

TOWNSHIP OF LOWER MAKEFIELD

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2008

TOWNSHIP OF LOWER MAKEFIELD

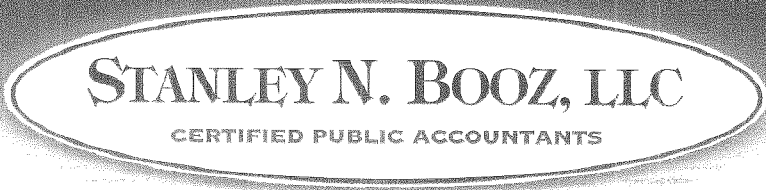
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD, Yardley, Pennsylvania, as of and for the year ended December 31, 2008, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the TOWNSHIP OF LOWER MAKEFIELD's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD, as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26 , 2009, on our consideration of the TOWNSHIP OF LOWER MAKEFIELD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TOWNSHIP OF LOWER MAKEFIELD's basic financial statements. The combining statements listed on the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the financial statements taken as a whole.

June 26 , 2009

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.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Assets.

FINANCIAL HIGHLIGHTS

- Makefield Highlands Golf Course completed its fourth full year of operations since opening on July 1, 2004. Income before depreciation was \$344,445 for the year. Response to the Course has been extremely favorable and in 2008, despite mid season weather issues, the course was near cash-flow positive. Rounds played were down for the year when compared to the current budget and the prior year numbers, and this is indicative of the nationwide trend affecting many golf and leisure businesses.
- In 2008 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the township owned Makefield 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 judgment.

The value of this latest judgment, including interest, is almost \$2 million dollars. The township intends to appeal this decision and has not paid any additional funds to the previous owner. It is the township's position that the latest judgment is unacceptable and will defend this vigorously. No reserves have been made as of the date of this audit report.

- The assets of the Township exceeded its liabilities by \$86,486,153 up \$225,583 from last year.
- The General Fund balance remains above the "Safe Harbor" range, which is 5-8% of General Fund revenues.
- Sewer rates and revenues remained stable in 2008. The township did incur two separate rate increases from its vendors, and these rate increases will be passed onto the users beginning in 2009. These rate increases are the first in four years.
- The Township owned Pool operations had continued strong revenue and membership numbers in 2008 with revenues totaling \$753,000. Membership fees in 2009, for the first time in twelve years, will have a rate increase of 10%.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

- The notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

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

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Assets and Statement of Activities

Our analysis of the Township as a whole begins with the Statement of Net Assets. One of the most important questions asked about the Township's finances is "What is the Township's overall financial condition as compared to the previous year?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. In these statements, we divide the Township into two kinds of activities:

- **Governmental Activities** – Most of the Township's basic services are reported here, including police, public works, planning and zoning, library, parks and recreation, and administration. Real estate and business taxes, fees and charges and grants finance most of these activities.
- **Business-Type Activities** – The Township charges a fee to customers to help it cover most of the cost of certain services it provides. The Township's sewer system, pool and golf course are reported here.

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2008	2007	2008	2007	2008	2007
Assets						
Cash and Cash Equivalents	\$ 5,819,840	\$ 6,611,233	\$ 2,574,599	\$ 3,914,520	\$ 8,394,439	\$ 10,525,753
Other Assets	656,802	890,251	1,501,993	1,425,134	2,158,795	2,315,385
Capital Assets	81,579,298	80,155,488	35,372,686	36,552,010	116,951,984	116,707,498
Total Assets	<u>\$ 88,055,940</u>	<u>\$ 87,656,972</u>	<u>\$ 39,449,278</u>	<u>\$ 41,891,664</u>	<u>\$ 127,505,218</u>	<u>\$ 129,548,636</u>
Liabilities						
Other Liabilities	\$ 840,352	\$ 1,198,691	\$ 871,555	\$ 868,253	\$ 1,711,907	\$ 2,066,944
Long-Term Debt Outstanding	15,876,348	17,171,428	23,430,810	24,049,694	39,307,158	41,221,122
Total Liabilities	<u>16,716,700</u>	<u>18,370,119</u>	<u>24,302,365</u>	<u>24,917,947</u>	<u>41,019,065</u>	<u>43,288,066</u>
Net Assets						
Invested in Capital Assets	66,599,132	63,901,623	11,890,411	12,501,716	78,489,543	76,403,339
Restricted	4,114,733	5,382,418			4,114,733	5,382,418
Unrestricted	625,375	2,812	3,256,502	4,472,001	3,881,877	4,474,813
Total Net Assets	<u>71,339,240</u>	<u>69,286,853</u>	<u>15,146,913</u>	<u>16,973,717</u>	<u>86,486,153</u>	<u>86,260,570</u>
Total Liabilities and Net Assets	<u>\$ 88,055,940</u>	<u>\$ 87,656,972</u>	<u>\$ 39,449,278</u>	<u>\$ 41,891,664</u>	<u>\$ 127,505,218</u>	<u>\$ 129,548,636</u>

Cash and cash equivalents represent 6.6% of the Township of Lower Makefield's total governmental assets in 2008 and 7.5% in 2007. Cash and cash equivalents represent 6.5% in 2008 and 9.3% in 2007 of the Township of Lower Makefield's total business-type assets. Despite the decrease in both areas the township's cash position remains healthy.

The largest portion of the Township's governmental assets, 91.7%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment.) In 2007 this portion was 91.4%. Because the Township uses these capital assets to provide services to residents, these assets are not available for future spending.

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

Revenues	Governmental Activities			Business-Type Activities			Total Primary Government		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Program Revenues									
Charges for Services	1,168,816	1,138,023	1,334,169	7,627,852	7,876,779	7,712,971	8,796,668	9,014,802	9,047,140
Operating Grants and Contributions	2,111,395	2,863,436	1,605,898			52,861	2,111,395	2,863,436	1,658,759
Capital Grants and Contributions		18,867	878,797		9,945	85,185		28,812	963,982
General Revenues									
Property Taxes	7,570,704	6,580,580	6,427,745				7,570,704	6,580,580	6,427,745
Real Estate Transfer Tax	1,043,683	1,657,098	1,385,826				1,043,683	1,657,098	1,385,826
Per Capita Taxes	221,622	202,703	209,391				221,622	202,703	209,391
Public Utility Taxes	11,271	11,951	12,638				11,271	11,951	12,638
Franchise Taxes	495,012	473,394	445,438				495,012	473,394	445,438
Investment Earnings	227,543	517,897	743,576	92,672	261,019	223,643	320,215	778,916	967,219
Miscellaneous	742,892	363,751	137,754	49,100	88,186		791,992	451,937	137,754
Gain on Sale of Capital Assets		122,086	209,200					122,086	209,200
Total Revenues	13,592,938	13,949,786	13,390,432	7,769,624	8,235,929	8,074,660	21,362,562	22,185,715	21,465,092
Expenses									
General Government	1,956,396	2,128,514	2,412,593				1,956,396	2,128,514	2,412,593
Public Safety	6,246,611	6,318,501	5,511,832				6,246,611	6,318,501	5,511,832
Public Works	2,499,160	2,417,718	1,925,678				2,499,160	2,417,718	1,925,678
Parks and Recreation	1,308,493	1,094,493	857,619				1,308,493	1,094,493	857,619
Community Development	78,356	63,413	41,032				78,356	63,413	41,032
Interest on Long Term Debt	563,498	820,270	846,674				563,498	820,270	846,674
Sewer				4,499,586	4,496,545	4,163,598	4,499,586	4,496,545	4,163,598
Community Pool				828,877	700,074	627,812	828,877	700,074	627,812
Golf Course				2,827,810	3,009,907	3,033,998	2,827,810	3,009,907	3,033,998
Total Expenses	12,652,514	12,842,909	11,595,428	8,156,273	8,206,526	7,825,408	20,808,787	21,049,435	19,420,836
Excess/(Deficiency) Before Transfers	940,424	1,106,877	1,795,004	(386,649)	29,403	249,252	553,775	1,136,280	2,044,256
Transfers	1,440,155	208,704	198,768	(1,440,155)	(208,704)	(198,768)			
Transfers-Other	(328,192)	(330,258)					(328,192)	(330,258)	
Change in Net Assets	2,052,387	985,323	1,993,772	(1,826,804)	(179,301)	50,484	225,583	806,022	2,044,256
Net Assets Beginning of the Year	69,286,853	68,301,530	66,307,758	16,973,717	17,153,018	17,102,534	86,260,570	85,454,548	83,410,292
Net Assets End of the Year	71,339,240	69,286,853	68,301,530	15,146,913	16,973,717	17,153,018	86,486,153	86,260,570	85,454,548

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

Total revenues exceeded total expenses by \$904,424 in 2008 and \$1,106,877 in 2007 for governmental activities. There was a two millage increase in tax revenue in 2008 driving this number higher. This indicates that the Township is operating at a level to meet its operating commitments. Total expenses exceeded total revenues by \$386,649 in 2008 for business type activities. In 2007, total revenues exceeded total expenses by \$29,403 for business-type activities. The pool incurred additional expenses for professional fees related to a potential renovation project, with no offsetting revenues. The golf course revenues were down \$200,000 from the prior year, indicative of weather related issues and the softening of the economy.

