

**TOWNSHIP OF LOWER MAKEFIELD**

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FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2011

# 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, 2011, 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, 2011, 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 July 12, 2012, on our consideration of the TOWNSHIP OF LOWER MAKEFIELD'S internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and pages 59 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion of any assurance.

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

July 12, 2012

STANLEY N BOOZ, LLC  
*Certified Public Accountants*

*Stanley N. Booz, LLC*

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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 seventh full year of operations since opening on July 1, 2004. Income before depreciation was \$361,737 for the year. Response to the Course has been extremely favorable and in 2011 rounds were up from the previous years as the economy continues to recover, and the course fared very well when compared to some competitors. 2011 marked the 2<sup>nd</sup> consecutive year of the new Management team being in place, with different service and incentive fees reflected.
- In 2009 there was a judgment against Lower Makefield Township in regard to the land acquisition case involving the property where the township owned Makefield Highlands Golf Course resides. The township paid for the property in July of 2001 with proceeds from a bond issue. The property was condemned as part of the acquisition, and a price determined to be fair market value was paid to the owner. Since that time, the previous owner of the land has brought suit against the township seeking additional funds for the acquisition of the property. The case has been in litigation for several years with the township prevailing in an earlier decision. The township expects this case to be resolved late in 2012 or sometime early in 2013.
- The assets of the Township exceeded its liabilities by \$84,150,596, down \$413,942 from last year.
- The General Fund balance remains above the "Safe Harbor" range, which is 5-8% of General Fund revenues.
- Sewer rates had an increase in 2011, the first since 2009. The resulting increase generated an additional \$559,000 of revenue. The Sewer Fund began the creation of a Capital reserve within its origins, and has set aside \$500,000 to fund future capital needs during the previous 2 years. Another \$500,000 is budgeted for 2012.
- The Township owned Pool operations had no rate increase in 2011 and membership appears to be stable although there has been a slight decline from the previous years participation. Revenues from members were down slightly in 2011, approximately \$13,000 or 2% The pool has positive net income before depreciation of \$60,253.
- The township refinanced another bond issue late in 2011 which will result in savings of approximately \$900,000 over the remaining twenty-year period, beginning in 2011. The issue which was refinanced, the 2006 issue, involves primarily the Sewer Fund.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

- The township enacted a Local Services Tax in 2010, and 2011 was the 2<sup>nd</sup> full year of this revenue source which charges \$52 per annum to all employees within the township's geographic boundaries. In 2011 the township received over \$200,000 from this revenue item and we expect that this is the maximum Lower Makefield will receive since the tax is capped by regulations and our employee base is stable.

### 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.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

- Fund Financial Statements focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column "Other Governmental Funds." Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net assets, revenues, expenses and changes in net assets and cash flows. The Proprietary Funds represent the Township's Sewer, Pool, and Golf Funds and can be found in more detail beginning with the Statement of Net Assets, Proprietary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

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

## REPORTING THE TOWNSHIP AS A WHOLE

### Statement of Net Assets and Statement of Activities

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

- **Governmental Activities** – Most of the Township's basic services are reported here, including police, public works, planning and zoning, library, parks and recreation, and administration. Real estate and business taxes, fees and charges and grants finance most of these activities.
- **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 (Table 1) and changes in net assets (Table 2) 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, 2011

### NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Cash and Cash Equivalents	\$ 4,876,853	\$ 4,184,892	\$ 1,967,453	\$ 2,027,675	\$ 6,844,306	\$ 6,212,567
Other Assets	895,621	1,201,988	2,336,742	1,904,592	3,232,363	3,106,580
Capital Assets	<u>78,710,248</u>	<u>80,583,565</u>	<u>32,547,429</u>	<u>33,513,549</u>	<u>111,257,677</u>	<u>114,097,114</u>
Total Assets	<u>\$ 84,482,722</u>	<u>\$ 85,970,445</u>	<u>\$ 36,851,624</u>	<u>\$ 37,445,816</u>	<u>\$ 121,334,346</u>	<u>\$ 123,416,261</u>
<b>Liabilities</b>						
Other Liabilities	\$ 724,794	\$ 1,171,900	\$ 1,004,098	\$ 995,134	\$ 1,728,892	\$ 2,294,168
Long-Term Debt Outstanding	<u>13,508,647</u>	<u>14,303,037</u>	<u>21,946,211</u>	<u>22,381,652</u>	<u>35,454,858</u>	<u>36,557,555</u>
Total Liabilities	<u>14,233,441</u>	<u>15,474,937</u>	<u>22,950,309</u>	<u>23,376,786</u>	<u>37,183,750</u>	<u>38,851,723</u>
<b>Net Assets</b>						
Invested in Capital Assets	66,111,292	66,283,277	10,601,218	11,131,897	76,712,510	77,415,174
Restricted	1,615,002	3,806,647			1,615,002	3,806,647
Unrestricted	<u>2,522,987</u>	<u>322,318</u>	<u>3,300,097</u>	<u>2,937,133</u>	<u>5,823,084</u>	<u>3,342,717</u>
Total Net Assets	<u>70,249,281</u>	<u>70,495,508</u>	<u>13,901,315</u>	<u>14,069,030</u>	<u>84,150,596</u>	<u>84,564,538</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 84,482,722</u>	<u>\$ 85,970,445</u>	<u>\$ 36,851,624</u>	<u>\$ 37,445,816</u>	<u>\$ 121,334,346</u>	<u>\$ 123,416,261</u>

Cash and cash equivalents represent 5.8% of the Township of Lower Makefield's total governmental assets in 2011 and 4.9% in 2010. Cash and cash equivalents represent 5.3% in 2011 and 5.1% in 2010 of the Township of Lower Makefield's total business-type assets. Both areas of the townships cash represented slight increases over the prior year, and the township's cash position remains healthy.

The largest portion of the Township's governmental assets, 93.0%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment.) In 2010 this portion was 93.7%. 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, 2011

### REPORTING THE TOWNSHIP AS A WHOLE, continued

#### Statement of Net Assets and Statement of Activities, continued

<b>Revenues</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
<b>Program Revenues</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Charges for Services	\$ 1,298,127	\$ 1,094,367	\$ 8,790,473	\$ 8,311,812	\$ 10,088,600	\$ 9,406,179
Operating Grants and Contributions	2,461,185	2,235,567			2,461,185	2,235,567
<b>General Revenues</b>						
Property Taxes	7,728,258	7,845,560			7,728,258	7,845,560
Real Estate Transfer Tax	783,853	1,027,741			783,853	1,027,741
Local Services and Per Capita Taxes	479,274	209,143			479,274	209,143
Public Utility Taxes	12,716	12,627			12,716	12,627
Franchise Fees	649,653	609,571			649,653	609,571
Investment Earnings	64,733	12,660	22,193	13,966	86,926	26,626
Miscellaneous	601,864	569,607		9,820	601,864	579,427
Gain (Loss) on Sale of Capital Assets	(495,001)	11,194			(495,001)	11,194
<b>Total Revenues</b>	<b>13,584,662</b>	<b>13,628,037</b>	<b>8,812,666</b>	<b>8,335,598</b>	<b>22,397,328</b>	<b>21,963,635</b>
<b>Expenses</b>						
General Government	2,050,298	2,061,891			2,050,298	2,061,891
Public Safety	7,731,495	7,249,126			7,731,495	7,249,126
Public Works	2,790,276	2,735,423			2,790,276	2,735,423
Parks and Recreation	1,157,533	1,149,169			1,157,533	1,149,169
Community Development	33,457	80,898			33,457	80,898
Interest on Long Term Debt	417,822	662,806			417,822	662,806
Sewer			5,301,584	4,908,313	5,301,584	4,908,313
Community Pool			765,451	773,958	765,451	773,958
Golf Course			2,563,354	2,544,906	2,563,354	2,544,906
<b>Total Expenses</b>	<b>14,180,881</b>	<b>13,939,313</b>	<b>8,630,389</b>	<b>8,227,177</b>	<b>22,811,270</b>	<b>22,166,490</b>
<b>Excess/(Deficiency) Before Transfers</b>	<b>(596,219)</b>	<b>(311,276)</b>	<b>182,277</b>	<b>108,421</b>	<b>(413,942)</b>	<b>(202,855)</b>
<b>Transfers in</b>	<b>680,017</b>	<b>1,031,182</b>			<b>680,017</b>	<b>1,031,182</b>
<b>Transfers Out</b>	<b>(330,025)</b>	<b>(1,033,788)</b>	<b>(349,992)</b>	<b>(349,992)</b>	<b>(680,017)</b>	<b>(1,383,780)</b>
<b>Change in Net Assets</b>	<b>(246,227)</b>	<b>(313,882)</b>	<b>(167,715)</b>	<b>(241,571)</b>	<b>(413,942)</b>	<b>(555,453)</b>
<b>Net Assets Beginning of the Year</b>	<b>70,495,508</b>	<b>70,809,390</b>	<b>14,069,030</b>	<b>14,310,601</b>	<b>84,564,538</b>	<b>85,119,991</b>
<b>Net Assets End of the Year</b>	<b>\$ 70,249,281</b>	<b>\$ 70,495,508</b>	<b>\$ 13,901,315</b>	<b>\$ 14,069,030</b>	<b>\$ 84,150,596</b>	<b>\$ 84,564,538</b>

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

Total expenses exceed total revenues by \$596,219 in 2011, in contrast to total expenses exceeding total revenues by \$311,276 in 2010 for governmental activities. In 2011 there was no tax increase in any township funds. Certain governmental fund has little or no revenue in 2011 but had planned spending, resulting in part of the excess of expenditures, the majority comes from the loss on the sale of real estate. In 2011, Total revenues exceeded total expenses by \$182,277 in 2011 and by \$108,421 in 2010 for business type activities. This excess of revenues was a result of sewer revenues being up from the fee increase and golf and sewer expenditures being down due to interest expense savings resulting from the bond issue refinancing.

### Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2011 was \$13,584,662 and \$13,628,037 in 2010. Revenue by source were as follows:

<u>Revenue</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Property Taxes Levied for General Purposes	7,728,258	7,845,560	56.89%	57.57%
Real Estate Transfer Tax	783,853	1,027,741	5.77%	7.54%
Per Capita Taxes	479,274	209,143	3.53%	1.53%
Public Utility Taxes	12,716	12,627	0.09%	0.09%
Franchise Taxes	649,653	609,571	4.78%	4.47%
Investment Earnings	64,733	12,660	0.48%	0.09%
Miscellaneous	601,864	569,607	4.43%	4.18%
Gain/Loss on Sale of Capital Assets	(495,001)	11,194	-3.64%	0.08%
Charges for Services	1,298,127	1,094,367	9.56%	8.03%
Operating Grants and Contributions	<u>2,461,185</u>	<u>2,235,567</u>	<u>18.12%</u>	<u>16.40%</u>
	13,584,662	13,628,037	100.00%	100.00%

As seen above, revenues were stable in total for the most part when comparing 2011 to 2010; however the Deed transfer tax continues to be a cause for concern and the loss on the sale of assets is a result of the township selling the Elm Lowne Property early in 2011. In December of 2009, the Township approved the enactment of a Local Services Tax, or LST at the legally allowed maximum of \$52 per annum for all people working within the Township borders making more than \$12,000 per annum. This revenue source yielded over \$200,000 in 2011, an increase of \$100,000 from 2010.

Investment income, which is comprised of bank interest on the five Township interest-bearing accounts, continued its downward trend in 2011 as interest rates decreased from a high of 5.01% during 2007 to a low of less than 1/4 of 1 % during 2011. With the fed rates at or near 0% we expect interest income to remain at or below their current levels for the near future and certainly throughout 2012.

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 2011 were \$14,180,881 and \$13,939,313 in 2010. Expenditures by source were as follows:

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Expenses</u>	<u>Amount</u>		<u>% of Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General Government	2,050,298	2,061,891	14.46%	14.79%
Public Safety	7,731,495	7,249,126	54.52%	52.00%
Highways and Streets	2,790,276	2,735,423	19.68%	19.62%
Culture and Recreation	1,157,533	1,149,169	8.16%	8.24%
Community Development	33,457	80,898	0.24%	0.58%
Interest on Long Term Debt	<u>417,822</u>	<u>662,806</u>	<u>2.95%</u>	<u>4.75%</u>
	14,180,881	13,939,313	100.00%	100.00%

Total governmental expenditures increased approximately 2.8% from 2011 to 2010.

Business type activities include the Township's Sewer System, Community Pool and Golf Course. Total revenue from sewer activities for 2011 is \$5,464,747 compared to \$4,844,148 in 2010. Charges for services account for approximately 98.2% of revenue in 2011, compared with 99.3% in 2010. The main reason for this is due to the increase in tapping fees. Expenditures to operate the system total \$4,972,067 for 2011 and \$4,908,313 for 2010. Total revenue from community pool activities is \$732,208 for 2011 and \$790,489 for 2010. Charges for services account for 97.9% of revenue in 2011, while these charges equaled 98% of 2010 revenues. Expenditures to operate the pool total \$765,451 for 2011 and \$ 773,958 for 2010. Total revenue from golf course activities is \$2,596,053 for 2011 and \$ 2,696,301 for 2010. Charges for services account for approximately 99.8% of revenue in 2011, and 99.7% in 2010. Expenditures to operate the course total \$2,563,354 in 2011 and \$2,544,906 for 2010.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund had an excess of revenues over expenditures for 2011 of \$491,120 and an excess of revenues over expenditures in 2010 of \$201,872. An operating deficit of \$173,528 had been budgeted for fiscal 2011, so the General Fund outperformed the budget by over \$650,000. The reasons for the out-performance of the budgeted results are several, most notably over \$250,000 in pension contribution from the Commonwealth of PA (1 time exception), recycling revenues \$100,000 greater than budget, and Cable TV Franchise fees and Cell Tower Commissions of \$150,000 higher than budgeted. Insurance dividends and rebates also exceeded budgeted amounts by almost \$90,000. Other revenue items with positive variances include insurance reimbursements and the Local Services Tax, these items helped offset the decline in permits fees and the transfer tax. The Real Estate Deed Transfer Tax lagged budget by over \$200,000 and this was made up by the items mentioned above. On the expenditure side, the township came within \$25,000 of our total budget, coming in just slightly less than expected.

The Township had no budget adjustments during the 2011 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.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

### 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, 2011, total \$111,257,677 and were \$114,097,114 in 2010 (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 2011 include:

3 Police Vehicles	78,460
Other Vehicles	73,839
Sewer Capital Contribution – Morrisville	214,315
Sewer Capital Contribution – Yardley Boro	91,132
LMT Sewer Pump Station Improvement	16,750
Communication Equipment	12,115
Operating Software – Finance	14,856
New Oil Heater	8,500

#### Capital Assets at Year End, Net of Depreciation Years Ended December 31, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 18,826,273	\$ 19,517,249	\$ 4,202,081	\$ 4,202,081	\$ 23,028,354	\$ 23,719,330
Infrastructure	49,471,776	49,471,776			49,471,776	49,471,776
Construction in Progress	3,685	3,685		63,130	3,685	66,815
<b>TOTAL CAPITAL ASSETS NOT DEPRECIATED</b>	<b>68,301,734</b>	<b>68,992,710</b>	<b>4,202,081</b>	<b>4,265,211</b>	<b>72,503,815</b>	<b>73,257,921</b>
Land Improvements	4,574,977	4,712,540	7,050,385	7,288,944	11,625,362	12,001,484
Plant & Pools	4,201,986		18,566,363	19,124,451	18,566,363	19,124,451
Buildings & Improvements	154,698	4,852,690	2,323,689	2,398,066	6,525,675	7,250,756
Furniture & Equipment	902,122	205,016	404,911	436,877	559,609	641,893
Vehicles	574,731	1,192,454			902,122	1,192,454
Infrastructure		628,155			574,731	628,155
<b>TOTAL CAPITAL ASSETS DEPRECIATED</b>	<b>10,408,514</b>	<b>11,590,855</b>	<b>28,345,348</b>	<b>29,248,338</b>	<b>38,753,862</b>	<b>40,839,193</b>
<b>TOTALS</b>	<b>\$ 78,710,248</b>	<b>\$ 80,583,565</b>	<b>\$ 32,547,429</b>	<b>\$ 33,513,549</b>	<b>\$ 111,257,677</b>	<b>\$ 114,097,114</b>

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

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

In the case of road, curb, sidewalk and bike path infrastructure, the Township has elected to use the modified approach. Please see page 65 in the Required Supplementary Information section of the financial statements for a more detailed description of the method. Additional information on the Township's capital assets can be found in Notes A and E in the financial statements.

### Debt

At December 31, 2011, the Township had \$35,454,858 in outstanding debt and compensated absences compared to \$36,684,689 last year. Of the outstanding debt at December 31, 2011, \$1,383,018 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, 2011

	<u>2011</u>	<u>2010</u>
Governmental Activities		
General Obligation Bonds, Series 2006	\$609,780	\$605,730
General Obligation Notes		
Series of 2010	4,979,938	4,990,000
Series A of 2010	4,370,715	5,083,841
Series of 2004	2,457,000	2,557,000
Notes Payable		
PEMA	73,531	83,097
PNC Bank	107,991	152,427
	<u>12,598,955</u>	<u>13,472,095</u>
Business Type Activities		
General Obligation Bonds		
Series of 2011	7,745,211	7,800,652
Series of 2010	5,695,000	6,075,000
General Obligation Notes		
Series A of 2002	3,470,000	3,470,000
Series B of 2002	5,036,000	5,036,000
	<u>21,946,211</u>	<u>22,381,652</u>
	34,545,166	35,853,747
Compensated Absences	909,692	830,942
Total	<u>\$35,454,858</u>	<u>\$36,684,689</u>

The Township had no new debt service issues in 2011. During the 3rd quarter of 2011, the Township refinanced the 2006 issue into a lower rate bond. This issue totaled \$8,045,000 in principal and will save the township approximately \$900,000 combined in interest payments of the maturity of the bond. This new bond of 2011 has the same maturity as the original bond being refinanced.

During the process of refinancing the Township went through the normal rating process and Moody's Investor Services reaffirmed the Township's AA2 rating. This was based on 2010 audited financial statements and unaudited statements from 2011 through the first half of the year.

## **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, 2011

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

### Assessments by Land Use Codes

<u>Type</u>	<u>Assessment</u>
Residential	471,855,580
Taxable Vacant/Miscellaneous	2,100,360
Government/School	23,400
Industrial - Not in a Park	124,400
Main Street - Commercial	161,260
Apartments	8,593,620
Motel - Hotel	1,027,200
Commercial	5,475,990
Mobile Home Parks	-
Office Buildings - Not in a Park	21,092,480
Office Buildings - In a Park	1,108,170
Shopping Centers	4,896,000
Institutional	10,392,060
Utility	-
Utility - Government	1,773,680
Exempt	18,641,690
<b>TOTAL ASSESSMENTS</b>	<b><u>547,265,890</u></b>

The current assessment is lower than the previous assessment by approximately \$1.5 million. Within the total there are some differences; Apartments and Institutional are up while Residential assessments are down, a trend throughout the County. The impact of the assessment changes in 2011 are minimal as the overall decrease totals just under \$1.5 million, or .002% of the total assessment. The decrease in residential assessments is being watched closely throughout the state.

Development within the Township continues its downward trend; thus reducing 2011 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, 2011

	<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 2012 will remain at 15.12, with no increase over the 2011 millage.

Real estate transfer taxes are budgeted at \$1,045,000, a decrease of \$100,000 from 2011's budget number, and down from the high point of \$1,925,000 actually received in 2005. The nationwide housing market is still very volatile, and Lower Makefield is not immune to this volatility. We are hopeful that the housing market and related credit markets will begin to show stability and steady improvement during 2012 however, the trends and factors affecting them have shown no such stability over the last several years.

