	318,174
Accrued expenses are adjusted for accrued vacation included in compensated absences.	329,120
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:	
Bonds and notes payable, including premiums	(11,704,370)
Post retirement health benefit obligation	(384,405)
Accumulated compensated absences	(978,892)
	<hr/>
Net Position of Governmental Activities	<u><u>\$ 70,832,732</u></u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended December 31, 2012

	<u>General</u>	<u>Capital Reserve</u>	<u>Street Project</u>	<u>9-11 Memorial Fund</u>	<u>Debt Service</u>	<u>Fire Protection Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues								
Real estate taxes	\$ 5,334,877	-	\$ -	\$ -	\$ 969,898	\$ 456,884	\$ 921,900	\$ 7,683,559
Real estate transfer taxes	947,488	-	-	-	-	-	-	947,488
Local services and per capita taxes	437,981	-	-	-	-	-	-	437,981
Licenses, permits and fees	1,183,407	-	-	-	-	-	-	1,183,407
Fines, forfeits and costs	114,857	-	-	-	-	-	-	114,857
Interest earnings	6,457	986	1,021	7	2,546	369	3,382	14,768
Rental income	332,451	25,000	-	-	-	-	51,920	409,371
Intergovernmental revenues	657,871	-	404,183	-	-	323,578	734,042	2,119,674
Charges for services	561,399	-	-	-	-	26,700	139,819	727,918
Contributions	2,844	3,145	8,620	4,810	-	-	42,525	61,944
Miscellaneous income	101,890	197,411	-	-	38,661	-	78,434	416,396
Total Revenues	9,681,522	226,542	413,824	4,817	1,011,105	807,531	1,972,022	14,117,363
Expenditures								
General government	1,462,620	803,680	-	-	-	-	-	2,266,300
Public safety	4,974,589	-	-	-	-	699,765	124,650	5,799,004
Public works	1,306,342	-	-	-	-	-	535,799	1,842,141
Parks and recreation	-	-	-	53,846	-	-	624,149	677,995
Community development	-	-	70,371	-	-	-	-	70,371
Capital outlay	12,176	108,192	358,000	-	-	-	-	478,368
Insurance	325,384	-	-	-	-	-	-	325,384
Employee benefits and taxes	1,605,749	-	-	-	-	-	-	1,605,749
Debt service	-	-	-	-	855,225	7,245	-	862,470
Principal	-	-	-	-	269,907	13,365	-	283,272
Interest	-	-	-	-	-	-	-	-
Total Expenditures	9,686,860	911,872	428,371	53,846	1,125,132	720,375	1,284,598	14,211,054
Excess (deficiency) of revenues over expenditures	(5,338)	(685,330)	(14,547)	(49,029)	(114,027)	87,156	687,424	(93,691)
Other Financing Sources (Uses)								
Refund prior year expenditure	149,413	-	-	-	-	846	6,882	157,141
Sale of capital assets	2,225	-	-	-	-	-	-	2,225
Operating transfers in	412,728	400,000	-	-	233,446	-	10,000	1,056,174
Operating transfers out	(300,000)	-	(30,009)	-	(38,760)	(58,640)	(325,255)	(752,664)
Total Other Financing Sources (Uses)	264,366	400,000	(30,009)	-	194,686	(57,794)	(308,373)	462,876
Net change in fund balances	259,028	(285,330)	(44,556)	(49,029)	80,659	29,362	379,051	369,185
Fund balances, beginning	1,615,002	230,329	543,043	128,164	823,571	130,920	1,071,059	4,542,088
Fund balances, ending (deficit)	\$ 1,874,030	\$ (55,001)	\$ 498,487	\$ 79,135	\$ 904,230	\$ 160,282	\$ 1,450,110	\$ 4,911,273

See accompanying notes to the financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Reconciliation of Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund
Balances to the Statement of Activities
Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 369,185
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. Adjustments consist of:	
Capital outlays	478,368
Depreciation expense	(974,185)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayments reduce long-term liabilities in the Statement of Net Assets	862,470
Bond premiums associated with the issuance of bonds are recorded as long-term liabilities and amortized over the life of the bonds	27,264
Governmental Funds report the effect of premiums when debt is issued, but these amounts are deferred and amortized in the Statement of Activities.	(51,693)
Taxes not collected within 60 days of year-end are not recognized as revenue in the funds.	318,174
Accrued vacation requires the use of current financial resources and, therefore, is reported as expenditures in Governmental Funds.	5,297
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.	(64,349)
In the Governmental Funds, post retirement health benefits are reported as expenses when due, but in the Statement of Activities the obligation is accrued.	(76,881)
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.	21,125
In the Governmental Funds, proceeds from the sale of fixed assets was reported as revenue. In the Statement of Activities, the loss on the sale was reported and the net book value of the fixed assets were removed.	(23,800)
Change in Net Position of Governmental Activities	<u><u>\$ 890,975</u></u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Net Position (Deficit)
Proprietary Funds
December 31, 2012

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
Assets					
Current assets					
Cash	\$ 1,059,927	\$ 360,146	\$ 746,275	\$ 450,454	\$ 2,616,802
Accounts receivable, net	1,715,892	-	5,568	-	1,721,460
Inventory	-	-	64,309	-	64,309
Prepaid expenses	-	-	12,619	-	12,619
Total current assets	2,775,819	360,146	828,771	450,454	4,415,190
Capital Assets					
Net capital assets	19,087,032	633,565	12,917,862	-	32,638,459
Other Assets					
Deferred charges, net	252,346	-	213,227	-	465,573
Total Assets	22,115,197	993,711	13,959,860	450,454	37,519,222
Liabilities					
Current liabilities					
Accounts payable	881,528	1,831	16,979	11,716	912,054
Accrued expense	81,685	9,595	47,982	-	139,262
Interfund payable	-	-	25,000	-	25,000
Current portion of long-term debt	96,212	-	536,323	-	632,535
Total current liabilities	1,059,425	11,426	626,284	11,716	1,708,851
Non-current liabilities					
Bonds and notes payable	7,437,529	-	13,387,239	-	20,824,768
Deferred Inflows of Resources					
Deferred gift card receipts	-	-	169,555	-	169,555
Net position (deficit)					
Invested in capital assets, net of related debt	11,805,637	633,565	(792,473)	-	11,646,729
Unrestricted	1,812,606	348,720	569,255	438,738	3,169,319
Total net position (deficit)	\$ 13,618,243	\$ 982,285	\$ (223,218)	\$ 438,738	\$ 14,816,048