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2008 was \$13, 592,938 and \$13,949,786 in 2007. Revenue by source were as follows:

<u>Revenue</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Property Taxes Levied for General Purposes	7,570,704	6,580,580	55.70%	47.17%
Real Estate Transfer Tax	1,043,683	1,657,098	7.68%	11.88%
Per Capita Taxes	221,622	202,703	1.63%	1.45%
Public Utility Taxes	11,271	11,951	0.08%	0.09%
Franchise Taxes	495,012	473,394	3.64%	3.39%
Investment Earnings	227,543	517,897	1.67%	3.71%
Miscellaneous	742,892	363,751	5.47%	2.61%
Gain on Sale of Capital Assets		122,086	0.00%	0.88%
Charges for Services	1,168,816	1,138,023	8.60%	8.16%
Operating Grants and Contributions	2,111,395	2,882,303	15.53%	20.66%
	13,592,938	13,949,786	100.00%	100.00%

As seen above, revenues were lower in 2008 than in 2007, and is primarily due to a decrease in real estate transfer tax, which lags behind the budget and is indicative of the nation wide housing market, and operating grants and contributions. There was an increase in our real estate tax base and the township had a 2 millage increase in the general fund during 2008 to support the expansion of the police force by 4 officers. This increase is valued at just under \$1 million and the reason for the increase in this line item over the prior year

Investment income, which is comprised of bank interest on the five Township interest-bearing accounts, continued it's downward trend in 2008 as interest rates decreased from a high of 5.01% during 2007 to a low of 1% during 2008. With the federal rates at or near 0%, we expect interest income to remain at or below their current levels for the near future and certainly throughout 2009.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

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 2008 were \$12,688,514 and \$12,842,909 in 2007. Expenditures by source were as follows:

<u>Expenses</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General Government	1,956,396	2,128,514	15.42%	16.57%
Public Safety	6,246,611	6,318,501	49.23%	49.20%
Public Works	2,499,160	2,417,718	19.70%	18.83%
Culture and Recreation	1,308,493	1,094,493	10.31%	8.52%
Community Development	78,356	63,413	0.62%	0.49%
Interest on Long Term Debt	563,498	820,270	4.44%	6.39%
	12,652,514	12,842,909	99.72%	100.00%

Total governmental expenditures decreased approximately 1.2% from 2007 to 2008.

Business type activities include the Township's Sewer System, Community Pool and Golf Course. Total revenue from sewer activities for 2008 is \$4,254,162 compared to \$4,502,989 in 2007. Charges for services account for approximately 94.2% of revenue in 2008 and 90.1% of revenue in 2007. Expenditures to operate the system total \$4,485,595 for 2008 (not including the transfer of \$1,090,000) and \$4,496,545 for 2007. Total revenue from community pool activities is \$753,487 for 2008 and \$772,643 for 2007. Charges for services account for 86.4% of revenue in 2008, while these charges equaled 85.5% of revenue in 2007. Expenditures to operate the pool total \$828,877 for 2008 and \$700,074 for 2007. Total revenue from golf course activities is \$2,761,975 for 2008 and \$ 2,960,297 for 2007. Charges for services account for approximately 99.0% of revenue in 2008 and 98.3% of revenue in 2007. Expenditures to operate the course total \$2,827,810 in 2008 and \$3,009,907 for 2007.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund had an excess of revenue over expenses for 2008 of \$156,838 and a deficiency of revenue over expenditures in 2007 of \$211,006. An operating deficit of \$201,938 had been budgeted for fiscal 2008. The reasons for the excess of revenue in the general fund are several, most notably over \$210,000 in insurance dividends or rebates, recycling revenues of over \$215,000 that were not budgeted, and permit fee revenue for building and related permits exceeded budget by over \$130,000. Despite the downturn in the real estate market and related deed transfer tax revenue, we surpassed our budgeted numbers in general fund revenues and had revenues exceed expenditures for the fiscal year. On the expenditure side, the township came in \$64,000 under budget in total general fund expenses. Most of this was in our benefits budget, where we were \$30,000 under budget, and our insurance costs, which were also about \$30,000 under budget.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

The Township had no budget adjustments during the 2008 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, 2008, total \$116,951,984 and were \$116,707,498 in 2007 (net of accumulated depreciation). Township investment in capital assets includes land and land improvements, buildings and building improvements, equipment, vehicles and infrastructure (see Table 3). Infrastructure includes roadways, bike paths, curbing and sidewalks, storm sewers, basins, bridges and culverts, easements, streetlights and signs.

Additions to capital assets, land and improvements during 2008 include:

2009 7400 Truck	\$	70,256
J&J MDC Dump Truck		120,562
Light Replacement Community Park		240,500
Additional costs of the Samost Land Tract		1,090,000
Patterson Farm Repairs/Improvements		253,126
John Deere Mini Excavator		38,769
3 Police Motorcycles		33,478
3 Police Vehicles		77,883
New Heaters for Pools		31,500
Culvert Replacement Black Rock Rd.		59,188
Infrastructure Improvements to Mt. Eyre Rd., Traffic Light Replacement, and Homestead Acres Pond		375,200

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

Capital Assets at Year End, Net of Depreciation Years Ended December 31, 2008 and 2007

	Governmental Activities		Business-Type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
Land	\$ 19,508,250	\$ 18,418,249	\$ 4,197,081	\$ 4,197,081	\$ 23,705,331	\$ 22,615,330
Infrastructure	49,513,834	48,995,649			49,513,834	48,995,649
Construction in Progress			63,130	4,532	63,130	4,532
TOTAL CAPITAL ASSETS NOT DEPRECIATED	69,022,084	67,413,898	4,260,211	4,201,613	73,282,295	71,615,511
Land Improvements	5,006,935	4,843,464	7,689,373	7,907,927	12,696,308	12,751,391
Plant & Pools			20,427,866	21,307,225	20,427,866	21,307,225
Buildings & Improvements	5,211,017	5,060,772	2,282,139	2,355,279	7,493,156	7,416,051
Furniture & Equipment	300,963	379,901	713,097	779,966	1,014,060	1,159,867
Vehicles	1,494,109	1,553,139			1,494,109	1,553,139
Infrastructure	544,190	904,314			544,190	904,314
TOTAL CAPITAL ASSETS DEPRECIATED	12,557,214	12,741,590	32,112,475	32,350,397	43,669,689	45,091,987
TOTALS	\$ 81,579,298	\$ 80,155,488	\$ 35,372,686	\$ 36,552,010	\$ 116,951,984	\$ 116,707,498

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

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

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

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

Debt

At December 31, 2008, the Township had \$38,393,220 in outstanding debt compared to \$40,300,955 last year. Of the outstanding debt at December 31, 2008, \$1,800,713 is due within one year. The following shows a breakdown of debt by type.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
Governmental Activities		
General Obligation Bonds, Series 2003	\$5,999,112	\$6,535,680
General Obligation Bonds, Series 2006	643,725	661,605
General Obligation Notes		
Series A of 2001	600,000	1,179,000
Series B of 2001	4,655,000	4,655,000
Series of 2004	2,745,000	2,834,000
Notes Payable		
PEMA	101,668	110,679
PNC Bank	235,661	274,598
	<u>14,980,166</u>	<u>16,250,562</u>
Business Type Activities		
General Obligation Bonds		
Series of 2005	6,782,355	7,181,782
Series of 2006	8,142,455	8,362,611
General Obligation Notes		
Series A of 2002	3,470,000	3,470,000
Series B of 2002	5,036,000	5,036,000
	<u>23,430,810</u>	<u>24,050,393</u>
	<u>\$38,410,976</u>	<u>\$40,300,955</u>

The Township had no new debt service issues in 2008. During 2008, Makefield Highlands Golf Course made its second significant principal payment on their debt by paying \$400,000 during the month of June.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

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

<u>Type</u>	<u>Assessment</u>
Residential	476,328,090
Taxable Vacant/Miscellaneous	2,296,300
Government/School	23,400
Industrial - Not in a Park	124,400
Main Street - Commercial	214,460
Apartments	8,194,840
Motel - Hotel	1,027,200
Commercial	4,508,720
Mobile Home Parks	
Office Buildings - Not in a Park	21,299,350
Office Buildings - In a Park	51,040
Shopping Centers	4,896,000
Institutional	9,694,130
Utility	
Utility - Government	1,773,680
Exempt	19,284,890
TOTAL ASSESSMENTS	<u><u>549,716,500</u></u>

The current assessment is higher than the previous assessment by approximately \$4 million. There is a slight increase in the residential assessment and the commercial too, in the form of office buildings. The overall trend however, appears to be a decrease in some residential assessments as homeowners have been appealing some increases passed on by the county. We expect this area to remain flat for the foreseeable future. Development within the Township continues its downward trend; thus reducing 2008 developer related fees, such as park and recreation fee-in-lieu fees, traffic impact fees and basin maintenance fees.

