

UPPER MAKEFIELD TOWNSHIP

Statement of Net Assets

Fiduciary Funds

Year Ended December 31, 2010

	<u>Police Pension Fund</u>	<u>Non-Uniformed Pension Fund</u>	<u>Escrow Fund</u>
Assets			
Cash	\$ -	\$ -	\$ 726,687
Investments, at Fair Value	3,659,128	1,445,495	-
Prepaid Expenses	1,083	1,083	-
Interest Receivable	<u>17,698</u>	<u>5,415</u>	<u>-</u>
Total Assets	<u>3,677,909</u>	<u>1,451,993</u>	\$ <u><u>726,687</u></u>
Liabilities			
Accounts Payable	740	750	\$ -
Escrow Deposits	<u>-</u>	<u>-</u>	<u>726,687</u>
Total Liabilities	<u>740</u>	<u>750</u>	\$ <u><u>726,687</u></u>
Net Assets			
Held in Trust for Pension Benefits	\$ <u><u>3,677,169</u></u>	\$ <u><u>1,451,243</u></u>	

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended December 31, 2010

	Police Pension Fund	Non-Uniformed Pension Fund
Additions		
Contributions		
Employer	\$ 171,450	\$ 111,587
Plan Members	73,311	-
State Aid	90,770	58,033
Total Contributions	<u>335,531</u>	<u>169,620</u>
Investment Earnings		
Interest	43,918	15,879
Dividends	37,027	14,819
Net Realized Appreciation (Depreciation)	347,203	141,129
Total Investment Earnings	<u>428,148</u>	<u>171,827</u>
Total Additons	<u>763,679</u>	<u>341,447</u>
Deductions		
Benefits	45,514	26,991
Administrative Expenses	<u>38,084</u>	<u>23,883</u>
Total Deductions	<u>83,598</u>	<u>50,874</u>
Change in Net Assets	680,081	290,573
Net Assets - January 1	<u>2,997,088</u>	<u>1,160,670</u>
Net Assets - December 31	<u><u>\$ 3,677,169</u></u>	<u><u>\$ 1,451,243</u></u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 1 - Summary of Significant Accounting Policies

General Statement

The Township of Upper Makefield was incorporated in 1692. The Township operates under a Board of Supervisors-Manager form of government and provides the following services: general township administration, public safety, roads and bridges, recreation and conservation of natural resources. In addition the Township owns and operates water and sewer systems for four developments located within the Township.

The Township complies with generally accepted accounting principles (GAAP) which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, for enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

Financial Reporting Entity

The Township's basic financial statements include the accounts of all Township operations. The criteria for including organizations as component units within the Township's reporting entity, as set forth in section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The Township holds the corporate powers of the organization.
- The Township appoints a voting majority of the organization's board.
- The Township is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on the Township.
- There is a fiscal dependency by the organization on the Township.

Based on the aforementioned criteria, The Township of Upper Makefield has no component units.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The government-wide statement of activities presents a comparison between direct and indirect 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 are therefore clearly identifiable to a particular function. Indirect expenses have been allocated based on estimated use of those resources. Program revenues include charges paid by the recipient for the services offered by the program and grants and contributions that are used to meet the operating requirements of a particular program. General revenues include taxes, franchise fees, and investment earnings.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 1 - Summary of Significant Accounting Policies – Continued **Basis of Presentation - Continued**

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The major funds of the financial reporting entity are described below:

1. Governmental Funds

General Fund - The general fund is the primary operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Open Space Fund (a special revenue fund) - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for open space purchases.

Riparian Buffer and Restoration Fund – This fund is used to account for financial resources to be used for grants to residents to preserve the integrity of the Riparian Water Shed.

2. Proprietary Funds

Water and Sewer Fund (an enterprise fund) – This fund is used to account for water and sewer services provided by the Township to three developments located within the Township. This activity is financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Dutchess Farm Sewer Fund (an enterprise fund) - This fund is used to account for sewer services provided by the Township to one development located within the Township. It is anticipated that the developer will donate the sewer plant to the Township during 2012.

Proprietary funds distinguish operating (water and sewer charges) from non-operating (interest earned) revenues.

3. *Fiduciary Funds (Not included in government-wide statements)* – Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

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.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 1 – Summary of Significant Accounting Policies – Continued

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when the revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statement and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay current liabilities. The Township considers governmental fund revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are: property taxes, earned income taxes, franchise fees, fines, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Cash and Cash Equivalents

The Township recognizes all highly liquid investments with a maturity of three months or less to be cash equivalents for the proprietary fund statement of cash flows.

