

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD
(A Component Unit of the Township of Lower Makefield)**

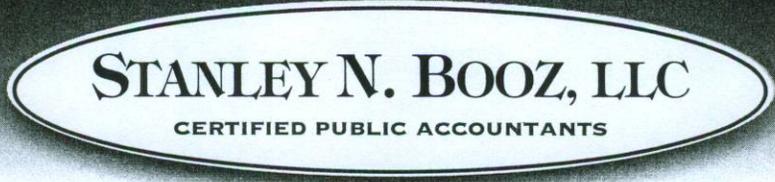
FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD
(A Component Unit of the Township of Lower Makefield)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
THE MUNICIPAL SEWER AUTHORITY
OF THE TOWNSHIP OF LOWER MAKEFIELD
Yardley, Pennsylvania

We have audited the accompanying financial statements of THE MUNICIPAL SEWER AUTHORITY OF THE TOWNSHIP OF LOWER MAKEFIELD (a component unit of the Township of Lower Makefield) as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of THE MUNICIPAL SEWER AUTHORITY OF THE TOWNSHIP OF LOWER MAKEFIELD's management. Our responsibility is to express an opinion on these financial statements based on our audit.

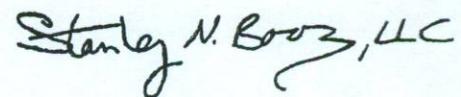
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of THE MUNICIPAL SEWER AUTHORITY OF THE TOWNSHIP OF LOWER MAKEFIELD as of December 31, 2010 and 2009, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 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.

June 23, 2011

STANLEY N. BOOZ, LLC
Certified Public Accountants

A handwritten signature in black ink that reads "Stanley N. Booz, LLC". The signature is written in a cursive, flowing style.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**
(A Component Unit of the Township of Lower Makefield)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2010

Our discussion and analysis of The Municipal Sewer Authority of the Township of Lower Makefield's (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Authority's financial statements, which begin with the Balance Sheet.

FINANCIAL HIGHLIGHTS

- Revenue from tapping fees was \$9,820 in 2010, a decrease of \$9,820 compared to the 2009 tapping fees. The decline in tapping fees is consistent with the level of development within the township. There were no sewer dedications in 2010.
- The assets of the Authority exceeded its liabilities by \$19,082,230 (net assets).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's annual report consists of several sections. Taken together, they provide a comprehensive financial look at the Authority. The components of the report include the Independent Auditor's Report, Management Discussion and Analysis, Financial Statements and Notes to the Basic Financial Statements.

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

Management's Discussion and Analysis (MD&A), prepared by the 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 Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and the Notes to the Basic Financial Statements.

- The Balance Sheets show the financial condition of the Authority at the end of the fiscal period or a specific snapshot in time.
- The Statements of Revenues, Expenses and Changes in Net Assets measure the results of operations of the Authority during the fiscal period.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD
(A Component Unit of the Township of Lower Makefield)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

FOR THE YEAR ENDED DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

- 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 Authority's financial condition.

REPORTING

As stated in Note 1 of the Notes to the Basic Financial Statements, The Municipal Sewer Authority of the Township of Lower Makefield was incorporated pursuant to the Municipal Authorities Act 22 of 2001 for the purpose of owning the sanitary sewage collection system and to provide the system for the Township of Lower Makefield's use. A five member board, appointed by the Township Board of Supervisors, governs the Authority. Members of this Board serve five-year terms. Although legally separate, the Authority is considered a component unit of the Township of Lower Makefield because the Township is financially accountable for it. The Authority owns 13 pump stations and approximately 230 miles of sewer lines. The Authority leases the sewer system to the Township for operation and use for \$1 per year. This lease agreement began on December 1, 1991, expired on March 14, 2005, and was renewed on August 2, 2006, for just over 25 years, and having a lease end date of December 31, 2031. This extension makes the lease co-terminus with the sewer system debt service.

The assets of the Authority are comprised 100% of Property, Plant and Equipment. Accumulated Depreciation in 2010 reflects 48.68% of total capital assets, and, in 2009, this percentage was 46.73%.

Tapping fees, the source of revenue for the Authority, were \$9,820 for the year 2010. This compares to \$19,640 in 2009. Revenue from this source has been declining with the rate of development in the Township. The Authority expects this to begin to increase over the next few years with the age restricted housing development currently under construction within the township.