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Revenues, Expenses, and Change in Net Position (Deficit)
 Proprietary Funds
Year Ended December 31, 2012

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
Operating Revenues					
Charges for service	\$ 5,407,766	\$ 703,172	\$ 2,848,317	\$ 64,886	\$ 9,024,141
Miscellaneous	37,601	14,091	-	-	51,692
Total Operating Revenues	5,445,367	717,263	2,848,317	64,886	9,075,833
Operating Expenses					
Operations	4,180,707	643,846	2,035,382	94,783	6,954,718
Depreciation	953,692	(7,580)	312,671	-	1,258,783
Total Operating Expenses	5,134,399	636,266	2,348,053	94,783	8,213,501
Operating Income	310,968	80,997	500,264	(29,897)	862,332
Non-Operating Revenues					
Earnings on investments	2,087	1,056	1,244	404	4,791
Tapping fees	147,300	-	-	-	147,300
Interest expense	(171,657)	-	(280,332)	-	(451,989)
Amortization	(18,022)	-	(3,399)	-	(21,421)
Total Non-Operating Revenues (Expenses)	(40,292)	1,056	(282,487)	404	(321,319)
Income before contributions and fund transfers	270,676	82,053	217,777	(29,493)	541,013
Contributions and fund transfers					
Capital grant	-	-	-	677,230	677,230
Interfund transfers in	1,235,868	-	-	300,000	1,535,868
Interfund transfers out	(550,000)	(28,510)	(25,000)	(1,235,868)	(1,839,378)
Total Fund Transfers	685,868	(28,510)	(25,000)	(258,638)	373,720
Change in Net Position	956,544	53,543	192,777	(288,131)	914,733
Total Net Position (Deficit), Beginning	12,661,699	928,742	(415,995)	726,869	13,901,315
Total Net Position (Deficit), Ending	\$ 13,618,243	\$ 982,285	\$ (223,218)	\$ 438,738	\$ 14,816,048

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Fund	Golf Course Fund	Sewer Capital Reserve Fund	
Cash Flows from Operating Activities					
Cash received from customers	\$ 5,477,656	\$ 717,552	\$ 2,865,620	\$ 66,254	\$ 9,127,082
Cash payments to suppliers	(3,726,862)	(323,296)	(1,211,237)	(102,084)	(5,363,479)
Cash payments to employees	(233,860)	(298,191)	(761,640)	-	(1,293,691)
Cash payments to other governments	(23,875)	(18,785)	(57,032)	-	(99,692)
Net cash provided by (used) in operating activities	1,493,059	77,280	835,711	(35,830)	2,370,220
Cash Flows from Non-Capital Financing Activities					
Transfers in (out)	666,101	(28,510)	38,795	(935,868)	(259,482)
Tapping fees	147,300	-	-	-	147,300
Net cash provided by (used) in non-capital financing activities	813,401	(28,510)	38,795	(935,868)	(112,182)
Cash Flows from Capital and Related Financing Activities					
Capital grants received	-	-	-	677,230	677,230
Purchases of capital assets	(1,271,391)	(11,152)	(67,270)	-	(1,349,813)
Principal paid on long-term debt	(95,982)	-	(392,926)	-	(488,908)
Interest paid on long-term debt	(171,657)	-	(280,332)	-	(451,989)
Net cash provided by (used) in capital and related financing activities	(1,539,030)	(11,152)	(740,528)	677,230	(1,613,480)
Cash Flows from Investing Activities					
Earnings from investments	2,087	1,056	1,244	404	4,791
Net increase (decrease) in cash and cash equivalents	769,517	38,674	135,222	(294,064)	649,349
Cash and Cash Equivalents					
Beginning of year	290,410	321,472	611,053	744,518	1,967,453
End of Year	\$ 1,059,927	\$ 360,146	\$ 746,275	\$ 450,454	\$ 2,616,802

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Cash Flows
 Proprietary Funds
Year Ended December 31, 2012

	Enterprise Funds				Total Proprietary Funds
	<u>Sewer Fund</u>	<u>Community Pool Fund</u>	<u>Golf Course Fund</u>	<u>Sewer Capital Reserve Fund</u>	
Reconciliation of Operating Income to Net Cash Provided By (Used) In Operating Activities					
Operating income	\$ 310,968	\$ 80,997	\$ 500,264	\$ (29,897)	\$ 862,332
Adjustments to reconcile operating income to net cash provided by (used) in operating activities:					
Depreciation	953,692	(7,580)	312,671	-	1,258,783
(Increase) decrease in					
Accounts receivable	32,289	289	2,593	1,368	36,539
Inventory	-	-	(6,472)	-	(6,472)
Prepaid expenses	5,125	-	(2,860)	-	2,265
Increase (decrease) in					
Accounts payable	151,587	(603)	11,543	(7,301)	155,226
Accrued expense	39,398	4,177	3,262	-	46,837
Deferred revenue	-	-	14,710	-	14,710
Net Cash Provided By (Used) In Operating Activities	\$ 1,493,059	\$ 77,280	\$ 835,711	\$ (35,830)	\$ 2,370,220

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u>Pension Trust Funds</u>		<u>Deferred Retirement Option Plan Fund</u>	<u>Unemployment Compensation Trust Fund</u>	<u>Agency Fund</u>	<u>Total Fiduciary Funds</u>
	<u>Police Pension</u>	<u>Non-Uniform Pension</u>				
Assets						
Cash and cash equivalents	\$ 242,029	\$ 177,508	\$ -	\$ 50,910	\$ 655,267	\$ 1,125,714
Investments	7,937,101	5,129,453	333,880	-	-	13,400,434
Accounts receivable	-	-	-	-	108,130	108,130
Total assets	<u>8,179,130</u>	<u>5,306,961</u>	<u>333,880</u>	<u>50,910</u>	<u>763,397</u>	<u>14,634,278</u>
Liabilities						
Accounts payable	-	-	-	-	141,142	141,142
Due to developers	-	-	-	-	622,255	622,255
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>763,397</u>	<u>763,397</u>
Net Assets Held in Trust for Pension Benefits and Other purposes (Schedule of funding progress for the plan is on Page 56)	<u>\$ 8,179,130</u>	<u>\$ 5,306,961</u>	<u>\$ 333,880</u>	<u>\$ 50,910</u>	<u>\$ -</u>	<u>\$ 13,870,881</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combined Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2012