Interest income is budgeted at lower amounts in the 2012 budget due to the numerous interest rate reductions planned or having already taken place since 2008. The Federal Reserve Bank is holding their rates at or near 0% in an effort to help stimulate the economy, and the rates on our cash and related investments are trending very low as a result. During 2012, the township is continuing to diversify some of our cash positions in light of the recent events in the banking industry and looking closely at the banking relationship, with the potential of changing banks in 2012. 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 minimal increases in 2012, the 3<sup>rd</sup> of a 4 year collective bargaining agreement. Both of the townships collective bargaining agreements expire in 2013.

As was done in the past, the Liquid Fuels fund will help support the public works payroll in 2012.

Overall health benefits in the 2012 are budgeted at lower levels than in 2011. This was due to a change in the level of benefits for the Personal Choice medical plan and the Benefits Concepts prescription plan that went into effect January 1, 2009. Also, several unplanned staff vacancies allowed us to realize some savings in this area as well. Health care costs in 2012 are budgeted at a lower level, reflecting the township's policy of using higher deductible policies to offset an expenditure item that traditional has cost increases that outpace inflationary factors.

# TOWNSHIP OF LOWER MAKEFIELD

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED DECEMBER 31, 2011

Pool membership fees are budgeted at \$636,405 for 2012, a decrease of 1.6% over the 2011 budget of \$649,790. After several years of stable membership numbers the pool began to decline in 2009 as a result of a volatile and challenging economy. We believe the membership should stabilize in 2012 as the economy continues to steady itself.

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 borrower. Since that time, the previous owner of the land has brought suit against the township seeking additional funds for the acquisition of the property. The case has been in litigation for several years with the township prevailing in an earlier decision.

The value of this latest judgment, including interest is over \$2 million dollars. The township has appealed this decision and has not paid any additional funds to the previous owner. It is the township's position that the latest judgment is unacceptable and will defend this vigorously. No reserves have been made as of the date of this audit report. The township expects this matter to be resolved sometime later in 2012 or early 2013.

### **REQUESTS FOR INFORMATION**

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

**TOWNSHIP OF LOWER MAKEFIELD**

**STATEMENT OF NET ASSETS**

DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 4,876,853	\$ 1,967,453	\$ 6,844,306
Accounts receivable, net	652,620	1,757,999	2,410,619
Internal balances	(19,028)	19,028	
Inventory		57,837	57,837
Prepaid expenses	21,927	14,884	36,811
Restricted assets			
Escrow deposits	37,207		37,207
Deferred charges, net of amortization	202,895	486,994	689,889
Total	5,772,474	4,304,195	10,076,669
Capital assets:			
Land	18,826,273	4,202,081	23,028,354
Construction in progress	3,685		3,685
Infrastructure	50,995,098		50,995,098
Land improvements	7,547,555	8,762,910	16,310,465
Plant and pools		39,805,802	39,805,802
Buildings and building improvements	7,196,252	2,872,107	10,068,359
Furniture and equipment	3,208,032	1,790,082	4,998,114
Vehicles	4,530,460		4,530,460
Accumulated depreciation	(13,597,107)	(24,885,553)	(38,482,660)
Total capital assets	78,710,248	32,547,429	111,257,677
<b>TOTAL ASSETS</b>	<b>\$ 84,482,722</b>	<b>\$ 36,851,624</b>	<b>\$ 121,334,346</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 362,056	\$ 756,828	\$ 1,118,884
Accrued expenses	134,671	92,425	227,096
Accrued interest	21,125		21,125
Member deposits	1,400		1,400
Deferred revenue	168,335	154,845	323,180
Escrow deposits	37,207		37,207
Long-term liabilities			
Due within one year	891,075	491,943	1,383,018
Due in more than one year	12,617,572	21,454,268	34,071,840
<b>TOTAL LIABILITIES</b>	<b>14,233,441</b>	<b>22,950,309</b>	<b>37,183,750</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	66,111,292	10,601,218	76,712,510
Restricted for			
Capital projects	773,372		773,372
Debt service	823,571		823,571
Other purposes	18,059		18,059
Unrestricted	2,522,987	3,300,097	5,823,084
<b>TOTAL NET ASSETS</b>	<b>70,249,281</b>	<b>13,901,315</b>	<b>84,150,596</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 84,482,722</b>	<b>\$ 36,851,624</b>	<b>\$ 121,334,346</b>

See accompanying notes to the basic financial statements

TOWNSHIP OF LOWER MAKEFIELD

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

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
<b>GOVERNMENTAL ACTIVITIES</b>						
General government	\$ 2,050,298	\$ 329,646	\$ 7,939	\$	\$ (1,712,713)	\$
Public safety	7,731,495	328,221	1,229,440		(6,173,834)	
Public works	2,790,276	482,193	1,223,806		(1,084,277)	
Parks and recreation	1,157,533	158,067			(999,466)	
Community development	33,457				(33,457)	
Interest on long-term debt	417,822				(417,822)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>14,180,881</b>	<b>1,298,127</b>	<b>2,461,185</b>		<b>(10,421,569)</b>	
<b>BUSINESS-TYPE ACTIVITIES</b>						
Sewer	4,972,067	5,462,212				490,145
Sewer reserve-Capital	6,213					(6,213)
Community pool	765,451	732,208				(33,243)
Golf course	2,563,354	2,596,053				32,699
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>8,307,085</b>	<b>8,790,473</b>				<b>483,388</b>
<b>TOTAL ALL ACTIVITIES</b>	<b>\$ 22,487,966</b>	<b>\$ 10,088,600</b>	<b>\$ 2,461,185</b>	<b>\$</b>	<b>(10,421,569)</b>	<b>483,388</b>
<b>GENERAL REVENUES</b>						
Property taxes, levied for general purposes					7,728,258	
Transfer taxes					783,853	
Local services and per capita taxes					479,274	
Public utility taxes					12,716	
Franchise fees					649,653	
Investment earnings					64,733	22,193
Depreciation, net of related capital contributions						(323,304)
Rental income					383,743	
Miscellaneous					218,121	
Loss on sale of capital assets					(495,001)	
Transfers in					680,017	
Transfers out					(330,025)	(349,992)
<b>TOTAL GENERAL REVENUES</b>					<b>10,175,342</b>	<b>(651,103)</b>
<b>CHANGE IN NET ASSETS</b>					<b>(246,227)</b>	<b>(167,715)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>					<b>70,495,508</b>	<b>14,069,030</b>
<b>NET ASSETS AT END OF YEAR</b>					<b>\$ 70,249,281</b>	<b>\$ 13,901,315</b>

**TOWNSHIP OF LOWER MAKEFIELD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	General Fund	Capital Reserve Fund	Street Project Fund	9-11 Memorial Fund	Debt Service Fund	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash	\$ 1,868,205	\$ 368,422	\$ 493,151	\$ 128,991	\$ 859,411	\$ 111,586	\$ 1,047,087	\$ 4,876,853
Accounts receivable	497,888	19,882	52,306		20,268	8,512	53,764	652,620
Interfund receivable						19,767	39,164	58,931
Prepaid expenses	21,927							21,927
Restricted assets								
Escrow deposits	37,207							37,207
<b>TOTAL ASSETS</b>	<b>\$ 2,425,227</b>	<b>\$ 388,304</b>	<b>\$ 545,457</b>	<b>\$ 128,991</b>	<b>\$ 879,679</b>	<b>\$ 139,865</b>	<b>\$ 1,140,015</b>	<b>\$ 5,647,538</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 309,458	\$ 14,420	\$ 2,414	\$ 827	\$	\$ 1,642	\$ 33,294	\$ 362,055
Accrued expenses	370,978	68,024					19,492	458,494
Interfund payable	9,299	30,000			38,660			77,959
Deferred revenue	83,283	45,531			17,448	7,303	14,770	168,335
Member deposits							1,400	1,400
Escrow deposits	37,207							37,207
<b>TOTAL LIABILITIES</b>	<b>810,225</b>	<b>157,975</b>	<b>2,414</b>	<b>827</b>	<b>56,108</b>	<b>8,945</b>	<b>68,956</b>	<b>1,105,450</b>
<b>FUND BALANCES</b>								
Assigned:								
Capital projects								773,372
Debt service		230,329	543,043		823,571			823,571
Unassigned:								
General fund	1,615,002							1,615,002
Special revenue funds				128,164			1,071,059	1,330,143
<b>TOTAL FUND BALANCES</b>	<b>1,615,002</b>	<b>230,329</b>	<b>543,043</b>	<b>128,164</b>	<b>823,571</b>	<b>130,920</b>	<b>1,071,059</b>	<b>4,542,088</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,425,227</b>	<b>\$ 388,304</b>	<b>\$ 545,457</b>	<b>\$ 128,991</b>	<b>\$ 879,679</b>	<b>\$ 139,865</b>	<b>\$ 1,140,015</b>	<b>\$ 5,647,538</b>

**TOWNSHIP OF LOWER MAKEFIELD**

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

DECEMBER 31, 2011

TOTAL GOVERNMENTAL FUND BALANCES \$ 4,542,088

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 \$92,307,355 and the accumulated depreciation is \$13,597,107 78,710,248

Prepaid expenses for interest are recorded as expenditures in the governmental funds. The Statement of Net Assets includes this amount as an asset.