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

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

Next Year's Budget

The total millage for 2009 will be 15.12, a 1.7% increase over the 2008 mileage of 14.87. This .25 mileage increase is entirely in the Fire Fund, increasing the millage to .90 from .65.

Real estate transfer taxes are budgeted at \$1,225,000, a decrease of 12.5% from last year's budget number, and down from the high point of \$1,925,000 actually received in 2005. The nationwide housing market is still very volatile, and Lower Makefield is not immune to this volatility. We are hopeful that the housing market and related credit markets will begin to stabilize in the second half of 2009, and we are carefully monitoring these and related revenue areas so determine what actions, if any are necessary.

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

Contractual salaries for both the police and public works employees, along with all administrative staff will receive increases of 4.25%. Both Townships collective bargaining agreements expire in 2009 and we will be negotiating new contracts with both organizations.

As was done in 2008, the Liquid Fuels fund will help support the public works payroll in 2009. In 2008, over \$150,000 in salaries was covered by the Liquid Fuels entitlement, in 2009 this number will remain the same. The Liquid Fuels fund also covers the related employer payroll taxes.

Overall health benefits in the 2008 budget showed a lesser increase in comparison to the last several years. This was due to a change in the level of benefits for the Personal Choice medical plan and the Benefits Concepts prescription plan that went into effect January 1, 2006. Also, several unplanned staff vacancies allowed us to realize some savings in this area as well. Health care costs in 2009 are budgeted at a higher level, reflecting an increase of approximately 8-10% from the 2008 actual results, as we are a community rated client of Independence Blue Cross and this is the expected increase.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2008

Pool membership fees are budgeted at \$711,165 for 2009, a increase of 9.2% over the 2008 budget of \$650,940. The opening of two dual slides (one speed and one flume) at the pool in 2005 increased membership dollars dramatically, however, the membership has stabilized. Total membership numbers from all categories was 2,090 in 2008 and 2,099 in 2007. The membership fees have a rate increase of 10% in 2009, the first increase in pool memberships in 12 years.

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

Litigation

In 2008 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the township owned Makefield 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 judgment.

The value of this latest judgment, including interest, is almost \$2 million dollars. The township intends to appeal this decision and has not paid any additional funds to the previous owner. It is the township's position that the latest judgment is unacceptable and will defend this vigorously. No reserves have been made as of the date of this audit report.

REQUESTS FOR INFORMATION

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

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 5,781,885	\$ 2,574,599	\$ 8,356,484
Accounts receivable, net	551,833	1,239,933	1,791,766
Internal balances	39,999	(39,999)	
Inventory		42,891	42,891
Prepaid expenses	19,950	643	20,593
Restricted assets			
Escrow deposits	37,955		37,955
Deferred charges, net of amortization	45,020	258,525	303,545
Total	6,476,642	4,076,592	10,553,234
Capital assets:			
Land	19,508,249	4,197,081	23,705,330
Construction in progress		63,130	63,130
Infrastructure	50,985,108		50,985,108
Land improvements	6,813,031	8,742,133	15,555,164
Plant and pools		39,148,745	39,148,745
Buildings and building improvements	7,844,720	2,855,977	10,700,697
Furniture and equipment	3,031,604	1,517,101	4,548,705
Vehicles	4,265,096		4,265,096
Accumulated depreciation	(10,868,510)	(21,151,481)	(32,019,991)
Total capital assets	81,579,298	35,372,686	116,951,984
TOTAL ASSETS	\$ 88,055,940	\$ 39,449,278	\$ 127,505,218
LIABILITIES			
Accounts payable	\$ 427,898	\$ 515,143	\$ 943,041
Accrued expenses	83,141	248,570	331,711
Accrued interest	28,231		28,231
Member deposits	1,400		1,400
Deferred revenue	244,227	107,841	352,068
Escrow deposits	55,455		55,455
Long-term liabilities			
Due within one year	1,156,769	643,944	1,800,713
Due in more than one year	14,719,579	22,786,867	37,506,446
TOTAL LIABILITIES	16,716,700	24,302,365	41,019,065
NET ASSETS			
Invested in capital assets, net of related debt	66,599,132	11,890,411	78,489,543
Restricted for			
Capital projects	2,486,367		2,486,367
Debt service	(111,731)		(111,731)
Other purposes	1,740,097		1,740,097
Unrestricted	625,375	3,256,502	3,881,877
TOTAL NET ASSETS	71,339,240	15,146,913	86,486,153
TOTAL LIABILITIES AND NET ASSETS	\$ 88,055,940	\$ 39,449,278	\$ 127,505,218

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
GOVERNMENTAL ACTIVITIES						
General government	\$ 1,956,396	\$ 515,918	\$ 2,905	\$	\$ (1,437,573)	\$
Public safety	6,246,611	157,537	817,132		(5,271,942)	
Public works	2,499,160	297,361	1,202,038		(999,761)	
Parks and recreation	1,308,493	198,000	89,320		(1,021,173)	
Community development	78,356				(78,356)	
Interest on long-term debt	563,498				(563,498)	
TOTAL GOVERNMENTAL ACTIVITIES	12,652,514	1,168,816	2,111,395		(9,372,303)	
BUSINESS-TYPE ACTIVITIES						
Sewer	4,168,459	4,154,468				(13,991)
Community pool	828,877	736,539				(92,338)
Golf course	2,827,810	2,736,845				(90,965)
TOTAL BUSINESS-TYPE ACTIVITIES	7,825,146	7,627,852	0			(197,294)
TOTAL ALL ACTIVITIES	\$ 20,477,660	\$ 8,796,668	\$ 2,111,395	\$	(9,372,303)	(197,294)
GENERAL REVENUES						
Property taxes, levied for general purposes					7,570,704	
Transfer taxes					1,043,683	
Per capita and occupation privilege taxes					221,622	
Public utility taxes					11,271	
Franchise taxes					495,012	92,672
Interest earnings					227,543	(331,127)
Depreciation, net of related capital contributions					742,892	49,100
Miscellaneous					1,969,385	
Transfers in					(857,422)	(1,440,155)
Transfers out						
TOTAL GENERAL REVENUES					11,424,690	(1,629,510)
CHANGE IN NET ASSETS					2,052,387	(1,826,804)
NET ASSETS AT BEGINNING OF YEAR					69,286,853	16,973,717
NET ASSETS AT END OF YEAR					\$ 71,339,240	\$ 15,146,913

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Capital Reserve Fund	Street Project Fund	9-11 Memorial Fund	Debt Service Fund	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash	\$ 1,440,960	\$ 1,721,820	\$ 595,217	\$ 366,502	\$ 66,131	\$ 7,007	\$ 1,584,248	\$ 5,781,885
Accounts receivable	441,952	20,631	438		27,256	6,609	54,947	551,833
Interfund receivable							232,371	232,371
Prepaid expenses	19,950							19,950
Restricted assets								
Escrow deposits	37,955							37,955
TOTAL ASSETS	\$ 1,940,817	\$ 1,742,451	\$ 595,655	\$ 366,502	\$ 93,387	\$ 13,616	\$ 1,871,566	\$ 6,623,994
LIABILITIES								
Accounts payable	\$ 257,921	\$ 74,145	\$ 2,404	\$ 3,661	\$ 6,100	\$ 1,241	\$ 82,426	\$ 427,898
Accrued expenses	383,690					151	31,947	415,788
Interfund payable	13,185						179,187	192,372
Deferred revenue	75,945	120,531			21,157	5,189	21,405	244,227
Member deposits							1,400	1,400
Escrow deposits	37,955		17,500					55,455
TOTAL LIABILITIES	768,696	194,676	19,904	3,661	27,257	6,581	316,365	1,337,140
FUND BALANCES								
Reserved for:								
Capital projects		1,547,775	575,751	362,841	66,130			2,486,367
Debt service								66,130
Unreserved, reported in:								
General fund	1,172,121					7,035	1,555,201	1,172,121
Special revenue funds								1,562,236
TOTAL FUND BALANCES	1,172,121	1,547,775	575,751	362,841	66,130	7,035	1,555,201	5,286,854
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,940,817	\$ 1,742,451	\$ 595,655	\$ 366,502	\$ 93,387	\$ 13,616	\$ 1,871,566	\$ 6,623,994