	<u>Pension Trust Funds</u>		<u>Deferred Retirement Option Plan Fund</u>	<u>Unemployment Compensation Trust Fund</u>	<u>Total Fiduciary Funds</u>
	<u>Police Pension</u>	<u>Non-Uniform Pension</u>			
Additions					
Contributions					
State aid	\$ 396,948	\$ -	\$ -	\$ -	\$ 396,948
Employer	174,970	354,504	-	-	529,474
Transfer from Police Pension	-	-	162,014	-	162,014
Investment income	858,962	533,534	4,178	137	1,396,811
Total additions	1,430,880	888,038	166,192	137	2,485,247
Deductions					
Administrative expenses	44,180	22,080	-	-	66,260
Benefits	541,625	206,640	-	4,720	752,985
Transfer to Deferred Retirement Option Plan	162,014	-	-	-	162,014
Total deductions	747,819	228,720	-	4,720	981,259
Change in Net Position	683,061	659,318	166,192	(4,583)	1,503,988
Net position held in trust for pension benefits and other purposes					
Beginning of year	7,496,069	4,647,643	167,688	55,493	12,366,893
End of year	<u>\$ 8,179,130</u>	<u>\$ 5,306,961</u>	<u>\$ 333,880</u>	<u>\$ 50,910</u>	<u>\$ 13,870,881</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Township of Lower Makefield** (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 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 United States 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 Standard Board (FASB) and AICPA Pronouncement statements to its governmental and business type activities and to its Proprietary Funds provided they do not conflict with or contradict GASB pronouncements.

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

Reporting Entity

The Township has adopted all applicable GASB Statements 33 through 64, with the exception of GASB Statement 61, since this Statement is not required to be adopted until the year ending December 31, 2013. The Township has not determined the effect of GASB Statement 61, or 65 through 70 on the financial statements since these GASB statements are pending.

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. 39, 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, 2012 annual financial report. The Authority is reported as if it was 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.

Management has elected not to include the following potential component units in the December 31, 2012 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.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

The Township reports the following major Governmental Funds:

General Fund

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

Capital Reserve Fund (Capital Project Fund)

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

Street Project Fund (Capital Project Fund)

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

9-11 Memorial Fund

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

Debt Service Fund

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

The Township reports the following major Proprietary Funds:

Sewer Fund

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

Community Pool Fund

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

Golf Course Fund

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

Sewer Capital Reserve Fund (Capital Project Fund)

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

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

Additionally, the Township reports the following fund types:

Special Revenue Funds

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

Pension Trust Funds

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

Deferred Retirement Option Plan Fund

The Deferred Retirement Option Plan Fund is used to account for the assets and liabilities held by the Township in a trustee capacity for policy officers within forty-eight months of retirement. (See Note J).

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.

Basis of Presentation and Accounting

Government Wide Financial Statements

The statement of net position 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 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 provided have been met.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

Government Wide Financial Statements (Continued)

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 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

The 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.

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 sixty 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 balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, 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 position (deficit). The statement of revenues, expenses and changes in net position (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in total net Position. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

Fund Financial Statements (Continued)

Proprietary Funds distinguished operating revenues and expenses from non-operating 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 revenue or expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

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

Cash Equivalents

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

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 United States Treasury, short-term obligations of the United States 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" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Inventory and Prepaid Expenditures/Expenses

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

The inventories on hand in the Golf Course Fund at December 31, 2012, consist of the following:

Pro Shop	\$51,773
Food and Beverage	<u>12,536</u>
	<u>\$64,309</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.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

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.

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

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

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

Deferred Revenue

Deferred revenue arises when 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 the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Tax Calendar

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

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

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

Compensated Absences

The Township accounts for compensated absences by complying with GASB Statement No. 16 *Accounting for Compensated Absences*. This statement requires a liability by 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 sixty 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. A new CBA was enacted effective January 1, 2010, which would extend the thirty month window an additional sixty months if an officer elected to retire by December 31, 2010.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

Deferred Charges

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

	<u>Deferred Charges</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Governmental Activities	\$ 200,633	\$ (49,432)	\$ 151,201
Business Type Activities			
Sewer Fund	270,368	(18,022)	252,346
Golf Course Fund	253,583	(40,356)	213,227
	<u>523,951</u>	<u>(58,378)</u>	<u>465,573</u>
	<u>\$ 724,584</u>	<u>\$ (107,810)</u>	<u>\$ 616,774</u>

Governmental Fund Balances

Generally, governmental fund balances represent the difference between the assets and liabilities under the current financial resources measurement focus of accounting. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in those resources can be spent. Fund balances are classified as follows:

Assigned – Fund balances are reported as assigned when amounts are constrained by the Township management's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Fund balances are reported as unassigned when the balances do not meet the above criteria.

Note B – 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, 2012, the Township's total cash and cash equivalents, including the pension funds cash equivalents, was \$8,800,269. The Township's bank balance was \$8,901,748, of which \$8,248,444 was uninsured and collateralized with securities held by the pledging bank's trust department not in the Township's name.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note B – DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2012, 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>Total</u>
	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>	<u>Deferred Retirement Option Plan</u>	
	Fixed Income Mutual Funds	\$ 3,164,165	\$ 2,048,348	
Equity Mutual Funds	3,576,750	2,314,417	-	5,891,167
Common Stock	1,196,186	766,688	-	1,962,874
Investment Contract	-	-	333,880	333,880
Total	\$ 7,937,101	\$ 5,129,453	\$ 333,880	\$ 13,400,434

<u>Investment Type</u>	<u>Investment Maturities</u>			<u>Total</u>
	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Five to Ten Years</u>	
Fixed Income Mutual Funds	\$ 5,212,513	\$ -	\$ -	\$ 5,212,513
Equity Mutual Funds	5,891,167	-	-	5,891,167
Common Stock	1,962,874	-	-	1,962,874
Investment Contract	333,880	-	-	333,880
Total	\$ 13,400,434	\$ -	\$ -	\$ 13,400,434

Interest Rate Risk

As a means of limiting its expose 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.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note B – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Restrictions (Continued)

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 G.