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 202,894

Accrued expenses are adjusted for accrued vacation included in compensated absences 323,823

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 (21,125)  
Bonds and notes payable, including premiums (12,594,104)  
Accumulated compensated absences (914,543)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 70,249,281

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

FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Capital Reserve	Street Project	9-11 Memorial Fund	Debt Service	Fire Protection Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Real estate taxes	\$ 5,364,332	\$			\$ 976,437	\$ 459,421	\$ 928,068	\$ 7,728,258
Real estate transfer taxes	783,853							783,853
Local services and per capita taxes	479,274							479,274
Licenses, permits and fees	665,261							665,261
Fines, forfeits and costs	118,063							118,063
Interest earnings	9,735	3,047	2,231	48	2,522	285	3,677	21,545
Rental income	298,983	25,000					59,760	383,743
Intergovernmental revenues	837,956	130,473	14,930			572,527	726,616	2,282,502
Charges for services	945,753					27,000	155,598	1,128,351
Contributions	7,939		74,449	5,525			103,485	191,398
Miscellaneous income	138,873			1,350	1,721		34,755	176,699
<b>TOTAL REVENUES</b>	<b>9,650,022</b>	<b>158,520</b>	<b>91,610</b>	<b>6,923</b>	<b>980,680</b>	<b>1,059,233</b>	<b>2,011,959</b>	<b>13,958,947</b>
<b>EXPENDITURES</b>								
General government	1,406,806							1,406,806
Public safety	5,006,440	404,225				948,200	124,650	6,079,290
Public works	1,381,286						810,093	2,191,379
Parks and recreation							619,215	619,215
Community development				67,748				67,748
Capital outlay	8,500	243,641	33,457					296,500
Insurance	328,621		44,359					328,621
Employee benefits	1,604,690							1,604,690
Debt service					834,002	19,740		853,742
Principal					289,194	26,751		315,945
Interest					1,123,196	994,691	1,553,958	14,201,618
<b>TOTAL EXPENDITURES</b>	<b>9,736,343</b>	<b>647,866</b>	<b>77,816</b>	<b>67,748</b>	<b>1,123,196</b>	<b>994,691</b>	<b>1,553,958</b>	<b>14,201,618</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(86,321)</b>	<b>(489,346)</b>	<b>13,794</b>	<b>(60,825)</b>	<b>(142,516)</b>	<b>64,542</b>	<b>458,001</b>	<b>(242,671)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds of refunding bonds						609,780		609,780
Payments to refunded bond escrow agent						(590,013)		(590,013)
Refund prior year expenditure	130,081					812	6,721	137,614
Sale of capital assets		254,610			425,000			679,610
Operating transfers in	447,360				232,657			680,017
Operating transfers (out)			(30,009)				(270,336)	(330,025)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>577,441</b>	<b>254,610</b>	<b>(30,009)</b>		<b>657,657</b>	<b>(9,101)</b>	<b>(263,615)</b>	<b>1,186,983</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<b>491,120</b>	<b>(234,736)</b>	<b>(16,215)</b>	<b>(60,825)</b>	<b>515,141</b>	<b>55,441</b>	<b>194,386</b>	<b>944,312</b>
<b>FUND BALANCES, BEGINNING</b>	<b>1,123,882</b>	<b>465,065</b>	<b>559,258</b>	<b>188,989</b>	<b>308,430</b>	<b>75,479</b>	<b>876,673</b>	<b>3,597,776</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,615,002</b>	<b>\$ 230,329</b>	<b>\$ 543,043</b>	<b>\$ 128,164</b>	<b>\$ 823,571</b>	<b>\$ 130,920</b>	<b>\$ 1,071,059</b>	<b>\$ 4,542,088</b>

**TOWNSHIP OF LOWER MAKEFIELD**

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

FOR THE YEAR ENDED DECEMBER 31, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	944,312
<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. Depreciation of \$995,816 less current year expenditures for capital assets of \$296,500</p>		
		(699,316)
<p>Prepaid expense for interest for the prior year was recorded as interest expense in the current year in the Statement of Activities.</p>		
		(107,357)
<p>Proceeds from bonds are revenue and repayment of bond principal is an expenditure in the Governmental Funds, but the proceeds increase long-term liabilities, net of the repayment, in the Statement of Net Assets. Also, Governmental Funds report the effect of premiums when debt is issued, but these amounts are deferred and amortized in the Statement of Activities</p>		
		847,948
<p>Accrued vacation requires the use of current financial resources and therefore is reported as expenditures in governmental funds.</p>		
		4,491
<p>Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(67,782)
<p>In the Governmental Funds, interest on long-term debt is reported as interest expense when due, but in the Statement of Activities it is accrued.</p>		
		5,479
<p>In the Governmental Funds, proceeds from the sale of fixed assets was reported as revenue. In the Statement of Activities, the loss on the sale was reported and the net book value of the fixed assets were reinserted.</p>		
		<u>(1,174,002)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(246,227)</u>

See accompanying notes to the basic financial statements



**TOWNSHIP OF LOWER MAKEFIELD**  
**COMBINED STATEMENT OF NET ASSETS (DEFICIT)**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2011**

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 290,410	\$ 321,472	\$ 611,053	\$ 744,518	\$ 1,967,453
Accounts receivable	1,748,181	289	8,161	1,368	1,757,999
Interfund receivable			38,795		38,795
Inventory			57,837		57,837
Prepaid expenses	5,125		9,759		14,884
<b>TOTAL CURRENT ASSETS</b>	<u>2,043,716</u>	<u>321,761</u>	<u>725,605</u>	<u>745,886</u>	<u>3,836,968</u>
<b>CAPITAL ASSETS</b>					
Property, plant and equipment	38,126,616	3,269,705	16,036,661		57,432,982
Accumulated depreciation	<u>(19,357,283)</u>	<u>(2,654,872)</u>	<u>(2,873,398)</u>		<u>(24,885,553)</u>
	18,769,333	614,833	13,163,263	0	32,547,429
<b>OTHER ASSETS</b>					
Deferred charges, net of accumulated amortization	<u>270,368</u>		<u>216,626</u>		<u>486,994</u>
<b>TOTAL ASSETS</b>	<u>\$ 21,083,417</u>	<u>\$ 936,594</u>	<u>\$ 14,105,494</u>	<u>745,886</u>	<u>\$ 36,871,391</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 729,941	\$ 2,434	\$ 5,436	\$ 19,017	\$ 756,828
Accrued expense	42,287	5,418	44,720		92,425
Interfund payable	19,767				19,767
Deferred revenue			154,845		154,845
Current portion of long-term debt	95,297		396,646		491,943
<b>TOTAL CURRENT LIABILITIES</b>	<u>887,292</u>	<u>7,852</u>	<u>601,647</u>	<u>19,017</u>	<u>1,515,808</u>
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>					
Bonds and notes payable	<u>7,534,426</u>		<u>13,919,842</u>		<u>21,454,268</u>
<b>TOTAL LIABILITIES</b>	<u>8,421,718</u>	<u>7,852</u>	<u>14,521,489</u>	<u>19,017</u>	<u>22,970,076</u>
<b>NET ASSETS (DEFICIT)</b>					
Invested in capital assets, net of related debt	11,139,610	614,833	(1,153,225)		10,601,218
Unrestricted	<u>1,522,089</u>	<u>313,909</u>	<u>737,230</u>	<u>726,869</u>	<u>3,300,097</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>12,661,699</u>	<u>928,742</u>	<u>(415,995)</u>	<u>726,869</u>	<u>13,901,315</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>\$ 21,083,417</u>	<u>\$ 936,594</u>	<u>\$ 14,105,494</u>	<u>\$ 745,886</u>	<u>\$ 36,871,391</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS (DEFICIT)  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
OPERATING REVENUES					
Charges for services	\$ 5,367,132	\$ 718,314	\$ 2,596,053	\$	\$ 8,681,499
Miscellaneous	30,268	13,894			44,162
TOTAL OPERATING REVENUES	<u>5,397,400</u>	<u>732,208</u>	<u>2,596,053</u>		<u>8,725,661</u>
OPERATING EXPENSES					
Operations	4,083,238	673,233	1,963,226	6,213	6,725,910
Depreciation	500,243	92,218	317,392		909,853
TOTAL OPERATING EXPENSES	<u>4,583,481</u>	<u>765,451</u>	<u>2,280,618</u>	<u>6,213</u>	<u>7,635,763</u>
OPERATING INCOME	<u>813,919</u>	<u>(33,243)</u>	<u>315,435</u>	<u>(6,213)</u>	<u>1,089,898</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on investments	2,545	1,278	11,646	6,724	22,193
Tapping fees	64,812				64,812
Interest expense	(380,427)		(257,616)		(638,043)
Amortization	(8,159)		(25,120)		(33,279)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(321,229)</u>	<u>1,278</u>	<u>(271,090)</u>	<u>6,724</u>	<u>(584,317)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND FUND TRANSFERS	<u>492,690</u>	<u>(31,965)</u>	<u>44,345</u>	<u>511</u>	<u>505,581</u>
CONTRIBUTIONS AND FUND TRANSFERS					
Depreciation, net of related capital contributions	(323,304)				(323,304)
Transfers in/(out)	(471,694)	(99,996)		221,698	(349,992)
TOTAL CONTRIBUTIONS AND FUND TRANSFERS	<u>(794,998)</u>	<u>(99,996)</u>		<u>221,698</u>	<u>(673,296)</u>
CHANGE IN NET ASSETS	<u>(302,308)</u>	<u>(131,961)</u>	<u>44,345</u>	<u>222,209</u>	<u>(167,715)</u>
TOTAL NET ASSETS (DEFICIT), BEGINNING	<u>12,964,007</u>	<u>1,060,703</u>	<u>(460,340)</u>	<u>504,660</u>	<u>14,069,030</u>
TOTAL NET ASSETS (DEFICIT), ENDING	<u>\$ 12,661,699</u>	<u>\$ 928,742</u>	<u>\$ (415,995)</u>	<u>\$ 726,869</u>	<u>\$ 13,901,315</u>