REQUESTS FOR INFORMATION

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

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**

(A Component Unit of the Township of Lower Makefield)

STATEMENTS OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEETS

DECEMBER 31,

	<u>2010</u>	<u>2009</u>
ASSETS		
Property, Plant and Equipment		
Sewer System		
Constructed	\$ 15,588,417	\$ 15,528,917
Dedicated	13,245,072	13,245,072
Contributions to Other Authorities	8,348,166	8,246,305
	37,181,655	37,020,294
 Accumulated Depreciation	 (18,099,425)	 (17,299,059)
 TOTAL ASSETS	 19,082,230	 19,721,235
 LIABILITIES		
Accounts Payable	_____	_____
 TOTAL LIABILITIES	 -	 -
 NET ASSETS		
Invested in Capital Assets	\$ 19,082,230	\$ 19,721,235

The accompanying notes are an integral part of these financial statements.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**

(A Component Unit of the Township of Lower Makefield)

STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEARS ENDED DECEMBER 31,

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Tapping Fees	\$ 9,820	\$ 19,640
DEPRECIATION	<u>800,366</u>	<u>801,635</u>
LOSS FROM OPERATIONS	<u>(790,546)</u>	<u>(781,995)</u>
CONTRIBUTIONS AND TRANSFERS		
Transfer to the Township of Lower Makefield Sewer Fund	(9,820)	(19,640)
Capital Constructed	59,500	
Capital Contributions	<u>101,861</u>	<u>178,707</u>
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>151,541</u>	<u>159,067</u>
CHANGE IN NET ASSETS	(639,005)	(622,928)
NET ASSETS AT BEGINNING OF YEAR	<u>19,721,235</u>	<u>20,344,163</u>
NET ASSETS AT END OF YEAR	<u>\$ 19,082,230</u>	<u>\$ 19,721,235</u>

The accompanying notes are an integral part of these financial statements.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**
(A Component Unit of the Township of Lower Makefield)
NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Municipal Sewer Authority of the Township of Lower Makefield (the Authority) was incorporated pursuant to the Municipality Authorities Act 22 of 2001, as amended. The Authority was created to own the sanitary sewage collection system and provide the system for the Township of Lower Makefield's (the Township) use.

For financial reporting purposes, the Authority is a component unit of the Township. There are no component units included in the accompanying financial statements.

Basis of Accounting

The measurement focus is on the flow of economic resources and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred.

Property, Plant and Equipment/Contributed Capital

Property, plant and equipment are stated at cost and include the cost of system additions and improvements contributed to the Authority by the Township and other parties, primarily developers. Capital contributions are recorded upon dedication of improvements to the Authority and acceptance of such improvements by the Board of Supervisors. Depreciation is provided using the straight line method over estimated useful lives of 25 to 40 years.

Use of Estimates

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

Statement of Cash Flows

The statement of cash flows is not meaningful and, therefore, is not presented.

**THE MUNICIPAL SEWER AUTHORITY OF THE
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(A Component Unit of the Township of Lower Makefield)
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. TAPPING FEES

Pursuant to Act 203 of 1990 of the General Assembly of the Commonwealth of Pennsylvania, the Authority has adopted a resolution charging a tapping fee for each property connecting to a sewer system.

3. CONTRIBUTIONS TO OTHER AUTHORITIES

The Authority has entered into agreements with certain adjoining municipal authorities in order to guarantee treatment capacity at the Municipal Authority of the Borough of Morrisville's sewage treatment plant and to guarantee the right to connect to and transport through the Yardley Borough Sewer Authority's system. Under terms of the agreement, the Authority has made capital contributions representing its pro rata share for joint use or expansion of the facilities. Cumulative contributions to these authorities are \$8,348,166.

4. CAPITAL CONSTRUCTED

Capital Constructed for a system improvement for 2010 was \$59,500 in 2010.

5. CAPITAL CONTRIBUTIONS

Capital Contributions in the form of system improvements and expansion were \$101,861 in 2010 and \$178,707 in 2009, including Township contributions of \$101,861 in 2010 and \$178,707 in 2009.

6. LEASE AGREEMENT

On December 1, 1991, the Authority entered into a lease agreement with the Township. The Authority leases the sewer system to the Township for operation and use for one dollar (\$1) per annum. The agreement expired on March 14, 2005, and was renewed on August 2, 2006, for a term of 25 years, expiring in December of 2031. The payment remains at \$1 per annum.