Note C – ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	<u>Governmental Type Funds</u>						
	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Street Project Fund</u>	<u>Debt Service Fund</u>	<u>Fire Protection Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 141,044	\$ -	\$ -	\$ -	\$ 6,838	\$ 13,827	\$ 161,709
Grants	-	198,802	-	-	-	-	198,802
Loan receivable	-	-	-	-	-	125,000	125,000
Other fees and assessments	237,297	-	51,804	14,435	-	729	304,265
Total	\$ 378,341	\$198,802	\$ 51,804	\$ 14,435	\$ 6,838	\$ 139,556	\$ 789,776

	<u>Proprietary Funds</u>	
	<u>Enterprise Funds</u>	<u>Fiduciary Funds</u>
Golf course	\$ 5,568	\$ -
Sewer billings	1,715,892	-
Due from developers	-	108,130
Total	\$ 1,721,460	\$ 108,130

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note D – INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

Interfund receivable / payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Golf Course Fund	\$ 25,000
Park and Recreation Fund	Capital Reserve Fund	\$ 30,000
Liquid Fuels Fund	General Fund	\$ 12,665

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

Interfund transfers are summarized as follow:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 412,728	\$ 300,000
Capital Reserve Fund	400,000	-
Street Project Fund	-	30,009
Debt Service Fund	233,446	38,760
Fire Protection Fund	-	58,640
Other Governmental Funds	10,000	325,255
Enterprise Funds		
Sewer Fund	1,235,868	550,000
Community Pool Fund	-	28,510
Gold Fund	-	25,000
Sewer Capital Reserve Fund	300,000	1,235,868
Total	<u>\$ 2,592,042</u>	<u>\$ 2,592,042</u>

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note E – CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>January 1,</u> <u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>December 31,</u> <u>2012</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 18,916,451	\$ 358,000	\$ -	\$ 19,274,451
Infrastructure	49,524,483	-	-	49,524,483
Construction in progress	3,685	-	-	3,685
Total capital assets not being depreciated	68,444,619	358,000	-	68,802,619
Capital assets being depreciated				
Infrastructure	1,470,615	-	-	1,470,615
Land improvements	7,457,377	12,176	-	7,469,553
Buildings and improvements	7,196,252	-	-	7,196,252
Furniture and equipment	3,208,032	-	-	3,208,032
Vehicles	4,530,460	108,192	(69,301)	4,569,351
	23,862,736	120,368	(69,301)	23,913,803
Accumulated depreciation	(13,597,107)	(974,185)	45,501	(14,525,791)
Total capital assets, net	10,265,629	(853,817)	(23,800)	9,388,012
Total governmental activities capital assets, net	78,710,248	(495,817)	(23,800)	78,190,631
Business Activities				
Capital assets not being depreciated				
Land	4,202,081	-	-	4,202,081
Construction in progress	-	14,713	-	14,713
Total capital assets not being depreciated	4,202,081	14,713	-	4,216,794
Capital assets being depreciated				
Land improvements	8,064,191	7,247	-	8,071,438
Plant and pools	40,729,662	1,248,179	-	41,977,841
Buildings and improvements	3,125,096	15,195	-	3,140,291
Furniture and equipment	1,269,803	64,480	-	1,334,283
Total capital assets being depreciated	53,188,752	1,335,101	-	54,523,853
Accumulated depreciation	(24,843,404)	(1,258,784)	-	(26,102,188)
Total capital assets, net	28,345,348	76,317	-	28,421,665
Total business activity capital assets, net	32,547,429	91,030	-	32,638,459
Total capital assets, net	\$ 111,257,677	\$ (404,787)	\$ (23,800)	\$ 110,829,090

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 42,394
Public Safety	278,954
Public Works	285,352
Parks and Recreation	<u>367,485</u>
	\$974,185

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note F – LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Township for the year ended December 31, 2012:

	Principal Outstanding January 1, 2012	Additions	Deletions / Maturities	Principal Outstanding December 31, 2012	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
Series of 2011	\$ 609,780	\$ -	\$ (7,245)	\$ 602,535	\$ 7,450
Series of 2010	4,930,000	-	(65,000)	4,865,000	305,000
Series A of 2010	4,185,000	-	(630,000)	3,555,000	570,000
General Obligation Notes:					
Series of 2004	2,457,000	-	(104,000)	2,353,000	108,000
Notes Payable:					
Commonwealth of PA:					
PEMA	73,531	-	(9,761)	63,770	9,958
PNC Bank	107,991	-	(46,464)	61,527	48,668
Deferred amounts:					
Issuance premiums	235,653	-	(32,115)	203,538	29,054
Total	12,598,955	-	(894,585)	11,704,370	1,078,130
Net OPEB obligation	307,524	164,481	(87,600)	384,405	384,405
Compensated absences	909,692	69,200	-	978,892	-
Total Government Activities	13,816,171	233,681	(982,185)	13,067,667	1,462,535
Business Activities					
General Obligation Bonds:					
Series of 2011	7,575,220	-	(92,755)	7,482,465	92,550
Series of 2010	5,695,000	-	(385,000)	5,310,000	525,000
General Obligation Notes:					
Series A of 2002	3,470,000	-	-	3,470,000	-
Series B of 2002	5,036,000	-	-	5,036,000	-
Deferred amounts					
Issuance net premiums	169,991	-	(11,153)	158,838	14,985
Total business type activities	21,946,211	-	(488,908)	21,457,303	632,535
Total long-term liabilities	\$35,762,382	\$ 233,681	\$ (1,471,093)	\$34,524,970	\$2,095,070

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note F – LONG-TERM LIABILITIES (Continued)

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

General Obligation Note, Series of 2004

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

\$ 2,353,000

General Obligation Bonds, Series A of 2010

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

3,555,000

General Obligation Note, Series of 2010

Payable to BNY Mellon for the purpose of advance refunding the Township's General Obligation Note Series B of 2001 of \$4655,000 and refunding the General Obligation Bond Series of 2005 of \$6,385,000 and pay the costs of issuing bonds; principal is payable annually beginning June 2010, interest is payable semi-annually beginning June 2010, at rates ranging from 2% to 3%, with maturity scheduled for December 2021.