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

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

DECEMBER 31, 2008

TOTAL GOVERNMENTAL FUND BALANCES	\$ 5,286,854
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$92,447,808 and the accumulated depreciation is \$10,868,510	81,579,298
Deferred charges for issuance of debt, net of amortization are recorded as expenditures in the governmental funds. The Statement of Net Assets includes these amounts as assets	45,020
Accrued expenses are deducted for accrued vacation included in compensated absences	332,646
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of:	
Accrued interest	(28,231)
Bonds and notes payable, including premiums	(14,980,165)
Accumulated compensated absences	<u>(896,182)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 71,339,240</u>

See accompanying notes to the basic financial statements

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

FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Capital Reserve	Street Project	9-11 Memorial Fund	Debt Service	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
REVENUES								
Real estate taxes	\$ 4,857,591	\$			\$ 1,344,442	\$ 329,316	\$ 1,039,355	\$ 7,570,704
Real estate transfer taxes	1,043,683							1,043,683
Other taxes	232,893							232,893
Licenses, permits and fees	948,995							948,995
Fines, forfeits and costs	73,814							73,814
Interest earnings	63,982	53,883	16,382	9,154	23,463	2,975	56,136	225,975
Rental income	246,551	25,000					30,494	302,045
Intergovernmental revenues	661,916		104,212			364,843	762,693	1,893,664
Charges for services	460,288					24,500	132,537	617,325
Contributions	3,782			89,320			91,862	184,964
Miscellaneous income		180,903	35,676				59,240	275,819
TOTAL REVENUES	8,593,495	259,786	156,270	98,474	1,367,905	721,634	2,172,317	13,369,881
EXPENDITURES								
General government	1,598,929	10,908			6,100			1,615,937
Public safety	4,131,862					687,279	124,650	4,943,791
Public works	1,116,734		17,028	61,165			803,448	1,937,210
Parks and recreation							903,558	964,723
Community development		40,573					34,066	74,639
Capital outlay	72,584	1,992,018	218,878				192,098	2,475,578
Insurance	301,966							301,966
Employee benefits	1,556,313							1,556,313
Debt service					1,250,948			1,268,828
Principal					646,494			675,196
Interest								
TOTAL EXPENDITURES	8,778,388	2,043,499	235,906	61,165	1,903,542	733,861	2,057,820	15,814,181
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(184,893)	(1,783,713)	(79,636)	37,309	(535,637)	(12,227)	114,497	(2,444,300)
OTHER FINANCING SOURCES (USES)								
Refund prior year expenditure	211,861					218	9,410	221,489
Operating transfers in	458,062	1,090,000			599,184			2,147,246
Operating transfers (out)	(328,192)	(190,000)	(32,009)				(456,688)	(1,035,283)
TOTAL OTHER FINANCING SOURCES (USES)	341,731	900,000	(32,009)		599,184	(28,176)	(447,278)	1,333,452
NET INCREASE (DECREASE) IN FUND BALANCES	156,838	(883,713)	(111,645)	37,309	63,547	(40,403)	(332,781)	(1,110,848)
FUND BALANCES, BEGINNING	1,015,283	2,431,488	687,396	325,532	2,583	47,438	1,887,982	6,397,702
FUND BALANCES, ENDING	\$ 1,172,121	\$ 1,547,775	\$ 575,751	\$ 362,841	\$ 66,130	\$ 7,035	\$ 1,555,201	\$ 5,286,854

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

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

FOR THE YEAR ENDED DECEMBER 31, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,110,848)
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.</p>	
Expenditures for capital assets of \$2,475,578 less current year depreciation of \$1,051,768	1,423,810
Proceeds from bonds are revenue and repayment of bond principal is an expenditure in the Governmental Funds, but the proceeds increase long-term liabilities, net of the repayment, in the Statement of Net Assets. Also, Governmental Funds report the effect of premiums when debt is issued, but these amounts are deferred and amortized in the Statement of Activities	1,265,578
Accrued vacation requires the use of current financial resources and therefore is reported as expenditures in governmental funds	332,646
Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	24,685
In the Governmental Funds, interest on long-term debt is reported as interest expense when due, but in the Statement of Activities it is accrued	<u>116,516</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,052,387</u></u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF NET ASSETS (DEFICIT)
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,285,454	\$ 405,243	\$ 883,902	\$ 2,574,599
Accounts receivable	1,239,588	345		1,239,933
Interfund receivable			1,326	1,326
Inventory			42,891	42,891
Prepaid expenses	608	35		643
TOTAL CURRENT ASSETS	<u>2,525,650</u>	<u>405,623</u>	<u>928,119</u>	<u>3,859,392</u>
CAPITAL ASSETS				
Property, plant and equipment	37,404,709	3,271,784	15,847,675	56,524,168
Accumulated depreciation	(16,910,597)	(2,372,077)	(1,868,808)	(21,151,482)
	<u>20,494,112</u>	<u>899,707</u>	<u>13,978,867</u>	<u>35,372,686</u>
OTHER ASSETS				
Deferred charges, net of accumulated amortization	122,973		135,552	258,525
TOTAL ASSETS	<u>\$ 23,142,735</u>	<u>\$ 1,305,330</u>	<u>\$ 15,042,538</u>	<u>\$ 39,490,603</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 408,144	\$ 68,742	\$ 38,257	515,143
Accrued expense	227,578	5,926	15,066	248,570
Interfund payable		40,000	1,325	41,325
Deferred revenue			107,841	107,841
Current portion of long-term debt	230,216		413,728	643,944
TOTAL CURRENT LIABILITIES	<u>865,938</u>	<u>114,668</u>	<u>576,217</u>	<u>1,556,823</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds and notes payable	7,912,240		14,874,627	22,786,867
TOTAL LIABILITIES	<u>8,778,178</u>	<u>114,668</u>	<u>15,450,844</u>	<u>24,343,690</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	12,351,656	899,707	(1,309,408)	11,941,955
Unrestricted	2,012,901	290,955	901,102	3,204,958
TOTAL NET ASSETS (DEFICIT)	<u>14,364,557</u>	<u>1,190,662</u>	<u>(408,306)</u>	<u>15,146,913</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 23,142,735</u>	<u>\$ 1,305,330</u>	<u>\$ 15,042,538</u>	<u>\$ 39,490,603</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
OPERATING REVENUES				
Charges for services	\$ 4,089,987	\$ 650,985	\$ 2,736,845	\$ 7,477,817
Miscellaneous	64,481	85,554		150,035
TOTAL OPERATING REVENUES	<u>4,154,468</u>	<u>736,539</u>	<u>2,736,845</u>	<u>7,627,852</u>
OPERATING EXPENSES				
Operations	3,313,603	734,751	1,898,011	5,946,365
Depreciation	491,307	94,126	412,052	997,485
TOTAL OPERATING EXPENSES	<u>3,804,910</u>	<u>828,877</u>	<u>2,310,063</u>	<u>6,943,850</u>
OPERATING INCOME	<u>349,558</u>	<u>(92,338)</u>	<u>426,782</u>	<u>684,002</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	50,596	16,948	25,128	92,672
Tapping fees	49,100			49,100
Interest expense	(356,079)		(506,793)	(862,872)
Bond discount	(1,964)		(1,272)	(3,236)
Amortization	(5,506)		(9,682)	(15,188)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(263,853)</u>	<u>16,948</u>	<u>(492,619)</u>	<u>(739,524)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND FUND TRANSFERS	<u>85,705</u>	<u>(75,390)</u>	<u>(65,837)</u>	<u>(55,522)</u>
CONTRIBUTIONS AND FUND TRANSFERS				
Depreciation, net of related capital contributions	(331,127)			(331,127)
Transfers out	(1,340,145)	(100,010)		(1,440,155)
TOTAL CONTRIBUTIONS AND FUND TRANSFERS	<u>(1,671,272)</u>	<u>(100,010)</u>		<u>(1,771,282)</u>
CHANGE IN NET ASSETS	<u>(1,585,567)</u>	<u>(175,400)</u>	<u>(65,837)</u>	<u>(1,826,804)</u>
TOTAL NET ASSETS (DEFICIT), BEGINNING	<u>15,950,124</u>	<u>1,366,062</u>	<u>(342,469)</u>	<u>16,973,717</u>
TOTAL NET ASSETS (DEFICIT), ENDING	<u>\$ 14,364,557</u>	<u>\$ 1,190,662</u>	<u>\$ (408,306)</u>	<u>\$ 15,146,913</u>