**TOWNSHIP OF LOWER MAKEFIELD**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise Funds			Sewer Capital Reserve Fund	Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 5,209,796	\$ 731,930	\$ 2,611,218	\$ 160,619	\$ 8,713,563
Cash payments to suppliers	(3,810,940)	(314,045)	(1,284,019)	(127,734)	(5,536,738)
Cash payments to employees	(261,493)	(279,757)	(736,792)		(1,278,042)
Cash payments to other governments	(25,052)	(16,587)	(83,567)		(125,206)
Net cash provided by (used in) operating activities	<u>1,112,311</u>	<u>121,541</u>	<u>506,840</u>	<u>32,885</u>	<u>1,773,577</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in/out	(471,694)	(99,996)		221,698	(349,992)
Tapping fees	64,812				64,812
Net cash provided by (used in) noncapital financing activities	<u>(406,882)</u>	<u>(99,996)</u>		<u>221,698</u>	<u>(285,180)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases of capital assets	(320,453)	(9,714)			(330,167)
Bond proceeds	7,630,159				7,630,159
Bond costs	(136,250)		(595)		(136,845)
Principal paid on long-term debt	(7,704,270)		(380,000)		(8,084,270)
Interest paid on long-term debt	(380,427)		(257,616)		(638,043)
Net cash used in capital and related financing activities	<u>(911,241)</u>	<u>(9,714)</u>	<u>(638,211)</u>		<u>(1,559,166)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Earnings from investments	2,545	1,278		6,724	10,547
Net increase (decrease) in cash and cash equivalents	<u>(203,267)</u>	<u>13,109</u>	<u>(131,371)</u>	<u>261,307</u>	<u>(60,222)</u>
<b>CASH AND CASH EQUIVALENTS:</b>					
Beginning of year	<u>493,677</u>	<u>308,363</u>	<u>742,424</u>	<u>483,211</u>	<u>2,027,675</u>
End of year	<u>\$ 290,410</u>	<u>\$ 321,472</u>	<u>\$ 611,053</u>	<u>\$ 744,518</u>	<u>\$ 1,967,453</u>

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Enterprise Funds				Total Proprietary Funds
	Sewer Fund	Community Pool Fund	Golf Course Fund	Sewer Capital Reserve Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 813,919	\$ (33,243)	\$ 315,435	\$ (6,213)	\$ 1,089,898
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	500,243	92,218	317,392		909,853
Construction in progress abandoned		63,130			63,130
(Increase) decrease in					
Accounts receivable	(187,604)	(278)	(3,466)	(740)	(192,088)
Interfund receivable				161,359	161,359
Inventory			(7,527)		(7,527)
Prepaid expenses	(5,125)		16,974		11,849
Increase (decrease) in					
Accounts payable	136,649	(404)	(25,531)	17,979	128,693
Accrued expense	(4,179)	118	5,201	(139,500)	(138,360)
Interfund payable	(141,592)		(130,269)		(271,861)
Deferred revenue			18,631		18,631
	<u>\$ 1,112,311</u>	<u>\$ 121,541</u>	<u>\$ 506,840</u>	<u>\$ 32,885</u>	<u>\$ 1,773,577</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
	<u>\$ 1,112,311</u>	<u>\$ 121,541</u>	<u>\$ 506,840</u>	<u>\$ 32,885</u>	<u>\$ 1,773,577</u>
SUPPLEMENTAL DISCLOSURES					
Noncash investing and financing activities					
Depreciation, net of related capital assets contributions			<u>\$ 323,304</u>		

See accompanying notes to the basic financial statements

**TOWNSHIP OF LOWER MAKEFIELD**

**COMBINED STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

	<u>Pension</u>	<u>Trust Funds</u>	<u>Deferred</u>	<u>Retirement</u>	<u>Unemployment</u>	<u>Compensation</u>	<u>Total</u>
	<u>Police</u>	<u>Non-Uniform</u>	<u>Option</u>	<u>Plan Fund</u>	<u>Trust</u>	<u>Agency</u>	<u>Fiduciary</u>
	<u>Pension</u>	<u>Pension</u>	<u>Plan Fund</u>	<u>Plan Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents \$	82,346	\$ 91,565	\$		\$ 59,539	\$ 386,389	\$ 619,839
Investments	7,413,723	4,556,078	167,688				12,137,489
Accounts receivable					55	69,691	69,746
<b>TOTAL ASSETS</b>	<u>7,496,069</u>	<u>4,647,643</u>	<u>167,688</u>		<u>59,594</u>	<u>456,080</u>	<u>12,827,074</u>
<b>LIABILITIES</b>							
Accounts payable					4,101	110,884	114,985
Due to developers						345,196	345,196
<b>TOTAL LIABILITIES</b>					<u>4,101</u>	<u>456,080</u>	<u>460,181</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES (Schedule of funding progress for the plan is on page 62).</b>							
	<u>\$ 7,496,069</u>	<u>\$ 4,647,643</u>	<u>\$ 167,688</u>		<u>\$ 55,493</u>	<u>\$</u>	<u>\$ 12,366,893</u>

**TOWNSHIP OF LOWER MAKEFIELD**

**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Pension Police Pension</u>	<u>Trust Funds Non-Uniform Pension</u>	<u>Deferred Retirement Option Plan Fund</u>	<u>Unemployment Compensation Trust Fund</u>	<u>Total Fiduciary Funds</u>
<b>ADDITIONS</b>					
Contributions					
State aid	\$ 342,936	\$ 261,479	\$	\$	\$ 604,415
Employer	113,075				113,075
Investment income (loss)	<u>(106,008)</u>	<u>(64,600)</u>	4,571	251	<u>(165,786)</u>
<b>TOTAL ADDITIONS</b>	<u>350,003</u>	<u>196,879</u>	<u>4,571</u>	<u>251</u>	<u>551,704</u>
<b>DEDUCTIONS</b>					
Administrative expenses	50,650	23,958			74,608
Benefits	<u>538,701</u>	<u>164,859</u>	<u>171,845</u>	<u>9,020</u>	<u>884,425</u>
<b>TOTAL DEDUCTIONS</b>	<u>589,351</u>	<u>188,817</u>	<u>171,845</u>	<u>9,020</u>	<u>959,033</u>
<b>CHANGE IN NET ASSETS</b>	(239,348)	8,062	(167,274)	(8,769)	(407,329)
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>					
<b>BEGINNING OF YEAR</b>	<u>7,735,417</u>	<u>4,639,581</u>	<u>334,962</u>	<u>64,262</u>	<u>12,774,222</u>
<b>END OF YEAR</b>	<u>\$ 7,496,069</u>	<u>\$ 4,647,643</u>	<u>\$ 167,688</u>	<u>\$ 55,493</u>	<u>\$ 12,366,893</u>

See accompanying notes to the basic financial statements

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2011

### 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, 2011 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, 2011 annual financial report:

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

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

#### **Fund Accounting**

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

The Township reports the following major Governmental Funds:

#### **General Fund**

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

#### **Capital Reserve Fund (Capital Project Fund)**

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

#### **Street Project Fund (Capital Project Fund)**

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

#### **9-11 Memorial Fund**

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

#### **Debt Service Fund**

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



## TOWNSHIP OF LOWER MAKEFIELD

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Fund Accounting**, continued

The Township reports the following major Proprietary Funds:

##### **Sewer Fund**

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

##### **Community Pool Fund**

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

##### **Golf Course Fund**

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

##### **Sewer Capital Reserve Fund (Capital Project Fund)**

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

Additionally, the Township reports the following fund types:

##### **Special Revenue Funds**

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

##### **Pension Trust Funds**

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

##### **Deferred Retirement Option Plan Fund**

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

##### **Unemployment Compensation Trust Fund**

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

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### **Fund Accounting**, continued

##### **Agency Fund**

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

#### **Basis of Presentation and Accounting**

##### **Government-Wide Financial Statement**

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

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

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

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

##### **Fund Financial Statements**

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Fund Financial Statements**, continued

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

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

**Cash Equivalents**

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Investments**

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

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

**Short-Term Interfund Receivables / Payables**

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

**Inventory and Prepaid Expenditures / Expenses**

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

The inventories on hand in the Golf Course Fund at December 31, 2011, consist of the following:

Pro Shop	\$ 48,974
Food and Beverage	<u>8,863</u>
	<u>\$ 57,837</u>

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

**Capital Assets**

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Capital Assets**, continued

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

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

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

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

**Long-Term Obligations**

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Deferred Revenue**

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

**Fund Equity**

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

**Use of Estimates**

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

**Real Estate Tax Calendar**

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

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

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

**Compensated Absences**

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Basis of Presentation and Accounting**, continued

**Compensated Absences**, continued

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

**Deferred Charges**

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

	Deferred Charges	Accumulated Amortization	Net
Governmental Activities	\$ 240,711	\$ (37,816)	\$ 202,895
Business-Type Activities			
Sewer Fund	272,660	(2,292)	270,368
Golf Course Fund	310,453	(93,827)	216,626
	583,113	(96,119)	486,994
	\$ 823,824	\$ (133,935)	\$ 689,889

**Governmental Fund Balances**

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

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

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

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

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, 2011, the carrying amount of the Township's deposits was \$7,321,818. The Township's bank balance was \$7,470,972, of which \$7,220,972 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	\$ 7,220,972
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The Township's total cash and cash equivalents, including the pension funds cash equivalents, is \$7,501,352 at December 31, 2011.