10,175,000

Commonwealth of Pennsylvania Emergency Management Agency

Note payable 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.

63,770

PNC Bank

Note payable 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 interest to the Township.

61,527

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

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note F – LONG-TERM LIABILITIES (Continued)

General Obligation Note, Series B 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.

5,036,000

General Obligation Bonds, Series of 2011

Issued in 2011 for the purpose of currently refunding the Series of 2006 General Obligation Bonds and paying the cost of issuing the bonds, principal will be payable annually beginning September 2012, interest will be payable semi-annually beginning March 2012, at fixed intervals, ranging from 2.0% to 3.50%, with maturity scheduled for September 2031.

8,085,000

\$32,799,297

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, 2012 was \$735,261. Interest costs incurred and charged to expenditures for the year ended December 31, 2011 were \$13,365 in the Fire Fund \$269,907 in the Debt Service Fund, \$171,657 in the Sewer Fund and \$280,332 in the Golf Course Fund.

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>
2013	\$ 1,666,626	\$ 1,013,583	\$ 2,680,209
2014	1,669,582	969,674	2,639,256
2015	1,912,166	917,093	2,829,259
2016	2,081,629	1,294,915	3,376,544
2017	2,132,113	801,434	2,933,547
2018 to 2022	9,899,181	3,116,950	13,016,131
2023 to 2027	6,988,000	1,843,551	8,831,551
2028 to 2032	6,450,000	573,475	7,023,475
	<u>\$ 32,799,297</u>	<u>\$ 10,530,675</u>	<u>\$ 43,329,972</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 any point of time. The Township's bonded indebtedness as of the statement of net assets date is not in excess of statutory limits.

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

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note G – DEFINED BENEFIT PENSION PLANS

Description of Plans

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

At January 1, 2011 (the most recent valuation date), the Township's pension plan membership consisted of:

	<u>Police Pension Plan</u>	<u>Non-Uniform Pension Plan</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	18	30
Current employees	<u>36</u>	<u>36</u>
Total membership	<u>54</u>	<u>66</u>

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, 2012, the plan's assets were managed by Glenmede Trust Company. All benefits vest after twelve years of credited service. Employees who retire at or after age fifty five with twenty-five 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 the age sixty-five, 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, 2012, 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 sixty-five with five years of credited service are entitled to an annual retirement benefit paid monthly for life in an amount equal to 2.00% of average annual compensation multiplied by credited service up to thirty 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 fifty-five and receive a reduced retirement benefit.

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

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements December 31, 2012

Note G – DEFINED BENEFIT PENSION PLANS (Continued)

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 revenue 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 plans 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, 2012, there were no investments of the Police Pension Plan (other than United States Government and United States Government guaranteed obligations and mutual funds) in any one organization that represented 5% or more of net assets available for benefits. Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

At December 31, 2012, there were no investments of the Non-Police Pension Plan (other than United States Government and United States Government guaranteed obligations) in any one organization that represented 5% or more of net assets available for benefits. Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

The Schedules of Funding Progress and Schedule of Contributions from employer and other contributing entities are presented as required supplementary information (RSI) following the notes to the financial statements present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation follows.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note G – DEFINED BENEFIT PENSION PLANS (Continued)

Police Pension Plan

Valuation date	January 1, 2011
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	18.17 years
Assets valuation method	5 year smoothing method
Actuarial assumptions	
Investment rate of return	8% per annum
Projected salary increases	5% compounded annually

Non-Uniform Pension Plan

Valuation date	January 1, 2011
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	11.63 years
Assets valuation method	5 year smoothing method
Actuarial assumptions	
Investment rate of return	8% per annum
Projected salary increases	5% compounded annually

Note H – 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 \$432,326 as of December 31, 2012.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements December 31, 2012

Note I – 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 Statements 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

Note J – 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 twenty-five years of credited service and attaining the age of fifty-five. When electing to participate in the DROP, the employee must resign from employment no less than twelve months and no more than forty eight 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.

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 accrued, 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 thirty 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.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note J – DEFERRED RETIREMENT OPTION PLAN (Continued)

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 occurs, 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 occurs 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.

Note K – COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Equipment Lease

In May 2012, the Township entered into a new lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$6,694, including interest, beginning June 2012 through May 2016. At the end of the lease term, the Township has the option to purchase the golf carts for the total of all rents still outstanding, including accrued interest, and the termination value of \$112,250. The lease is not being treated as a capital lease because the Township has no intention of purchasing the golf carts at the end of the lease. Therefore, the total value of the equipment has not been included in the capital assets of the Golf Course Fund. Total rent expense for the year ended December 31, 2012 was \$69,035.

The future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31</u>	
2013	\$ 80,328
2014	80,328
2015	80,328
2016	<u>33,470</u>
	<u>\$274,454</u>

Self-Insured Unemployment Compensation

The Township self-insured for unemployment compensation coverage. A reserve of \$50,910 is established at December 31, 2012. During 2012, there were several claims totaling \$4,172.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note K – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Litigation

The Township is the defendant in several lawsuits arising in the normal course of operations. A matter that is material pending or threatening litigation is a condemnation matter that originated in 1996 and went to trial in 2008, resulting in a judgment against the Township, with a potential liability of over two million dollars. The matter has been appealed to the Commonwealth Court and it is uncertain as to its likely success on appeal. Several issues that have been raised are considered to be meritorious and the terms of success cannot be predicted. Due to the uncertainty of the outcome of this matter, no provision for loss has been recorded. The Pennsylvania Supreme Court has agreed to hear the case and allow as evidence previous information that was not allowed by the lower courts. This evidence is pivotal to the Township's defense. The matter was resolved in early 2013. See Note S - Subsequent Event.

Note L – 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 a 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 risk of loss, including worker's 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.

Note M – 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.