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,158,635	\$ 738,507	\$ 2,745,476	\$ 7,642,618
Cash payments to suppliers	(3,013,494)	(349,992)	(1,297,164)	(4,660,650)
Cash payments to employees	(315,749)	(318,752)	(653,593)	(1,288,094)
Cash payments to other governments	(22,665)	(24,332)	(54,137)	(101,134)
Net cash provided by operating activities	<u>806,727</u>	<u>45,431</u>	<u>740,582</u>	<u>1,592,740</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances to other funds	(1,340,145)	(100,010)		(1,440,155)
Tapping fees	49,100			49,100
Net cash used in noncapital financing activities	<u>(1,291,045)</u>	<u>(100,010)</u>		<u>(1,391,055)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(59,188)	(90,098)		(149,286)
Principal paid on long-term debt	(222,120)		(400,000)	(622,120)
Interest paid on long-term debt	(356,079)		(506,793)	(862,872)
Net cash used in capital and related financing activities	<u>(637,387)</u>	<u>(90,098)</u>	<u>(906,793)</u>	<u>(1,634,278)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings from investments	50,596	16,948	25,128	92,672
Net increase (decrease) in cash and cash equivalents	(1,071,109)	(127,729)	(141,083)	(1,339,921)
CASH AND CASH EQUIVALENTS:				
Beginning of year	<u>2,356,563</u>	<u>532,972</u>	<u>1,024,985</u>	<u>3,914,520</u>
End of year	<u>\$ 1,285,454</u>	<u>\$ 405,243</u>	<u>\$ 883,902</u>	<u>\$ 2,574,599</u>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

	Enterprise Funds			Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 349,558	\$ (92,338)	\$ 426,782	\$ 684,002
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	491,307	94,126	412,052	997,485
(Increase) decrease in				
Accounts receivable	4,168	1,968		6,136
Interfund receivable	17,384		(1,326)	16,058
Inventory			(14,360)	(14,360)
Prepaid expenses	(13)			(13)
Increase (decrease) in				
Accounts payable and accrued expenses	(7,139)	44,132	(24,919)	12,074
Interfund payable	(31,130)	(2,457)	(66,278)	(99,865)
Deferred revenue	(17,408)		8,631	(8,777)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 806,727	\$ 45,431	\$ 740,582	\$ 1,592,740
 SUPPLEMENTAL DISCLOSURES				
Noncash investing and financing activities				
Depreciation, net of related capital assets contributed of \$0	\$ 331,227			

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Pension Trust Funds		Deferred Retirement	Unemployment Compensation		Total Fiduciary Funds
	Police Pension	Non-Uniform Pension	Option Plan Fund	Trust Fund	Agency Fund	
ASSETS						
Cash and cash equivalents	\$ 355,930	\$ 268,271	\$	\$ 85,483	\$ 207,815	\$ 917,499
Investments	5,625,658	3,078,830	196,590			8,901,078
Accounts receivable				71	111,722	111,793
TOTAL ASSETS	<u>5,981,588</u>	<u>3,347,101</u>	<u>196,590</u>	<u>85,554</u>	<u>319,537</u>	<u>9,930,370</u>
LIABILITIES						
Accounts payable					128,563	128,563
Due to developers					190,974	190,974
TOTAL LIABILITIES					<u>319,537</u>	<u>319,537</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES						
(a schedule of funding in progress for the plan is on page 62).	<u>\$ 5,981,588</u>	<u>\$ 3,347,101</u>	<u>\$ 196,590</u>	<u>\$ 85,554</u>	<u>\$</u>	<u>\$ 9,610,833</u>

TOWNSHIP OF LOWER MAKEFIELD

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Pension Trust Funds		Deferred Retirement	Unemployment Compensation	Total
	Police Pension	Non-Uniform Pension	Option Plan Fund	Trust Fund	Fiduciary Funds
ADDITIONS					
Contributions					
Employer	\$ 15,485	\$ 241,835	\$	\$	\$ 257,320
Investment income (loss)	(1,878,340)	(982,073)	5,045	2,320	(2,853,048)
Transfers in					
Police Pension Fund			136,292		136,292
State aid	328,192				328,192
TOTAL ADDITIONS	(1,534,663)	(740,238)	141,337	2,320	(2,131,244)
DEDUCTIONS					
Administrative expenses	46,485	35,431			81,916
Benefits	334,262	137,709	141,327		613,298
Transfer out to DROP Fund	136,292				136,292
TOTAL DEDUCTIONS	517,039	173,140	141,327		831,506
CHANGE IN NET ASSETS	(2,051,702)	(913,378)	10	2,320	(2,962,750)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES					
BEGINNING OF YEAR	8,033,290	4,260,479	196,580	83,234	12,573,583
END OF YEAR	\$ 5,981,588	\$ 3,347,101	\$ 196,590	\$ 85,554	\$ 9,610,833

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Reporting Entity

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

Management has elected to include the Municipal Sewer Authority of the Township of Lower Makefield (the Authority) as a blended component unit in the December 31, 2008 annual financial report. The authority is reported as if it were part of the Township because its sole purpose is to finance and construct the Township’s facilities. The Authority issues a separately audited financial statement. Copies of this report may be obtained from the Township Finance Director.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reporting Entity, continued

Management has elected not to include the following potential component units in the December 31, 2008 annual financial report:

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

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

Fund Accounting

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

The Township reports the following major Governmental Funds:

General Fund

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

Capital Reserve Fund (Capital Project Fund)

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

Street Project Fund (Capital Project Fund)

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

9-11 Memorial Fund

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

Debt Service Fund

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting, continued

The Township reports the following major Proprietary Funds:

Sewer Fund

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

Community Pool Fund

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

Golf Course Fund

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

Additionally, the Township reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources. The Township's Special Revenue Funds include: Liquid Fuels, Hydrant, Ambulance, Fire Protection, Parks and Recreation, Street Light, Five Mile Woods, Basin Maintenance, Parks and Recreation Fee-in-Lieu, Library, and Traffic Impact.

Pension Trust Funds

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

Deferred Retirement Option Plan Fund

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

Unemployment Compensation Trust Fund

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

Agency Fund

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting

Government-Wide Financial Statement

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

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

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

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

Fund Financial Statements

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Fund Financial Statements, continued

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

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

Cash Equivalents

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Investments

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

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

Short-Term Interfund Receivables / Payables

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

Inventory and Prepaid Expenditures / Expenses

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

The inventories on hand in the Golf Course Fund at December 31, 2008, consist of the following:

Pro Shop	\$ 32,132
Food and Beverage	<u>10,759</u>
	<u>\$ 42,891</u>

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

Capital Assets

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

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Capital Assets, continued

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

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

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

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

Long-Term Obligations

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

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Deferred Revenue

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

Fund Equity

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

Use of Estimates

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

Real Estate Tax Calendar

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

The Township also annually levies a \$10 per capita tax on all residents over the age of 18. In addition, real estate transfer taxes received by the Township are .5% on the transfer of title of real property in the Township. The total levied for real estate transfer taxes is 2%, with the balance of 1.5% paid to the school district and the county.

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

Compensated Absences

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Deferred Charges

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

	Deferred Charges	Accumulated Amortization	Net
Governmental Activities	\$ 69,963	\$ (24,943)	\$ 45,020
Business-Type Activities			
Sewer Funds	137,656	(14,683)	122,973
Golf Course Fund	209,089	(73,537)	135,552
	346,745	(88,220)	258,525
	\$ 416,708	\$ (113,163)	\$ 303,545

2. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township follows state statute as it relates to custodial credit risk. As of December 31, 2008, the carrying amount of the Township's deposits was \$8,684,536. The Township's bank balance was \$8,820,978, of which \$8,570,978 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the Township's name	\$ 8,570,978
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TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, continued

Investments

As of December 31, 2008, the Township had the following investments and maturities in its Pension Trust and Deferred Retirement Option Plan Funds:

<u>Investment Type</u>	Fair Value			Totals
	Police Pension Fund	Non-Uniform Pension Fund	Deferred Retirement Option Plan	
U.S. Government Mutual Funds	\$ 1,354,136	\$ 743,972	\$	\$ 2,098,108
Bond Mutual Funds	793,084	434,561		1,227,645
Equities	1,111,715	574,835		1,686,550
Mutual Funds	1,479,436	832,442		2,311,878
International Mutual Funds	887,287	493,020	196,590	1,380,307
Investment Contract				196,590
Total	\$ 5,625,658	\$ 3,078,830	\$ 196,590	\$ 8,901,078
	<u>Investment Maturities</u>			
	Less Than One Year	One to Five Years	Five to Ten Years	Totals
U.S. Government Mutual Funds	\$ 2,098,108	\$	\$	\$ 2,098,108
Bond Mutual Funds	1,227,645			1,227,645
Equities	1,686,550			1,686,550
Mutual Funds	2,311,878			2,311,878
International Mutual Funds	1,380,307			1,380,307
Investment Contract	196,590			196,590
Total	\$ 8,901,078	\$	\$	\$ 8,901,078

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, continued

Investments, continued

Interest Rate Risk

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

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

Restrictions

Fixed Income

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

Equities

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

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

Credit Risk

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

Concentration of Credit Risk

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

3. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	Governmental Type Funds							Total Governmental Funds
	General Fund	Capital Reserve Fund	Street Project Fund	Debt Service Fund	Fire Protection Fund	Nonmajor Funds		
Taxes	\$ 266,775	\$	\$	\$ 20,923	\$ 6,584	\$ 21,224	\$	\$ 315,506
Interest	1,783	1,435	438	412	25	1,748		5,841
Other Fees and Assessments	173,394	19,196		5,921		31,975		230,486
Totals	\$ 441,952	\$ 20,631	\$ 438	\$ 27,256	\$ 6,609	\$ 54,947	\$	\$ 551,833
	Proprietary Funds							
	Enterprise Funds		Fiduciary Funds					
Taxes	\$	\$						
Interest	1,460	253						
Other Fees and Assessments	19,407							
Sewer Billings Due from Developers	1,219,066	111,540						
Totals	\$ 1,239,933	\$ 111,793						