Investments

The Township reports its investments at fair value.

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost if purchased or fair market value at time of donation if donated. Repairs and maintenance are recorded as expenses.

The Township capitalizes fixed assets which have an original cost of \$2,000 or more and over five years of estimated useful life. Depreciation has been calculated on each class of depreciable property using the Straight-Line method. Estimated useful lives are as follows:

Buildings and Improvements	25-40 Years
Land Improvements	20-30 Years
Water and Sewer System	25-40 Years
Infrastructure	20-40 Years
Furniture and Equipment	5-10 Years

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 1 – Summary of Significant Accounting Policies – Continued

Intangible Assets

The Township has entered into a program to conserve natural resources of the community by purchasing conservation easements on selected properties. The Township has elected to capitalize all purchased conservation easements. The Township has elected not to depreciate these easements.

Real Estate Taxes

Real estate taxes attach as an enforceable lien on property when levied. Taxes are levied on March 1st and are payable on or before June 30th. Taxes paid prior to May 1st are payable at a 2% discount, and taxes paid after June 30th are assessed at a 10% penalty. The Township has an elected tax collector who bills and collects taxes. Assessed values are established by the County of Bucks using square foot market value, and "like kind" property comparisons. The Board of Supervisors adopts the real estate tax millage as part of the budget process. The approved millage is multiplied by the assessed value to arrive at the total levy. The millage rate for 2009 was .75 mills for the fire protection fund, .85 mills for the building construction fund, and 10.7525 mills for the open space fund.

Compensated Absences

The Township accrues accumulated unpaid sick leave when earned by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Note 2 – Cash and Investments

Legal Requirements

Governmental and Business Type Activities

Under the 2nd Class Township Code of the Commonwealth of Pennsylvania, The Township is authorized to invest its Governmental and Business Type funds in the following:

- United States Treasury Bills.
- Short-term obligations of the United States Government or its agencies or instrumentalities.
- Deposits in savings accounts or time deposits of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by FDIC insurance or other like insurance.
- Certificates of Deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania by FDIC insurance or other like insurance. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or an assignment of assets. Certificates of deposit may not exceed 20% of the bank's total capital surplus.
- Commercial paper and prime commercial paper meeting certain requirements.
- Repurchase agreements, which are fully collateralized by obligations of the United States of America.
- Obligations backed by the full faith and credit of the following entities: The United States of America or any of its agencies or instrumentalities, The Commonwealth of Pennsylvania or any of its agencies or instrumentalities, or any other political subdivision of the Commonwealth.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 2 – Cash and Investments - Continued

Legal Requirements - Continued

Fiduciary Activities

Under the 2nd Class Township Code of the Commonwealth of Pennsylvania, the Township is authorized to invest in any form or type of investment that the Township deems prudent.

Custodial Credit Risk - Deposits

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's bank deposits are covered by FDIC insurance or collateralized on a pooled basis as required by the Commonwealth's 2nd Class Township Code. As of December 31, 2010, \$10,881,875 of the Township's bank balance for governmental and business-type activities of \$11,392,769 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's agent
but not in the Township's name. \$10,881,875

As Of December 31, 2010, all of the Township's bank balance for fiduciary activities (developer escrows to pay for professional fees associated with specific projects) was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's agent
but not in the Township's name. \$726,687

Governmental and Business-Type Activity Investments

As of December 31, 2010 the Township had no governmental or business-type activity investments.

Fiduciary Activity (Pension Funds) Investments

Asset Allocation

It is the policy of the Township to allocate pension fund investments as follows: Equity exposure is set at 65% maximum and 35% minimum, the remainder being invested in fixed income securities. The Township police and non-uniformed pension funds are made up of the following investment types:

	Police <u>Pension Plan</u>	Non-Uniformed <u>Pension Plan</u>
Cash	\$ 7,159	\$ (4,353)
Money Market	262,273	150,028
Common Stocks	1,380,018	586,422
Mortgage Backed Securities	5,597	-0-
Corporate Bonds	243,475	57,933
Municipal Bonds	486,202	202,306
Closed End Mutual Funds	1,274,512	453,231
Unsettled Purchases/Sales	<u>(108)</u>	<u>(72)</u>
Total	\$ <u>3,659,128</u>	\$ <u>1,445,495</u>