Note N – 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 twelve years. The outstanding balance is \$20,531 at December 31, 2012.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note N – ACQUISITION (Continued)

In November of 2012, Lower Makefield Township loaned the Yardley-Makefield Emergency Unit \$125,000 to fund operations. This loan is supported by a promissory note and is shown in the Townships accounts receivable. The note is interest free and is due on demand.

Note O – MANAGEMENT AGREEMENT

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

The fee structure is as follows:

Year 1	\$7,500 per month
Year 2	\$7,500 per month
Year 3	\$7,500 per month

Note P – DERIVATIVE FINANCIAL INSTRUMENTS

The Township entered into its General Obligation Notes, Series of 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 rates on these loans, to reduce the costs of participants in the loan program and to enhance the ability of participants to manage their interest rate risks. If the Township defaults on all or a portion of the general obligation notes with DVRFA, it may owe costs, if any, associated with the liquidation or termination of the respective variable rate swaps used by the DVRFA to provide the variable rates to the Township.

The following is a summary of the Township's general obligation notes with DVRFA and the estimated fair market value of the swap agreements at December 31, 2012:

<u>General Obligation Notes</u>	<u>Original Issue Amount</u>	<u>Outstanding at December 31, 2012</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>
Series of 2002A	\$ 10,300,000	\$ 3,470,000	\$ 738,860
Series of 2002B	5,661,000	5,036,000	1,072,305
Series 2004	3,000,000	2,353,000	501,019
	<u>\$ 18,961,000</u>	<u>\$ 10,859,000</u>	<u>\$ 2,312,184</u>

With the execution of the variable rate swap agreement and in accordance with GASB 53, "Accounting and Reporting for Derivative Instruments", the Township accounts for the interest rate under both the consistent critical terms and quantitative methods standards of GASB 53. However, because the Township is not entitled to termination benefits per the swap agreements, the value of the swaps at December 31, 2012 are not reflected in the Statement of Net Position of the Township

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note Q – 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 ninety 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, 2012. See Note P – Derivative Financial Instruments.

A comparison of carrying value and fair value as of December 31, 2012 is as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Assets		
Cash and cash equivalents (See Note B)	\$ 8,800,269	\$ 8,800,269
Investments (See Note B)	\$ 13,400,434	\$ 13,400,434
Liabilities		
Bonds payable (See Note F)	\$ 21,815,000	\$ 21,815,000
Notes payable (See Note F)	\$ 10,984,297	\$ 10,984,297
Derivative Financial Instruments		
See Note P.	\$ 2,312,184	\$ 2,312,184

Note R – POST RETIREMENT HEALTH BENEFITS

Plan Description

The Township provides a defined benefit group health plan for retirees. The retiree group health plan provides the first thirty months of benefits for eligible retirees and their dependents. Benefit coverage includes medical, dental, prescription, and life insurance. The Township offered a termination benefit to employees who retired on or before December 31, 2010. The entire medical, dental and prescription drug benefits that were provided to employees at the time will be provided for a period of ninety-six months, as compared to thirty months available for other retired members, at the Township's cost. Currently, five retirees are receiving benefits for a ninety-six month period. Benefit provisions are established annually by the Supervisors.

Current benefit provisions are as follows:

Single Member	\$ 6,400 per year
Member with Dependents	\$14,600 per year

In order to be eligible for the Township's contribution, the retiree must have a minimum of twenty years of service for police and twenty-five years for public works.

Funding Policy

The Township's Board of Supervisors will not be funding the plan in the current year. The Supervisors will review the funding requirements and policy annually.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note R – POST RETIREMENT HEALTH BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No.45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess). The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual required contributions	\$ 164,481
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>164,481</u>
Estimated contributions	<u>87,600</u>
Increase in net OPEB obligation	76,881
Net OPEB obligation, beginning of year	<u>307,524</u>
Net OPEB obligation, end of year	<u><u>\$ 384,405</u></u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three fiscal years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 164,481	53%	\$ 76,881
December 31, 2011	\$ 164,481	53%	\$ 76,881
December 31, 2012	\$ 164,481	53%	\$ 76,881

Funding Status and Funding Progress

As of January 1, 2012, the actuarial accrued liability (AAL) for benefits was \$1,848,732, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note R – POST RETIREMENT HEALTH BENEFITS (Continued)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age sixty for police and sixty-five for public works, or at the first subsequent year in which the member would qualify for benefits.

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in Paragraph 35 of GASB Statement No.45. In addition, the expected future working life times of employees were determined using Table 2 in Paragraph 35c of GASB Statement No.45.

Healthcare cost trend – Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment.

Health insurance premiums – 2012 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Payroll increase – Changes in the payroll for current employees are expected to increase at a rate of approximately 2.0% annually.

Discount rate – The calculation uses an annual discount rate of 2%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method – The entity age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed thirty year basis.

Plan for Funding

On an ongoing basis, the Township will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

TOWNSHIP OF LOWER MAKERFIELD

Notes to the Basic Financial Statements
December 31, 2012

Note R – POST RETIREMENT HEALTH BENEFITS (Continued)

Required Supplementary Information: Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Accrued Liability</u> <u>(AAL)</u> <u>Entry Age</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Unfunded</u> <u>Liability</u> <u>(UAAL)</u>	<u>Funded</u> <u>Status</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAAL</u> <u>As a % of</u> <u>Payroll</u>
1/1/2012	\$ 1,848,732	\$ -	\$ 1,848,732	0%	\$ 4,592,288	40.3%

Note S – RESTATEMENT OF NET POSITION

At December 31, 2011, the net OPEB obligation described in Note R was not recognized in Statement of Net Position of the Township, resulting in an overstatement in the net position of the Township of \$307,524. The "Net Position at Beginning of Year" as previously stated in the Statement of Activities was reduced by \$307,524.

Note T – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 17, 2013, the date which the financial statements were available to be issued, and management has identified the following subsequent event requiring disclosure in the financial statements.