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

Interfund receivables and payables are summarized as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$	\$ 13,185
Other Governmental Funds	232,371	179,187
Enterprise Funds		
Community Pool Fund		40,000
Golf Course Funds	1,326	1,325
Total	\$ 233,697	\$ 233,697

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

Interfund transfers are summarized as follows:

	Operating Transfers In	Operating Transfers Out
General Fund	\$ 458,062	\$ 328,192
Capital Reserve Fund	1,090,000	190,000
Street Project Fund		32,009
Fire Protection Fund		28,394
Debt Service Fund	599,184	
Other Governmental Funds		456,688
Enterprise Funds		
Sewer Fund		1,340,145
Community Pool Fund		100,010
Pension Trust Funds		
Police Pension	328,192	136,292
Deferred Retirement Option Plan Fund	136,292	
Total	\$2,611,730	\$2,611,730

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2008	Additions	Disposals and Reclassifications	Balance December 31, 2008
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 18,418,249	\$ 1,090,000	\$	\$ 19,508,249
Infrastructure	49,461,786			49,461,786
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	67,880,035	1,090,000		68,970,035
Capital Assets Being Depreciated				
Infrastructure	1,148,123	375,199		1,523,322
Land Improvements	6,545,617	267,414		6,813,031
Buildings and Improvements	7,502,823	341,897		7,844,720
Furniture and Equipment	2,933,995	97,609		3,031,604
Vehicles	3,961,637	303,459		4,265,096
	22,092,195	1,385,578		23,477,773
Accumulated Depreciation	(9,816,742)	(1,051,768)		(10,868,510)
TOTAL CAPITAL ASSETS, NET	12,275,453	333,810		12,609,263
TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	80,155,488	1,423,810		81,579,298
BUSINESS ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	4,197,081			4,197,081
Construction in Progress	4,532	58,598		63,130
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	4,201,613	58,598		4,260,211
Capital Assets Being Depreciated				
Land Improvements	8,742,133			8,742,133
Plant and Pools	39,089,557	59,188		39,148,745
Buildings and Improvements	2,855,977			2,855,977
Furniture and Equipment	1,485,601	31,500		1,517,101
TOTAL CAPITAL ASSETS BEING DEPRECIATED	52,173,268	90,688		52,263,956
Accumulated Depreciation	(19,822,871)	(1,328,610)		(21,151,481)
TOTAL CAPITAL ASSETS, NET	32,350,397	(1,237,922)		31,112,475
TOTAL BUSINESS ACTIVITY CAPITAL ASSETS, NET	36,552,010	(1,179,324)		35,372,686
TOTAL CAPITAL ASSETS, NET	\$ 116,707,498	\$ 244,486	\$	\$ 116,951,984

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS, continued

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

	Cost	Accumulated Depreciation	Net Book Value
GOVERNMENTAL ACTIVITIES			
Capital Assets Not Being Depreciated			
Land	\$ 19,508,250	\$	\$ 19,508,250
Infrastructure	49,513,834		49,513,834
Capital Assets Being Depreciated			
Infrastructure	1,304,444	(760,254)	544,190
Land Improvements	6,979,860	(1,972,925)	5,006,935
Buildings and Improvements	7,844,720	(2,633,703)	5,211,017
Furniture and Equipment	3,037,929	(2,736,966)	300,963
Vehicles	4,258,771	(2,764,662)	1,494,109
TOTAL GOVERNMENTAL ACTIVITIES	92,447,808	(10,868,510)	81,579,298
BUSINESS ACTIVITIES			
Capital Assets Not Being Depreciated			
Land	4,197,081		4,197,081
Construction in Progress	63,130		63,130
Capital Assets Being Depreciated			
Land Improvements	8,742,133	(1,052,760)	7,689,373
Plant and Pools	39,148,745	(18,720,879)	20,427,866
Buildings and Improvements	2,855,977	(573,838)	2,282,139
Furniture and Equipment	1,517,101	(804,004)	713,097
TOTAL BUSINESS ACTIVITIES	56,524,167	(21,151,481)	35,372,686
TOTALS	\$ 148,971,975	\$ (32,019,991)	\$ 116,951,984

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 158,312
Public Safety	303,077
Public Works	331,269
Parks & Recreation	259,110
	\$ 1,051,768
Total	\$ 1,051,768

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Township for the year ended December 31, 2008:

	Principal Outstanding January 1, 2008	Deletions / Maturities	Principal Outstanding December 31, 2008	Due Within One Year
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds:				
Series of 2003	\$ 6,520,000	\$ (535,000)	\$ 5,985,000	\$ 395,000
Series of 2006	661,605	(17,880)	643,725	18,250
General Obligation Notes:				
Series A of 2001	1,179,000	(579,000)	600,000	600,000
Series B of 2001	4,655,000		4,655,000	
Series of 2004	2,834,000	(89,000)	2,745,000	92,000
Notes Payable				
Commonwealth of PA, PEMA Bucks County:	110,679	(9,011)	101,668	9,193
Land Purchase				
Equipment Purchase				
PNC Bank	274,597	(38,936)	235,661	40,758
Deferred Amounts:				
Issuance Premiums	15,680	(1,568)	14,112	1,568
TOTALS	<u>16,250,561</u>	<u>(1,270,395)</u>	<u>14,980,166</u>	<u>1,156,769</u>
Compensated Absences	920,867	(24,685)	896,182	
TOTAL GOVERNMENTAL ACTIVITIES	<u>17,171,428</u>	<u>(1,295,080)</u>	<u>15,876,348</u>	<u>1,156,769</u>
BUSINESS ACTIVITIES				
General Obligation Bonds:				
Series of 2005	7,200,000	(400,000)	6,800,000	415,000
Series of 2006	8,398,395	(222,120)	8,176,275	231,750
General Obligation Notes:				
Series A of 2002	3,470,000		3,470,000	
Series B of 2002	5,036,000		5,036,000	
Deferred Amounts				
Issuance Discounts	(54,701)	3,237	(51,464)	(2,806)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>24,049,694</u>	<u>(618,883)</u>	<u>23,430,811</u>	<u>643,944</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 41,221,122</u>	<u>\$ (1,913,963)</u>	<u>\$ 39,307,159</u>	<u>\$ 1,800,713</u>

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and notes payable at December 31, 2008, 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. \$ 2,745,000

General Obligation Bonds, Series of 2003, issued in 2003 for the purpose of refunding the Township's General Obligation Bonds, Series of 1997 and 1998; principal was payable annually beginning December, 2003, interest was payable semiannually beginning June 2003 at rates ranging from 1.15% to 4.45%. 5,985,000

General Obligation Note, Series A of 2001, payable to DVRFA for the purpose of refunding the Township's General Obligation Bonds, Series of 1993; principal was payable annually beginning December, 2001, interest was payable monthly beginning July, 2001, at a rate of 4.08%, with maturity scheduled for December, 2009. 600,000

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

Note payable to the Commonwealth of Pennsylvania Emergency Management Agency for the purpose of constructing an emergency services building and related improvements; the note was issued to the Yardley-Makefield Rescue Squad; the Township assumed payments on the note in July, 2001, with the acquisition of The Rescue Squad Building; principal and interest are due monthly at a rate of 2% through January, 2019. 101,668

SUBTOTAL \$ 14,086,668

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD \$ 14,086,668

Note payable to PNC Bank for the purpose of construction of an emergency services building and related improvements; principal and interest is payable quarterly at a rate of 4.46% through January, 2014; a corresponding note receivable from the Rescue Squad has been established for repayment of principal plus accrued interest to the Township 235,661

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

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

General Obligation Bonds, Series of 2005, issued in 2005 for the purpose of refinancing the Township's General Obligation Notes, Series A and B of 2002; principal was payable annually beginning June, 2006, interest was payable semiannually beginning December, 2005, at rates ranging from 2.55% to 4.35%, with maturity scheduled for June, 2021. 6,800,000

SUBTOTAL 29,628,329

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD	29,628,329
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General Obligation Bonds, Series of 2006, issued in 2006 for the purpose of advance refinancing a portion of the 2003 Series that pertains to the sewer system and with funding current sewer system renovations and purchase of fire equipment; principal was payable annually beginning in September, 2006, interest was payable semi-annually beginning in September, 2006, at fixed intervals, ranging from 3.50% to 4.50%, with maturity scheduled for June, 2021.