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 2 – Cash and Investments – Continued**Fiduciary Activity (Pension Funds) Investments - Continued*****Custodial Credit Risk Investments***

Township pension funds are held and administered by Citigroup Global Markets, Inc. Custodial credit risk is the risk that, in the event of the failure of Citigroup, the Township will not be able to recover the value of plan investments or collateral security that are in Citigroup's possession. The Township does not have an investment policy for custodial credit risk for fiduciary investments. Pension Plan assets exposed to custodial credit risk are insured by both the Securities Investor Protection Corporation for the first \$500,000 of plan assets, and through Lloyds of London for amounts over \$500,000. Therefore, at December 31, 2010, none of the Township's Police Pension Plan, and Non-uniformed Pension Plan investments-of \$3,659,128 and \$1,445,495, respectively-were exposed to custodial credit risk.

Credit Risk

Credit risk is the credit quality rating of debt securities owned by the Township. It is the Township's policy to invest its fiduciary funds in debt security portfolios with a minimum average credit rating of "A". Credit ratings for debt securities and money market funds that are subject to credit risk are as follows:

	Police Pension Plan	Non-Uniformed Pension Plan
Money Market Funds – AAA	\$ 262,273	\$ 150,028
Mortgage Backed Securities – AAA	5,597	-0-
Corporate Bonds – AA1	25,377	-0-
Corporate Bonds – A1A	87,674	29,225
Corporate Bonds – A2A	130,424	28,709
Municipal Bonds – AAA	44,294	14,954
Municipal Bonds – AA1	133,676	24,527
Municipal Bonds – AA2	112,881	75,776
Municipal Bonds – AA3	73,676	24,307
Municipal Bonds – A2A	72,516	23,580
Municipal Bonds – AA-	-0-	14,580
Municipal Bonds – A	49,161	24,580
Closed End Mutual Bond Funds – AAA	169,310	67,182
Closed End Mutual Bond Funds – A	120,026	44,945
Closed End Mutual Bond Funds – B	41,020	18,743
Total	\$1,327,905	\$ 541,136

Concentration of Credit Risk

Concentration of credit risk is the risk associated with lack of diversification of Township investment portfolios. It is Township's policy to have no individual investment that exceeds 5% of the total assets of the fund. As of December 31, 2010 the Township's Police Pension fund had one holding (\$197,474 Revenue Shares Small CAP ETF closed end fund) that exceed this percentage.

Interest Rate Risk

Interest rate risk is the risk that changing interest rates will negatively impact the fair value of the Township's investments in debt securities. It is the policy of the Township's plan administrator to utilize credit and duration analysis along with fundamental and technical research to control interest rate risk. Interest rate risk for securities subject to interest rate risk for Township fiduciary activities (pension plans) are as follows:

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 2 – Cash and Investments – Continued

Fiduciary Activity (Pension Funds) Investments – Continued

Interest Rate Risk - Continued

Police Pension Plan	<u>Investment Maturities (in Years)</u>				Total
	Less Than 1	1-5	6-10	More Than 10	
Mortgage Backed Securities				\$ 5,597	\$ 5,597
Corporate Bonds		\$ 25,377		218,098	243,475
Municipal Bonds			9,969	476,233	486,202
Closed End Mutual Bond Funds		\$ 330,358			330,358
Total	\$ -0-	\$ 355,735	\$ 9,969	\$ 699,928	\$1,065,632

Non-Uniformed Pension Plan	<u>Investment Maturities (in Years)</u>				Total
	Less Than 1	1-5	6-10	More Than 10	
Corporate Bonds				\$ 57,933	\$ 57,933
Municipal Bonds			\$ 39,341	162,965	202,306
Closed End Mutual Bond Funds		130,870			130,870
Total	\$ -0-	\$ 130,870	\$ 39,341	\$ 220,898	\$ 391,109

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will negatively impact the fair value of Township investments in foreign equities. It is the policy of the Township's plan administrator to invest in foreign equities that are denominated in American Depository Receipts (ADR). Pension plan investments in international ADR stocks are not subject to foreign currency risk since these investments are denominated in U.S. Dollars. Other Pension Plan investments that are subject to foreign currency risk are as follows:

<u>Police Pension Plan</u>	<u>Currency</u>	<u>Fair Value</u>
Common Stocks	Israeli Shekels	\$ 8,096
Common Stocks	Euros	1,189
Total		\$ 9,285