As described in Note K - Litigation, the Township is involved in one lawsuit arising in the normal course of operations. The suit that resulted from the condemnation of land that was used to purchase and build Makefield Highlands Golf Course, originating in 1996, was resolved, and the plaintiff was awarded approximately \$3.23 million. This verdict was handed down by the Pennsylvania Supreme Court and no further appeals are available. The township will be utilizing its debt capacity to fund this award, and revenues from the golf course will pay the new debt service. This matter, now resolved and closed, had been in litigation for many years.

**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
General Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,446,816	\$ 6,776,500	\$ 6,720,346	\$ (56,154)
Licenses, permits and fees	972,383	1,100,060	1,183,407	83,347
Fines, forfeits and costs	89,000	137,500	114,857	(22,643)
interest earnings and rental income	393,756	307,460	338,908	31,448
Intergovernmental revenues	28,107	472,566	657,871	185,305
Charges for services	442,489	536,100	561,399	25,299
Contributions	10,250	2,100	2,844	744
Miscellaneous	385,634	35,400	101,890	66,490
Total revenues	7,768,435	9,367,686	9,681,522	313,836
Expenditures				
General government	1,381,701	1,407,405	1,462,620	55,215
Public safety	3,469,828	4,200,560	4,974,589	774,029
Public works	1,692,416	1,271,870	1,306,342	34,472
Capital outlay	-	300,000	12,176	(287,824)
Insurance	326,075	326,000	325,384	(616)
Employee benefits	1,549,550	1,802,000	1,605,749	(196,251)
Total expenditures	8,419,570	9,307,835	9,686,860	379,025
Excess (Deficiency of Revenues Over Expenditures)	(651,135)	59,851	(5,338)	(65,189)
Other Financing Sources (Uses)				
Refund prior year expenditure	-	-	149,413	149,413
Sale of capital assets	10,000	-	2,225	2,225
Transfers in	311,591	-	412,728	412,728
Transfers out	-	(816,171)	(300,000)	516,171
Total other financing sources (uses)	321,591	(816,171)	264,366	1,080,537
Net increase (decrease) in fund balance	(329,544)	(756,320)	259,028	\$ 1,015,348
Fund Balance, Beginning	1,429,252	1,615,002	1,615,002	
Fund Balance, Ending	\$ 1,099,708	\$ 858,682	\$ 1,874,030	

See notes to required supplementary information.

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
Debt Service Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Revenues			
Real estate taxes	\$ 1,003,000	\$ 969,898	\$ (33,102)
Interest earnings	250	2,546	2,296
Miscellaneous income	<u>-</u>	<u>38,661</u>	<u>38,661</u>
Total revenues	<u>1,003,250</u>	<u>1,011,105</u>	<u>7,855</u>
Expenditures			
Debt service			
Principal	855,413	855,225	(188)
Interest	<u>685,559</u>	<u>269,907</u>	<u>(415,652)</u>
Total expenditures	<u>1,540,972</u>	<u>1,125,132</u>	<u>(415,840)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(537,722)</u>	<u>(114,027)</u>	<u>423,695</u>
Other Financing Sources (uses)			
Operating transfers in	233,446	233,446	-
Operating transfers out	<u>-</u>	<u>(38,760)</u>	<u>(38,760)</u>
Total other financing sources (uses)	<u>233,446</u>	<u>194,686</u>	<u>(38,760)</u>
Net increase (decrease) in fund balance	<u>(304,276)</u>	<u>80,659</u>	<u>\$ 384,935</u>
Fund Balance, Beginning	<u>823,571</u>	<u>823,571</u>	
Fund Balance, Ending	<u>\$ 519,295</u>	<u>\$ 904,230</u>	

See notes to required supplementary information.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Budgetary Comparison Statement Year Ended December 31, 2012

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 twenty 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 by 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 United States general accepted accounting principles.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the following General Fund object levels (the legal level of the budgetary control):

General fund	\$ 55,215
Public safety	\$774,029
Public works	\$ 34,472

These over expenditures were funded by available fund balance in the General Fund.

TOWNSHIP OF LOWER MAKEFIELD

Trend Data on Infrastructure Condition Year Ended December 31, 2012

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 United States 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 service. The Township's policy is to maintain the street condition at a level of sixty five or better. The results of the last inspection were:

<u>Period</u>	<u>Evaluation Rating</u>
2011	65

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

<u>Period</u>	<u>Budget</u>	<u>Actual</u>
2012	\$520,000	\$454,026

The prior year expenditures were the same as the budgeted amount. The current year expenditures were \$65,974 under the budgeted amount.

The next inspection of Township roadways is scheduled to be completed in early 2013.

TOWNSHIP OF LOWER MAKEFIELD

Pension Plan Funding Progress
Ended December 31, 2012

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's 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:

Uniform Pension Plan

Actuarial Valuation Date January 1,	Actuarial Value of Assets a	Accrued Liability (AAL) Entry Age b	Unfunded AAL (UAAL) b - a	Funded Ratio a/b	Annual Covered Payroll c	Percentage of Annual Covered Payroll (b-a) / c
2001	5,551,269	5,830,396	279,127	95.2%	1,532,797	18.2%
2003	5,432,735	6,658,810	1,226,075	81.6%	1,730,301	70.9%
2005	6,517,334	7,594,862	1,077,528	85.8%	2,225,538	48.4%
2007	7,679,178	8,440,447	761,269	91.0%	2,246,198	33.9%
2009	7,795,871	10,022,136	2,226,265	77.8%	2,301,929	96.7%
2011	8,184,092	11,223,302	3,039,210	72.9%	3,028,049	100.4%

Non-Uniform Pension Plan

Actuarial Valuation Date January 1,	Actuarial Value of Assets a	Accrued Liability (AAL) Entry Age b	Unfunded AAL (UAAL) b - a	Funded Ratio a/b	Annual Covered Payroll c	Percentage of Annual Covered Payroll (b-a) / c
2001	2,191,322	2,315,191	123,869	94.6%	1,431,783	8.7%
2003	2,302,164	2,878,254	576,090	80.0%	1,629,357	35.4%
2005	2,977,214	3,986,028	1,008,814	74.7%	1,740,803	58.0%
2007	3,907,249	4,426,551	519,302	88.3%	1,592,265	32.6%
2009	4,359,510	5,068,804	709,804	86.0%	1,987,208	35.7%
2011	4,865,807	6,153,975	1,288,168	79.1%	2,131,981	60.4%

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

The actuarial accrued liability measure was determined as part of the calculation to determine the actuarially determined contribution requirement that was made at January 1, 2011. The entry age normal funding method was used to calculate the actuarial accrued liability. Significant actuarial assumptions include:

- A rate of return on the investment of present and future assets of 8.00% per year.
- Projected salary increases of 5% per year compounded annually, attributable to inflation.