<u>8,820,000</u>
<u>\$ 38,448,329</u>

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, 2008, was \$1,538,068. Interest costs incurred and charged to expenditures for the year ended December 31, 2008, were \$28,702 in the Fire Fund, \$646,494 in the Debt Service Fund, \$356,079 in the Sewer Fund and \$506,793 in the Golf Course Fund.

Bond Issuance and Advance Refunding

In a prior year, Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2008, the Township's portion of bonds outstanding that are considered defeased is \$765,000.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Debt Service Requirements

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2009	1,802,077	1,448,729	3,250,806
2010	1,564,802	1,475,046	3,039,848
2011	1,613,230	1,459,699	3,072,929
2012	1,667,539	1,397,541	3,065,080
2013	1,733,751	1,331,343	3,065,094
2014 to 2018	9,402,888	5,529,117	14,932,005
2019 to 2023	8,256,042	3,358,595	11,614,637
2024 to 2028	6,458,000	1,764,995	8,222,995
2029 to 2032	<u>5,950,000</u>	<u>382,200</u>	<u>6,332,200</u>
	<u>\$ 38,448,329</u>	<u>\$ 18,147,265</u>	<u>\$ 56,595,594</u>

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

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

7. DEFINED BENEFIT PENSION PLANS

Description of Plans

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

At January 1, 2007 (the most recent valuation date), the Township's pension plan membership consisted of:

	Police Pension Plan	Non-Uniform Pension Plan
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	12	22
Current Employees	32	31
TOTAL MEMBERSHIP	44	53

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, 2008 the plan's assets were managed by Glenmede Trust Company. All benefits vest after 12 years of credited service. Employees who retire at or after age 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average salary. Final average salary is the employee's average base salary over the last three years of credited service. Covered employees are not currently required to contribute to the pension plan. If an employee leaves covered employment or dies before age 65, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Non-Uniform Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement benefits as well as death and disability benefits. For the year ended December 31, 2008, the plan's assets were managed by Glenmede Trust Company. All benefits vest after five years of credited service. Employees who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit paid monthly for life in an amount equal to 1.75% of average annual compensation multiplied by credited service up to 30 years. Final average salary is the employee's average salary, including overtime, over the three years of credited service. Employees with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

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

Financial Reporting

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

Contributions

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

Plan Expenses

Plan expenses are paid from plan assets.

Concentrations

At December 31, 2008, there were no investments of the Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations and mutual funds) in any one organization that represented 5% or more of net assets available for benefits ($\$5,985,960 \times .05 = \$299,298$). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

At December 31, 2008, there were no investments of the Non-Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5% or more of net assets available for benefits ($\$3,349,467 \times .05 = \$167,473$). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS, continued

Schedules of Contributions from the Employer and Other Contributing Entities

Police Pension Plan

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2004	\$ 254,469	\$ 254,469	\$		\$ 254,469	100.00%
2005	348,424	286,824	61,600		348,424	100.00%
2006	316,627	305,764	10,863		316,627	100.00%
2007	353,655	330,258	23,397		353,655	100.00%
2008	343,677	328,192	15,485		343,677	100.00%

Non-Uniform Pension Plan

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2004	\$ 163,969	\$ 33,755	\$ 130,214		\$ 163,969	100.00%
2005	203,574		203,574		203,574	100.00%
2006	280,732		280,732		280,732	100.00%
2007	268,812		268,812		268,812	100.00%
2008	241,835		241,835		241,835	100.00%

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

TOWNSHIP OF LOWER MAKEFIELD
NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Police Pension Plan

Valuation date	January 1, 2007
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar (open basis)
Remaining amortization period	15.44 years
Assets valuation method	Fair value
Actuarial assumptions	
Investment rate of return	8%
Projected salary increases	5%

Non-Uniform Pension Plan

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

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. TRANSACTIONS WITH DEVELOPERS

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

The Township also receives developer deposits applicable to plan review and development billing activities. In such instances, the Township is required to hold such deposits in escrow and refund amounts not ultimately required to fund anticipated administrative costs. Potentially refundable deposits are accounted for in Agency Funds, which reflect a liability to various developers of \$190,974 as of December 31, 2008.

9. DEFERRED COMPENSATION PLAN

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

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

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

10. DEFERRED RETIREMENT OPTION PLAN

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

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

10. DEFERRED RETIREMENT OPTION PLAN, *continued*

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

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

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

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

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

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

11. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Equipment lease

In May, 2004, the Township entered into a lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms called for monthly rental payments of \$4,646, including interest, beginning June, 2004 through May, 2008. Total rent expense for the year ended December 31, 2008, was \$13,230.

In May, 2008, the Township entered into a new lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$5,774, including interest, beginning June, 2008 through May, 2012. At the end of the lease term, the Township has the option to purchase the golf carts for the total of all rents still outstanding, including accrued interest, and the termination value of \$112,250. The lease is not being treated as a capital lease because the Township has no intention of purchasing the golf carts at the end of the lease. Therefore, the total value of the equipment has not been included in the capital assets of the Golf Course Fund. Total rent expense for the year ended December 31, 2008, was \$59,002.

The future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2009	\$ 69,288
2010	69,288
2011	69,288
2012	28,870

Self-Insured Unemployment Compensation

The Township self-insured for unemployment compensation coverage. A reserve of \$85,554 is established at December 31, 2008. During 2008, there were no claims.

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

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.

12. RISK MANAGEMENT

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

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

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

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

13. MUNICIPAL SEWER AUTHORITY

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

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

14. ACQUISITION

On August 31, 2001, the Yardley Makefield Emergency Unit agreed to transfer title and interest in the Emergency Rescue Squad Building to the Township. This was due to the financial problems of the Emergency Unit. The Township capitalized \$1,151,410 (equity in the building). This included assuming \$700,475 of outstanding obligations, payment to the Emergency Unit of \$100,000, a credit of \$56,000 in funds provided to the Emergency Unit in 2000 and a balance due by the Township to the Emergency Unit in the amount of \$294,935. The balance due shall be reduced \$25,000 per year and recognized as rental income by the Township over a period of 12 years. The outstanding balance is \$120,531 at December 31, 2008.

15. MANAGEMENT AGREEMENT

In July 2003, the Township entered into a management agreement with Kemper Sports Management, Inc. to manage the day-to-day operations of the Makefield Highlands Golf Club. Phase II of the agreement began on the date Phase I (pre-opening phase) terminated and shall terminate on the December 31 following the fifth anniversary of the opening date (July 1, 2004). Throughout Phase II, the Township is required to pay \$8,495 per month. This fee will be increased annually by a percentage equal to the Consumer Price Index each year on the anniversary of Phase II. Additionally, the Township will pay, no later than 60 days after the end of each calendar year. The following is the additional incentive fee calculation:

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

The Township paid a total of \$101,949 in management fees and \$50,316 in incentive fees during the year ended December 31, 2008.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Township entered into its General Obligation Notes, Series of 2001A, 2001B, 2002A, 2002B and 2004, with the DVRFA. In order to provide funds for the notes, the DVRFA issued Local Government Revenue Bonds, Series of 1997, 1998 and 2002 (DVRFA Bonds). The DVRFA has entered into an interest rate swap agreement related to the DVRFA Bonds to provide variable and fixed rates on loans, to reduce the costs of participants in the loan program and to enhance the ability of participants to manage their interest rate risks. The following is a summary of the Township's general obligation notes with DVRFA and the estimated termination payment at December 31, 2008:

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BASIC FINANCIAL STATEMENTS

16. DERIVATIVE FINANCIAL INSTRUMENTS, *continued*

<u>General Obligation Notes</u>	<u>Original Issue Amount</u>	<u>Outstanding at December 31, 2008</u>	<u>Fair Value</u>
Series of 2001A	\$ 4,624,000	\$ 600,000	\$ (17,830)
Series of 2001B	4,655,000	4,655,000	(407,197)
Series of 2002A	10,300,000	3,470,000	675,100
Series of 2002B	5,661,000	5,036,000	1,769,967
Series of 2004	<u>3,000,000</u>	<u>2,745,000</u>	<u>964,766</u>
	<u>\$ 28,240,000</u>	<u>\$ 16,506,000</u>	<u>\$ 2,984,806</u>

If the Township defaults on all or a portion of the above-mentioned general obligation notes with DVRFA, it may owe costs, if any, associated with the liquidation or termination of the respective fixed rate swap used by the DVRFA to provide the fixed rate to the Township. The carrying amount of the related interest rate swap at December 31, 2008, on the Township's government-wide and fund financial statements is \$0. The fair value or estimated Township termination payment is \$ 539,739 for governmental activities and \$2,445,067 for business activities at December 31, 2008. The fair value increase for the current year is \$497,579 for governmental activities and \$1,517,333 for business activities.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The costs of the cash and cash equivalents are reasonable estimates of the fair value because the cash equivalents have maturities of, or can be liquidated at par in 90 days or less. The fair values of the derivative financial instruments have been estimated based upon the termination payment the DVRFA would receive (pay) if the associated swap agreements were terminated on December 31, 2008 (Note 16).