**Investments**

As of December 31, 2011, the Township had the following investments and maturities in its Pension Trust and Deferred Retirement Option Plan Funds:

<u>Investment Type</u>	Fair Value			<u>Totals</u>
	Police Pension Fund	Non-Uniform Pension Fund	Deferred Retirement Option Plan	
Bond Mutual Funds	\$ 3,066,777	\$ 1,884,221	\$	\$ 4,950,998
Equities	1,027,745	618,127		1,645,872
Mutual Funds	3,319,201	2,053,730		5,372,931
Investment Contract			167,688	167,688
Total	\$ 7,413,723	\$ 4,556,078	\$ 167,688	\$ 12,137,489

<u>Investment Type</u>	Investment Maturities			<u>Totals</u>
	Less Than One Year	One to Five Years	Five to Ten Years	
Bond Mutual Funds	\$ 4,950,998	\$	\$	\$ 4,950,998
Equities	1,645,872			1,645,872
Mutual Funds	5,372,931			5,372,931
Investment Contract	167,688			167,688
Total	\$ 12,137,489	\$	\$	\$ 12,137,489



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

2. DEPOSITS AND INVESTMENTS, continued

**Investments**, continued

**Interest Rate Risk**

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

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

**Restrictions**

Fixed Income

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

Equities

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

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

**Credit Risk**

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

**Concentration of Credit Risk**

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

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

**3. ACCOUNTS RECEIVABLE**

Accounts receivable are comprised of the following:

	Governmental Type Funds						Total Governmental Funds	
	General Fund	Capital Reserve Fund	Street Project Fund	Debt Service Fund	Fire Protection Fund	Total Government Funds		
Taxes	\$ 208,612	\$	\$	\$ 19,701	\$ 8,512	\$ 16,748	\$ 253,573	
Interest	1,869	659	502	567		367	3,964	
Other Fees and Assessments	287,407	19,223	51,804			36,649	395,083	
<b>Totals</b>	<b>\$ 497,888</b>	<b>\$ 19,882</b>	<b>\$ 52,306</b>	<b>\$ 20,268</b>	<b>\$ 8,512</b>	<b>\$ 53,764</b>	<b>\$ 652,620</b>	
	<u>Proprietary Funds</u>							
	Enterprise Funds	Fiduciary Funds						
Taxes	\$	\$						
Interest	1,657							
Other Fees and Assessments	8,161							
Sewer Billings Due from Developers	1,748,181	69,691						
<b>Totals</b>	<b>\$ 1,757,999</b>	<b>\$ 69,691</b>						

**TOWNSHIP OF LOWER MAKEFIELD**

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

Interfund receivable / payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Park and Recreation Fund	Capital Reserve Fund	\$ 30,000
Park and Recreation Fund	General Fund	\$ 9,164
Golf Course Fund	Debt Service Fund	\$ 38,660
Golf Course Fund	General Fund	\$ 135
Fire Protection Fund	Sewer Fund	\$ 19,767

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

Interfund transfers are summarized as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 447,360	\$
Park and Recreation Fund	25,000	270,336
Street Project Fund		30,009
Fire Protection Fund		29,680
Debt Service Fund	232,657	
Other Governmental Funds		25,000
Enterprise Funds		
Sewer Fund		471,694
Community Pool Fund		99,996
Sewer Capital Reserve Fund	221,698	
Total	<u>\$ 926,715</u>	<u>\$ 926,715</u>

**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, 2011	Additions	Disposals	Balance December 31, 2011
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated				
Land	\$ 19,517,249	\$	\$ 690,976	\$ 18,826,273
Infrastructure	49,471,776			49,471,776
Construction in Progress	3,685			3,685
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>68,992,710</b>		<b>690,976</b>	<b>68,301,734</b>
Capital Assets Being Depreciated				
Infrastructure	1,523,322			1,523,322
Land Improvements	7,402,841	144,714		7,547,555
Buildings and Improvements	7,878,170		681,918	7,196,252
Furniture and Equipment	3,172,562	35,470		3,208,032
Vehicles	4,603,097	116,317	188,954	4,530,460
	24,579,992	296,501	870,872	24,005,621
Accumulated Depreciation	(12,989,137)	(995,816)	387,846	(13,597,107)
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>11,590,855</b>	<b>(699,315)</b>	<b>483,026</b>	<b>11,408,514</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<b>80,583,565</b>	<b>(699,315)</b>	<b>1,174,002</b>	<b>78,710,248</b>
<b>BUSINESS ACTIVITIES</b>				
Capital Assets Not Being Depreciated				
Land	4,202,081			4,202,081
Construction in Progress	63,130		63,130	
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>4,265,211</b>		<b>63,130</b>	<b>4,202,081</b>
Capital Assets Being Depreciated				
Land Improvements	8,762,910			8,762,910
Plant and Pools	39,517,785	288,017		39,805,802
Buildings and Improvements	2,872,107			2,872,107
Furniture and Equipment	1,747,932	42,150		1,790,082
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>52,900,734</b>	<b>330,167</b>		<b>53,230,901</b>
Accumulated Depreciation	(23,652,396)	(1,233,157)		(24,885,553)
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>29,248,338</b>	<b>(902,990)</b>		<b>28,345,348</b>
<b>TOTAL BUSINESS ACTIVITY CAPITAL ASSETS, NET</b>	<b>33,513,549</b>	<b>(902,990)</b>	<b>63,130</b>	<b>32,547,429</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 114,097,114</b>	<b>\$ (1,602,305)</b>	<b>\$ 1,237,132</b>	<b>\$ 111,257,677</b>

**TOWNSHIP OF LOWER MAKEFIELD**

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS, continued

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

	Cost	Accumulated Depreciation	Net Book Value
<b>GOVERNMENTAL ACTIVITIES</b>			
Capital Assets Not Being Depreciated			
Land	\$ 18,826,273	\$	\$ 18,826,273
Construction in Progress	3,685		3,685
Infrastructure	49,471,776		49,471,776
Capital Assets Being Depreciated			
Infrastructure	1,523,322	(948,591)	574,731
Land Improvements	7,547,555	(2,972,578)	4,574,977
Buildings and Improvements	7,196,252	(2,994,266)	4,201,986
Furniture and Equipment	3,208,032	(3,053,334)	154,698
Vehicles	4,530,460	(3,628,338)	902,122
TOTAL GOVERNMENTAL ACTIVITIES	92,307,355	(13,597,107)	78,710,248
<b>BUSINESS ACTIVITIES</b>			
Capital Assets Not Being Depreciated			
Land	4,202,081		4,202,081
Capital Assets Being Depreciated			
Land Improvements	8,762,910	( 1,712,525)	7,050,385
Plant and Pools	39,805,802	(21,239,439)	18,566,363
Buildings and Improvements	2,872,107	(548,418)	2,323,689
Furniture and Equipment	1,790,082	(1,385,171)	404,911
TOTAL BUSINESS ACTIVITIES	57,432,982	(24,885,553)	32,547,429
TOTALS	\$ 149,740,337	\$ (38,482,660)	\$ 111,257,677

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 43,335
Public Safety	285,148
Public Works	291,688
Parks & Recreation	375,645
	\$ 995,816
Total	\$ 995,816

**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, 2011:

	Principal Outstanding January 1, 2011	Additions	Deletions / Maturities	Principal Outstanding December 31, 2011	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds:					
Series of 2011	\$	\$ 609,780	\$	\$ 609,780	\$ 7,450
Series of 2006	605,730		(605,730)		
Series of 2010	4,990,000		(60,000)	4,930,000	65,000
Series A of 2010	4,805,000		(620,000)	4,185,000	630,000
General Obligation Notes:					
Series of 2004	2,557,000		(100,000)	2,457,000	100,000
Notes Payable					
Commonwealth of PA, PEMA	83,097		(9,566)	73,531	9,761
Bucks County:					
Land Purchase					
Equipment Purchase					
PNC Bank	152,427		(44,436)	107,991	46,652
Deferred Amounts:					
Issuance Premiums	278,841		(43,188)	235,653	32,212
<b>TOTALS</b>	<u>13,472,095</u>	<u>609,780</u>	<u>(1,482,920)</u>	<u>12,598,955</u>	<u>891,075</u>
Compensated Absences	830,942		78,750	909,692	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>14,303,037</u>	<u>609,780</u>	<u>(1,404,170)</u>	<u>13,508,647</u>	<u>891,075</u>
<b>BUSINESS ACTIVITIES</b>					
General Obligation Bonds:					
Series of 2011		7,575,220		7,575,220	92,550
Series of 2006	7,704,270		(7,704,270)		
Series of 2010	6,075,000		(380,000)	5,695,000	385,000
General Obligation Notes:					
Series A of 2002	3,470,000			3,470,000	
Series B of 2002	5,036,000			5,036,000	
Deferred Amounts					
Issuance Net Premiums	96,382	54,939	18,670	169,991	14,393
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>22,381,652</u>	<u>7,630,159</u>	<u>(8,065,600)</u>	<u>21,946,211</u>	<u>491,943</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>\$ 36,684,689</u>	<u>\$ 8,239,939</u>	<u>\$ (9,469,770)</u>	<u>\$ 35,454,858</u>	<u>\$ 1,383,018</u>

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

6. LONG-TERM LIABILITIES, continued

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

General Obligation Note, Series of 2004, payable to Delaware Valley Regional Finance Authority (DVRFA) for the purpose of acquiring open space and constructing Township parks and facilities; principal was payable annually beginning June, 2006, interest was payable monthly beginning December, 2004, at a variable rate, with maturity scheduled for June, 2028. \$ 2,457,000

General Obligation Bonds, Series A of 2010, issued in 2010 for the purpose of currently refunding the Township's General Obligation Bonds, Series of 2003, of \$5,590,000 principal was payable annually beginning December, 2010, interest was payable semiannually beginning December 2010 at rates ranging from 1% to 4%. 4,185,000

General Obligation Note, Series of 2010, payable to BNY Mellon for the purpose of advance refunding the Township's General Obligation Note Series B of 2001 of \$4,655,000 and refunding the General Obligation Bond Series of 2005 of \$6,385,000 and pay the costs of issuing the bonds; principal is payable annually beginning June, 2010, interest is payable semiannually beginning June, 2010, at rates ranging from 2% to 3%, with maturity scheduled for December, 2021. 10,625,000

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. 73,531

SUBTOTAL \$ 17,340,531

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

6. LONG-TERM LIABILITIES, continued

SUBTOTAL FORWARD \$ 17,340,531

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 107,991

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 2011, issued in 2011 for the purpose of currently refunding the Series of 2006 General Obligation Bonds and paying the cost of issuing the bonds, principal will be payable annually beginning September, 2012, interest will be payable semi-annually beginning March, 2012, at fixed intervals, ranging from 2.0% to 3.50%, with maturity scheduled for September, 2031 8,185,000

\$ 34,139,522

In 2011 the Township issued General Obligation Bonds Series of 2011 of \$8,185,000. The bonds were for the purpose of refunding the General Obligation Note, Series of 2006 of \$8,045,000.