Pension Plan Funding Progress
Ended December 31, 2012

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.

Schedules of Contributions from the Employer and Other Contributing Entities:

Police Pension Plan

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution*</u>	<u>State Aid</u>	<u>Employer</u>	<u>Total</u>	<u>Percentage</u> <u>Contributed</u>
2005	\$ 348,424	\$ 286,824	\$ 61,600	\$ 348,424	100.00%
2006	316,627	305,764	10,863	316,627	100.00%
2007	353,655	330,258	23,397	353,655	100.00%
2008	343,677	328,192	15,485	343,677	100.00%
2009	325,502	312,801	12,701	325,502	100.00%
2010	565,286	352,598	212,688	565,286	100.00%
2011	456,011	342,936	113,075	456,011	100.00%
2012	571,918	396,948	174,970	571,918	100.00%

Non-Uniformed Pension Plan

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution*</u>	<u>State Aid</u>	<u>Employer</u>	<u>Total</u>	<u>Percentage</u> <u>Contributed</u>
2005	\$ 203,574	\$ -	\$ 203,574	\$ 203,574	100.00%
2006	280,732	-	280,732	280,732	100.00%
2007	268,812	-	268,812	268,812	100.00%
2008	241,835	-	241,835	241,835	100.00%
2009	220,264	-	220,264	220,264	100.00%
2010	301,072	-	301,072	301,072	100.00%
2011	261,479	-	261,479	261,479	100.00%
2012	354,504	-	354,504	354,504	100.00%

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

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD

Combining Balance Sheet
Other Governmental Funds
December 31, 2012

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Traffic Impact Fund	Regency Bridge Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
Assets										
Cash	\$ (5,960)	\$ 10,282	\$ 164,934	\$ 66,300	\$ 88,776	\$ 433,887	\$ 71,050	\$ 588,763	\$ (91,808)	\$ 1,326,224
Accounts receivable		2,203	10,454						126,899	139,556
Interfund receivable		-	30,000					12,665		42,665
Prepaid expenses		11,664								11,664
Restricted assets										
Escrow deposits			1,400							1,400
Total Assets	\$ (5,960)	\$ 24,149	\$ 206,788	\$ 66,300	\$ 88,776	\$ 433,887	\$ 71,050	\$ 601,428	\$ 35,091	\$ 1,521,509
Liabilities										
Accounts payable	\$ 6,209	\$ 23,343	\$ 6,776	\$ -	\$ -	\$ -	\$ -	\$ 3,658	\$ -	\$ 39,986
Accrued expenses	-	-	16,185	-	-	-	-	-	-	16,185
Member deposits	-	-	1,400	-	-	-	-	-	-	1,400
Total Liabilities	6,209	23,343	24,361	-	-	-	-	3,658	-	57,571
Deferred Inflows of Resources										
Deferred taxes and rental receipts	-	2,203	9,725	-	-	-	-	-	1,900	13,828
Fund Balances										
Unreserved for:										
Special revenue funds	(12,169)	(1,397)	172,702	66,300	88,776	433,887	71,050	597,770	33,191	1,450,110
Total Fund Balances	(12,169)	(1,397)	172,702	66,300	88,776	433,887	71,050	597,770	33,191	1,450,110
Total Liabilities and Fund Balances	\$ (5,960)	\$ 21,946	\$ 197,063	\$ 66,300	\$ 88,776	\$ 433,887	\$ 71,050	\$ 601,428	\$ 33,191	\$ 1,507,681

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2012

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Traffic Impact Fund	Regency Bridge Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
Revenues										
Real estate taxes	\$ -	\$ 140,742	\$ 651,971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129,187	\$ 921,900
Interest earnings	15	78	980	137	214	1,066	100	768	24	3,382
Rental income	-	-	51,920	-	-	-	-	-	-	51,920
Intergovernmental revenues	-	-	-	-	-	-	-	734,042	-	734,042
Charges for services	33,643	-	106,176	-	-	-	-	-	-	139,819
Contributions	-	-	-	28,380	-	14,145	-	-	-	42,525
Miscellaneous income	-	-	7,484	-	-	-	70,950	-	-	78,434
Total Revenues	33,658	140,820	818,531	28,517	214	15,211	71,050	734,810	129,211	1,972,022
Expenditures										
Public safety	-	-	-	-	-	-	-	-	124,650	124,650
Public works	41,526	147,296	-	-	-	12,430	-	334,547	-	535,799
Parks and recreation	-	-	624,149	-	-	-	-	-	-	624,149
Total Expenditures	41,526	147,296	624,149	-	-	12,430	-	334,547	124,650	1,284,598
Excess of Revenues Over (Under Expenditures)	(7,868)	(6,476)	194,382	28,517	214	2,781	71,050	400,263	4,561	687,424
Other Financing Sources (Uses)										
Refund of prior year expenditure	-	-	6,882	-	-	-	-	-	-	6,882
Operating transfers in	-	-	10,000	-	-	-	-	-	-	10,000
Operating transfers out	(1,245)	(5,014)	(304,673)	(10,000)	-	-	-	-	(4,323)	(325,255)
Total Other Financing Sources (Uses)	(1,245)	(5,014)	(287,791)	(10,000)	-	-	-	-	(4,323)	(308,373)
Net Increase (Decrease) in Fund Balances	(9,113)	(11,490)	(93,409)	18,517	214	2,781	71,050	400,263	238	379,051
Fund Balances, Beginning	(3,056)	10,093	266,111	47,783	88,562	431,106	-	197,507	32,953	1,071,059
Fund Balances, Ending	\$ (12,169)	\$ (1,397)	\$ 172,702	\$ 66,300	\$ 88,776	\$ 433,887	\$ 71,050	\$ 597,770	\$ 33,191	\$ 1,450,110

See accompanying notes to the basic financial statements.