A comparison of carrying value and fair value as of December 31, 2008, is as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 8,684,536	\$ 8,820,978
Investments (Note 2)	8,886,767	8,886,767
LIABILITIES		
Bonds payable (Note 6)	\$ 21,605,000	\$ 21,605,000
Notes payable (Note 6)	16,843,329	16,843,329
DERIVATIVE FINANCIAL INSTRUMENTS		
(Note 16)	\$	\$ 2,984,806

REQUIRED

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD
BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 6,419,833	\$ 6,419,833	\$ 6,134,167	\$ (285,666)
Fees, licenses and permits	779,456	779,456	948,995	169,539
Interest and rents	398,336	398,336	310,533	(87,803)
Intergovernmental revenues	521,389	521,389	661,916	140,527
Fines and forfeits	89,500	89,500	73,814	(15,686)
Charges for services	439,548	439,548	460,288	20,740
Contributions	1,250	1,250	3,782	2,532
Miscellaneous	15,000	15,000		(15,000)
TOTAL REVENUES	8,664,312	8,664,312	8,593,495	(70,817)
EXPENDITURES				
General government	1,598,398	1,598,398	1,598,929	(531)
Public safety	4,091,480	4,091,480	4,131,862	(40,382)
Public works	1,221,166	1,221,166	1,189,318	31,848
Insurance	326,075	326,075	301,966	24,109
Employee benefits	1,610,509	1,610,509	1,556,313	54,196
TOTAL EXPENDITURES	8,847,628	8,847,628	8,778,388	69,240
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(183,316)	(183,316)	(184,893)	(1,577)
OTHER FINANCING SOURCES (USES)				
Refund prior year expenditure			211,861	211,861
Sale of capital assets	1,000	1,000		(1,000)
Transfers in	324,055	324,055	458,062	134,007
Transfers out	(343,677)	(343,677)	(328,192)	15,485
TOTAL OTHER FINANCING SOURCES (USES)	(18,622)	(18,622)	341,731	360,353
NET INCREASE (DECREASE) IN FUND BALANCE	(201,938)	(201,938)	156,838	358,776
FUND BALANCE, BEGINNING	1,015,283	1,015,283	1,015,283	
FUND BALANCE, ENDING	\$ 813,345	\$ 813,345	\$ 1,172,121	\$ 358,776

See notes to required supplementary information

TOWNSHIP OF LOWER MAKEFIELD

NOTES TO THE BUDGETARY COMPARISON STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

1. BUDGETARY INFORMATION

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

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

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

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

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2008, expenditures exceeded appropriations in the following General Fund object levels (the legal level of the budgetary control):

General government	\$ 531
Public safety	40,382

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

TOWNSHIP OF LOWER MAKEFIELD

TREND DATA ON INFRASTRUCTURE CONDITION

FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

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

	<u>Budget</u>	<u>Actual</u>
2008	<u>\$235,000</u>	<u>\$326,000</u>

The prior year actual expenditures were \$102,500 less than the budgeted amount. The current year actual expenditures were \$91,000 more than the budgeted amount.

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

TOWNSHIP OF LOWER MAKEFIELD

PENSION PLAN FUNDING PROGRESS

FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE OF FUNDING PROGRESS

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

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

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

Non-Uniform Pension Plan

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

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

TOWNSHIP OF LOWER MAKEFIELD

PENSION PLAN FUNDING PROGRESS

FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE OF FUNDING PROGRESS, continued

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

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

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

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2008

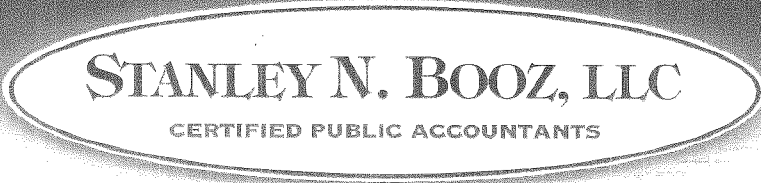
	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Open Space Fund	Traffic Impact Fund	Five Mile Woods Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
ASSETS											
Cash and cash equivalents	\$ (10,563)	\$ 39,682	\$ 56,517	\$ 89,630	\$ 87,848	\$ 239,626	\$ 862,707	\$ 3,116	\$ 192,531	\$ 23,154	\$ 1,584,248
Accounts receivable	44	2,962	47,443	73	73	199	720	3		3,430	54,947
Interfund receivable			53,185	177,861			1,325				232,371
TOTAL ASSETS	\$ (10,519)	\$ 42,644	\$ 157,145	\$ 267,564	\$ 87,921	\$ 239,825	\$ 864,752	\$ 3,119	\$ 192,531	\$ 26,584	\$ 1,871,566
LIABILITIES											
Accounts payable	\$ 3,395	\$ 11,600	\$ 17,173	\$	\$	\$ 3,610	\$ 18,778	\$ 1,440	\$ 26,430	\$	\$ 82,426
Accrued expenses			31,925					22			31,947
Interfund payable				177,861		1,326					179,187
Deferred revenue		2,315	16,215					1,400		2,875	21,405
Member deposits											1,400
TOTAL LIABILITIES	3,395	13,915	65,313	177,861	87,921	4,936	18,778	2,862	26,430	2,875	316,365
FUND BALANCES											
Unreserved for:											
Special revenue funds	(13,914)	28,729	91,832	89,703	87,921	234,889	845,974	257	166,101	23,709	1,555,201
TOTAL FUND BALANCES	(13,914)	28,729	91,832	89,703	87,921	234,889	845,974	257	166,101	23,709	1,555,201
TOTAL LIABILITIES AND FUND BALANCES	\$ (10,519)	\$ 42,644	\$ 157,145	\$ 267,564	\$ 87,921	\$ 239,825	\$ 864,752	\$ 3,119	\$ 192,531	\$ 26,584	\$ 1,871,566

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, 2008

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Open Space Fund	Traffic Impact Fund	Five Mile Woods Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
REVENUES											
Real estate taxes	\$ 1,723	\$ 138,575	\$ 774,157	\$ 1,336	\$ 2,384	\$ 8,138	\$ 24,059	\$ 320	\$ 7,681	\$ 126,623	\$ 1,039,355
Interest earnings		1,810	7,343					16,800		1,342	56,136
Rental income			13,694								30,494
Intergovernmental revenues			4,202								762,693
Charges for services			130,737	63,165			16,633	1,800			132,537
Contributions			12,064								91,862
Miscellaneous income	28,473		30,767								59,240
TOTAL REVENUES	30,196	140,385	972,964	64,501	2,384	8,138	40,692	18,920	766,172	127,965	2,172,317
EXPENDITURES											
Public safety										124,650	124,650
Public works	35,194	146,799	736,762		94,996		71,800		621,455		803,448
Parks and recreation								34,066			903,558
Community development									192,098		34,066
Capital outlay											192,098
TOTAL EXPENDITURES	35,194	146,799	736,762	64,501	94,996	94,996	71,800	34,066	813,553	124,650	2,057,820
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,998)	(6,414)	236,202	64,501	2,384	(86,858)	(31,108)	(15,146)	(47,381)	3,315	114,497
OTHER FINANCING SOURCES (USES)											
Refund of prior year expenditure			5,625			3,160		625			9,410
Operating transfers (out)			(442,405)			(12,766)		(1,517)			(456,688)
TOTAL OTHER FINANCING SOURCES (USES)			(436,780)			(9,606)		(892)			(447,278)
NET INCREASE (DECREASE) IN FUND BALANCES	(4,998)	(6,414)	(200,578)	64,501	2,384	(96,464)	(31,108)	(16,038)	(47,381)	3,315	(332,781)
FUND BALANCES, BEGINNING	(8,916)	35,143	292,410	25,202	85,537	331,353	877,082	16,295	213,482	20,394	1,887,982
FUND BALANCES, ENDING	\$ (13,914)	\$ 28,729	\$ 91,832	\$ 89,703	\$ 87,921	\$ 234,889	\$ 845,974	\$ 257	\$ 166,101	\$ 23,709	\$ 1,555,201



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD as of and for the year ended December 31, 2008, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD'S financial statements, and have issued our report thereon dated June 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the TOWNSHIP OF LOWER MAKEFIELD'S ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the TOWNSHIP OF LOWER MAKEFIELD'S financial statements that is more than inconsequential will not be prevented or detected by the TOWNSHIP OF LOWER MAKEFIELD'S internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TOWNSHIP OF LOWER MAKEFIELD'S financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to the management of the TOWNSHIP OF LOWER MAKEFIELD in a separate letter dated June 26, 2009.

This report is intended solely for the information and use of the Township management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

STANLEY N. BOOZ, LLC
Certified Public Accountants