The refunding reduced total debt service payments over the next twenty years by \$1,147,441.



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

6. LONG-TERM LIABILITIES, continued

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as interest expense over the remaining life of the old debt. The total deferred loss was \$136,847 and \$1,174 was expensed in 2011. The deferred loss balance at December 31, 2011 is \$135,673.

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, 2011, was \$953,988. Interest costs incurred and charged to expenditures for the year ended December 31, 2011, were \$26,751 in the Fire Fund, \$289,194 in the Debt Service Fund, \$380,427 in the Sewer Fund and \$257,616 in the Golf Course Fund.

**Debt Service Requirements**

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

Year Ending June 30,	Principal	Interest	Total Debt Service
2012	\$ 1,515,412	\$ 1,178,114	\$ 2,693,526
2013	1,851,626	1,133,082	2,984,708
2014	1,864,667	1,080,107	2,944,774
2015	1,922,364	1,018,981	2,941,345
2016	1,991,573	949,092	2,940,665
2017 to 2021	10,405,880	3,802,085	14,207,965
2022 to 2026	6,552,000	2,305,170	8,857,170
2027 to 2031	7,123,000	901,369	8,024,369
2032	913,000	17,119	930,119
	<u>\$ 34,139,522</u>	<u>\$ 12,385,119</u>	<u>\$ 46,524,641</u>

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

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

**TOWNSHIP OF LOWER MAKEFIELD**

NOTES TO THE BASIC FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS

**Description of Plans**

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

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

	Police Pension Plan	Non-Uniform Pension Plan
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	18	30
Current Employees	36	37
<b>TOTAL MEMBERSHIP</b>	<b>54</b>	<b>67</b>

**Police Pension Plan**

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement and disability benefits as well as the return of members’ contributions in the event of death. For the year ended December 31, 2011 the plan’s assets were managed by Glenmede Trust Company. All benefits vest after 12 years of credited service. Employees who retire at or after age 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average salary. Final average salary is the employee’s average base salary over the last three years of credited service. Covered employees are not currently required to contribute to the pension plan. If an employee leaves covered employment or dies before age 65, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

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

7. DEFINED BENEFIT PENSION PLANS, continued

**Non-Uniform Pension Plan**

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement benefits as well as death and disability benefits. For the year ended December 31, 2011, the plan's assets were managed by Glenmede Trust Company. All benefits vest after five years of credited service. Employees who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit paid monthly for life in an amount equal to 2.00% of average annual compensation multiplied by credited service up to 30 years. Final average salary is the employee's average salary, including overtime, over the three years of credited service. Employees with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

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

**Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Method Used to Value Investments***

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

***Financial Reporting***

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

**Contributions**

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

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

7. DEFINED BENEFIT PENSION PLANS, continued

**Plan Expenses**

Plan expenses are paid from plan assets.

**Concentrations**

At December 31, 2011, there were no investments of the Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations and mutual funds) in any one organization that represented 5% or more of net assets available for benefits ( $\$7,496,069 \times .05 = \$374,803$ ). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

At December 31, 2011, there were no investments of the Non-Police Pension Plan (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5% or more of net assets available for benefits ( $\$4,647,643 \times .05 = \$232,382$ ). Investments in mutual funds do not require disclosure of concentration per GASB Statement No. 25.

**Annual Pension Cost and Net Pension Obligation**

The Township's annual pension cost and net pension obligation (NPO) to each of the plans for the year ended December 31, 2011, were as follows:

	<u>Police Pension Plan</u>	<u>Non-Uniformed Pension Plan</u>
Annual required contribution (ARC)	\$ 456,011	\$ 261,479
Interest on NPO	(5,482)	(3,013)
Adjustments to the ARC	7,169	4,627
Annual pension cost	<u>457,698</u>	<u>263,093</u>
Contributions made	<u>456,011</u>	<u>261,479</u>
Increase in NPO	1,687	1,614
Net pension obligation, beginning of year	<u>(68,529)</u>	<u>(37,663)</u>
Net pension obligation, end of year	<u>\$ (66,842)</u>	<u>\$ (36,049)</u>

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are made about the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plans in effect as of January 1, 2011.

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

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

Schedules of Contributions from the Employer and Other Contributing Entities

**Police Pension Plan**

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

**Non-Uniform Pension Plan**

Year Ended December 31,	Annual Required Contribution*	<u>Contribution Source</u>			Totals	Percentage Contributed
		State Aid	Employer			
2005	\$ 203,574	\$	\$ 203,574		\$ 203,574	100.00%
2006	280,732		280,732		280,732	100.00%
2007	268,812		268,812		268,812	100.00%
2008	241,835		241,835		241,835	100.00%
2009	220,264		220,264		220,264	100.00%
2010	301,072		301,072		301,072	100.00%
2011	261,479		0		261,479	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, 2011
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	18.17 years
Assets valuation method	5 year smoothing method
Actuarial assumptions	
Investment rate of return	8% per annum
Projected salary increases	5% compounded annually

**Non-Uniform Pension Plan**

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

# 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 \$345,196 as of December 31, 2011.

### 9. DEFERRED COMPENSATION PLAN

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

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

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

### 10. DEFERRED RETIREMENT OPTION PLAN

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

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 10. DEFERRED RETIREMENT OPTION PLAN, continued

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

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

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

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

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



# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 11. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

#### **Equipment lease**

In May, 2008, the Township entered into a new lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$5,774, including interest, beginning June, 2008 through May, 2012. At the end of the lease term, the Township has the option to purchase the golf carts for the total of all rents still outstanding, including accrued interest, and the termination value of \$112,250. The lease is not being treated as a capital lease because the Township has no intention of purchasing the golf carts at the end of the lease. Therefore, the total value of the equipment has not been included in the capital assets of the Golf Course Fund. Total rent expense for the year ended December 31, 2011, was \$69,291.

The future minimum lease payments are as follows:

Year Ending <u>December 31,</u>	
2012	\$28,870

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

The Township self-insured for unemployment compensation coverage. A reserve of \$59,539 is established at December 31, 2011. During 2011, there were several claims.

# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 11. COMMITMENTS AND CONTINGENT LIABILITIES, *continued*

#### Litigation

The Township is the defendant in several lawsuits arising in the normal course of operations. A matter that is material pending or threatening litigation is a condemnation matter that originated in 1996 and went to trial in 2008, resulting in a judgment against the Township, with a potential liability of over two million dollars. The matter has been appealed to the Commonwealth Court and it is uncertain as to its likely success on appeal. Several issues that have been raised are considered to be meritorious and the terms of success cannot be predicted. Due to the uncertainty of the outcome of this matter, no provision for loss has been recorded. The PA Supreme Court has agreed to hear the case and allow as evidence previous information that was not allowed by the lower courts. This evidence is pivotal to the township's defense. The Township expects this matter to be resolved late in 2012 or early 2013.

### 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 \$45,531 at December 31, 2011.

### 15. MANAGEMENT AGREEMENT

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

Applied Golf, a regional firm with a local presence in the township was awarded a 3 year contract beginning January, 2010. The township paid a total of \$96,000 in management fees during 2011.

The fee structure is as follows:

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

### 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, 2011:

# 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, 2011</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>
Series of 2002A	\$ 10,300,000	\$ 3,470,000	\$ 791,489
Series of 2002B	5,661,000	5,036,000	1,148,685
Series of 2004	<u>3,000,000</u>	<u>2,457,000</u>	<u>560,429</u>
	<u>\$ 18,961,000</u>	<u>\$ 10,963,000</u>	<u>\$ 2,500,603</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, 2011, on the Township's government-wide and fund financial statements is \$0. The market value of related interest rate swap agreements or estimated Township termination payment is \$560,429 for governmental activities and \$1,940,174 for business activities at December 31, 2011. The fair value decrease for the current year is \$413,510 for governmental activities and \$477,512 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, 2011 (Note 16).

A comparison of carrying value and fair value as of December 31, 2011, is as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 7,501,352	\$ 7,501,352
Investments (Note 2)	12,137,489	12,137,489
<b>LIABILITIES</b>		
Bonds payable (Note 6)	\$ 22,995,000	\$ 22,995,000
Notes payable (Note 6)	11,144,522	11,144,522
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>		
(Note 16)		\$ 2,500,603

# **TOWNSHIP OF LOWER MAKEFIELD**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

### **18. POST EMPLOYMENT BENEFITS**

The Township provides a group hospitalization plan for retired police officers. For the first 30 months following an officer's retirement, the Township will pay for the officer and eligible covered dependents continued benefit coverage in the Township sponsored medical, major medical, dental, prescription drug and term life insurance programs that are provided to active officers during the same 30 month period. The benefits paid in 2011 were \$68,800.

The estimated present value of the cost of the future benefits for the current 36 police officers is \$1,530,000 at December 31, 2011. The average age to retirement for the police officers is 15.4 years.

### **19. TERMINATION BENEFITS**

The Township offered a termination benefit to police officers who retired on or before December 31, 2010. All the medical, dental and prescription drug benefits that were provided to employees at the time will be provided for a period of 96 months, as compared to 30 months available for other retired officers, at the Township's cost. Three officers accepted the terms of the retirement and benefits. The estimated present value cost for the additional 5 ½ year period is \$36,000 annually and a total cost of \$198,000.

REQUIRED

SUPPLEMENTARY INFORMATION

**TOWNSHIP OF LOWER MAKEFIELD**

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 6,681,735	\$ 6,681,735	\$ 6,627,459	\$ (54,276)
Licenses, permits and fees	551,152	551,152	665,261	114,109
Fines, forfeits and costs	111,600	111,600	118,063	6,463
Interest earnings and rental income	279,736	279,736	308,718	28,982
Intergovernmental revenues	470,910	470,910	837,956	367,046
Charges for services	938,500	938,500	945,753	7,253
Contributions	2,100	2,100	7,939	5,839
Miscellaneous	30,200	30,200	138,873	108,673
<b>TOTAL REVENUES</b>	<u>9,065,933</u>	<u>9,065,933</u>	<u>9,650,022</u>	<u>584,089</u>
<b>EXPENDITURES</b>				
General government	1,510,638	1,510,638	1,406,806	103,832
Public safety	4,870,873	4,870,873	5,006,440	(135,567)
Public works	1,155,025	1,155,025	1,381,286	(226,261)
Capital outlay			8,500	(8,500)
Insurance	319,000	319,000	328,621	(9,621)
Employee benefits	1,903,792	1,903,792	1,604,690	299,102
<b>TOTAL EXPENDITURES</b>	<u>9,759,328</u>	<u>9,759,328</u>	<u>9,736,343</u>	<u>22,985</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(693,395)</u>	<u>(693,395)</u>	<u>(86,321)</u>	<u>607,074</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund prior year expenditure	45,000	45,000	130,081	85,081
Sale of capital assets	2,500	2,500		(2,500)
Transfers in	472,367	472,367	447,360	(25,007)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>519,867</u>	<u>519,867</u>	<u>577,441</u>	<u>57,574</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<u>(173,528)</u>	<u>(173,528)</u>	491,120	<u>\$ 664,648</u>
<b>FUND BALANCE, BEGINNING</b>	<u>1,123,882</u>	<u>1,123,882</u>	<u>1,123,882</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 950,354</u>	<u>\$ 950,354</u>	<u>\$ 1,615,002</u>	

See notes to required supplementary information

**TOWNSHIP OF LOWER MAKEFIELD**

**BUDGETARY COMPARISON STATEMENT  
DEBT SERVICE FUND**

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>Positive</u>
			<u>(Negative)</u>
REVENUES			
Real estate taxes	\$ 1,002,222	\$ 976,437	\$ (25,785)
Interest earnings	1,255	2,522	1,267
Miscellaneous income		1,721	1,721
	<u>1,003,477</u>	<u>980,680</u>	<u>(22,797)</u>
EXPENDITURES			
Debt service			
Principal	704,103	834,002	(129,899)
Interest	434,440	289,194	145,246
Trustee fees	1,730		1,730
	<u>1,140,273</u>	<u>1,123,196</u>	<u>17,077</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(136,796)</u>	<u>(142,516)</u>	<u>(5,720)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets		425,000	425,000
Transfers in	241,810	232,657	(9,153)
	<u>241,810</u>	<u>657,657</u>	<u>415,847</u>
NET INCREASE IN FUND BALANCE	105,014	515,141	<u>\$ 410,127</u>
FUND BALANCE, BEGINNING	<u>308,430</u>	<u>308,430</u>	
FUND BALANCE, ENDING	<u>\$ 413,444</u>	<u>\$ 823,571</u>	

See notes to required supplementary information



# TOWNSHIP OF LOWER MAKEFIELD

## NOTES TO THE BUDGETARY COMPARISON STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2011

### 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, 2011, expenditures exceeded appropriations in the following General Fund object levels (the legal level of the budgetary control):

Public safety	\$135,567
Public works	234,761

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

**TOWNSHIP OF LOWER MAKEFIELD**

**TREND DATA ON INFRASTRUCTURE CONDITION**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

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>
2011	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>
2011	<u>\$255,000</u>	<u>\$255,000</u>

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

The next inspection of Township roadways is scheduled to be completed in early 2012.

**TOWNSHIP OF LOWER MAKEFIELD**

**PENSION PLAN FUNDING PROGRESS**

FOR THE YEAR ENDED DECEMBER 31, 2011

**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:

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

Non-Uniform Pension Plan

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Liability (AAL) Entry Age</b>	<b>Unfunded (Assets in Excess of) AAL</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Unfunded (Assets in Excess of) AAL as a Percentage of Annual Covered Payroll</b>
<b>January 1,</b>	<b>a</b>	<b>b</b>	<b>b-a</b>	<b>a/b</b>	<b>c</b>	<b>(b-a)/c</b>
2001	2,191,322	2,315,191	123,869	94.6%	1,431,783	8.7%
2003	2,302,164	2,878,254	576,090	80.0%	1,629,357	35.4%
2005	2,977,214	3,986,028	1,008,814	74.7%	1,740,803	58.0%
2007	3,907,249	4,426,551	519,302	88.3%	1,592,265	32.6%
2009	4,359,510	5,068,804	709,294	86.0%	1,987,208	35.7%
2011	4,865,807	6,153,975	1,288,168	79.1%	2,131,981	60.4%

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, 2011

#### 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, 2011**

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Traffic Impact Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ (21)	\$ 9,749	\$ 224,460	\$ 47,748	\$ 88,486	\$ 446,538	\$ 197,507	\$ 32,620	\$ 1,047,087
Accounts receivable	9	2,697	48,191	35	76	394		2,362	53,764
Interfund receivable			39,164						39,164
<b>TOTAL ASSETS</b>	<b>\$ (12)</b>	<b>\$ 12,446</b>	<b>\$ 311,815</b>	<b>\$ 47,783</b>	<b>\$ 88,562</b>	<b>\$ 446,932</b>	<b>\$ 197,507</b>	<b>\$ 34,982</b>	<b>\$ 1,140,015</b>
<b>LIABILITIES</b>									
Accounts payable	\$ 3,044	\$	\$ 14,424	\$	\$	\$ 15,826	\$	\$	\$ 33,294
Accrued expenses			19,492						19,492
Interfund payable		2,353	10,388					2,029	0
Deferred revenue			1,400						14,770
Member deposits									1,400
<b>TOTAL LIABILITIES</b>	<b>3,044</b>	<b>2,353</b>	<b>45,704</b>	<b>47,783</b>	<b>15,826</b>	<b>15,826</b>	<b>2,029</b>	<b>2,029</b>	<b>68,956</b>
<b>FUND BALANCES</b>									
Unreserved for:									
Special revenue funds	(3,056)	10,093	266,111	47,783	88,562	431,106	197,507	32,953	1,071,059
<b>TOTAL FUND BALANCES</b>	<b>(3,056)</b>	<b>10,093</b>	<b>266,111</b>	<b>47,783</b>	<b>88,562</b>	<b>431,106</b>	<b>197,507</b>	<b>32,953</b>	<b>1,071,059</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ (12)</b>	<b>\$ 12,446</b>	<b>\$ 311,815</b>	<b>\$ 47,783</b>	<b>\$ 88,562</b>	<b>\$ 446,932</b>	<b>\$ 197,507</b>	<b>\$ 34,982</b>	<b>\$ 1,140,015</b>

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, 2011

	Street Light Fund	Hydrant Fund	Park and Recreation Fund	Park and Recreation FIL Fund	Library Fund	Traffic Impact Fund	Liquid Fuels Fund	Ambulance Rescue Fund	Total Other Governmental Funds
<b>REVENUES</b>									
Real estate taxes	\$ 42	\$ 141,978	\$ 655,955	\$ 155	\$ 337	\$ 1,752	\$ 44	\$ 130,135	\$ 928,068
Interest earnings		76	1,170					101	3,677
Rental income			59,760						59,760
Intergovernmental revenues			155,598				726,616		726,616
Charges for services			3,960	32,179		13,629	53,717		155,598
Contributions			1,119						103,485
Miscellaneous income	33,636								34,755
<b>TOTAL REVENUES</b>	<b>33,678</b>	<b>142,054</b>	<b>877,562</b>	<b>32,334</b>	<b>337</b>	<b>15,381</b>	<b>780,377</b>	<b>130,236</b>	<b>2,011,959</b>
<b>EXPENDITURES</b>									
Public safety									
Public works	43,835	147,350	619,215			30,644	588,264	124,650	124,650
Parks and recreation									810,093
Community development									619,215
Capital outlay									
<b>TOTAL EXPENDITURES</b>	<b>43,835</b>	<b>147,350</b>	<b>619,215</b>			<b>30,644</b>	<b>588,264</b>	<b>124,650</b>	<b>1,553,958</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(10,157)</b>	<b>(5,296)</b>	<b>258,347</b>	<b>32,334</b>	<b>337</b>	<b>(15,263)</b>	<b>192,113</b>	<b>5,586</b>	<b>458,001</b>
<b>OTHER FINANCING SOURCES (USES)</b>									
Refund of prior year expenditure			6,721						6,721
Operating transfers (out)			(245,336)	(25,000)					(270,336)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			<b>(238,615)</b>	<b>(25,000)</b>					<b>(263,615)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<b>(10,157)</b>	<b>(5,296)</b>	<b>19,732</b>	<b>7,334</b>	<b>337</b>	<b>(15,263)</b>	<b>192,113</b>	<b>5,586</b>	<b>194,386</b>
<b>FUND BALANCES, BEGINNING</b>	<b>7,101</b>	<b>15,389</b>	<b>246,379</b>	<b>40,449</b>	<b>88,225</b>	<b>446,369</b>	<b>5,394</b>	<b>27,367</b>	<b>876,673</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ (3,056)</b>	<b>\$ 10,093</b>	<b>\$ 266,111</b>	<b>\$ 47,783</b>	<b>\$ 88,562</b>	<b>\$ 431,106</b>	<b>\$ 197,507</b>	<b>\$ 32,953</b>	<b>\$ 1,071,059</b>

# STANLEY N. BOOZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the TOWNSHIP OF LOWER MAKEFIELD as of and for the year ended December 31, 2011, which collectively comprise the TOWNSHIP OF LOWER MAKEFIELD'S financial statements, and have issued our report thereon dated July 12, 2012. 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**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis.



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

### **Compliance and Other Matters**

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

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

July 12, 2012

STANLEY N BOOZ, LLC  
*Certified Public Accountants*