<u>Non-Uniformed Pension Plan</u>	<u>Currency</u>	<u>Fair Value</u>
Common Stocks	Israeli Shekels	\$ 3,285
Common Stocks	Euros	396
Total		\$ 3,681

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Balance</u> <u>Jan. 1, 2010</u>	<u>Additions</u>	<u>(Disposals)</u>	<u>Balance</u> <u>Dec. 31, 2010</u>
Governmental Activities				
Capital Assets not Subject To Depreciation:				
Land	\$ 1,486,608	\$ 975	\$ -0-	\$ 1,487,583
Conservation Easements	<u>33,911,930</u>	<u>301,510</u>	<u>-0-</u>	<u>34,213,440</u>
Subtotal	<u>35,398,538</u>	<u>302,485</u>	<u>-0-</u>	<u>35,701,023</u>
Capital Assets Subject To Depreciation:				
Buildings & Imp.	5,678,692	-0-	-0-	5,678,692
Land Improvements	1,614,265	31,990	-0-	1,646,255
Infrastructure	14,481,054	276,972	-0-	14,758,026
Furniture & Equip.	1,934,919	63,238	-0-	1,998,157
Accumulated Depreciation	<u>(7,882,201)</u>	<u>(759,068)</u>	<u>-0-</u>	<u>(8,641,269)</u>
Subtotal	<u>15,826,729</u>	<u>(386,868)</u>	<u>-0-</u>	<u>15,439,861</u>
Total Gov't Activities	\$ <u>51,225,267</u>	\$ <u>(84,383)</u>	\$ <u>-0-</u>	\$ <u>51,140,884</u>
Business-type Activities				
Capital Assets Subject To Depreciation:				
Water & Sewer Sys.	\$ 4,526,666	\$ -0-	\$ -0-	\$ 4,526,666
Accumulated Depreciation	<u>(1,181,844)</u>	<u>(113,168)</u>	<u>-0-</u>	<u>(1,295,012)</u>
Total Bus-type Activities	\$ <u>3,344,822</u>	\$ <u>(113,168)</u>	\$ <u>-0-</u>	\$ <u>3,231,654</u>

Depreciation expense was charged as a direct expense to programs of the Township as follows:

Governmental Activities:	
General Government and Administration	\$ 14,876
Public Safety	148,448
Public Works – Roads	468,354
Culture & Recreation	83,888
Unallocated	<u>43,502</u>
Total	\$ <u>759,068</u>
Business-type Activities:	
Water and Sewer	\$ <u>113,168</u>

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 4 - Pension Plans

The Upper Makefield Township Police Pension Plan (the Plan) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 181, as amended, adopted pursuant to Act 600. The Plan covers all full-time members of the police department. The plan provides retirement benefits to plan members. Contribution rates under Act 205 require that annual contributions be based upon the plan's minimum municipal obligation. The MMO is based upon the plan's biennial actuarial valuation. The actuarial valuation date was January 1, 2009 using a cost method of entry age normal and an amortization method of level dollar, closed. For 2010, the contribution rate for members was 5%. The Plan has 12 years of remaining amortization period and the asset valuation method used is fair value. The actuarial investment rate of return, assumed to be at 7.5% of expenses and the projected salary increases to be 5.0%. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program that must be used for pension funding. The municipality according to Act 205 must pay any funding requirements established by the MMO in excess of employee contributions and state aid.

The Upper Makefield Township Non-Uniformed Employees Pension Plan (the Plan) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 141, as amended. The Plan covers all full-time non-uniformed Township employees. The plan provides retirement benefits to plan members. Contribution rates under Act 205 require that annual contributions be based upon the plan's minimum municipal obligation. The MMO is based upon the plan's biennial actuarial valuation. The actuarial valuation date was January 1, 2009 using a cost method of entry age normal and an amortization method of level dollar, closed. For 2010, the contribution rate for members was 0%. The Plan has 14 years of remaining amortization period and the asset valuation method used is fair value. The actuarial investment rate of return, assumed to be at 7.5% of expenses and the projected salary increases to be 5.0%. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program that must be used for pension funding. The municipality according to Act 205 must pay any funding requirements established by the MMO in excess of employee contributions and state aid.

For the year ended December 31, 2010, the Township's total payroll for all employees was \$2,484,769. The Township received State Aid for pensions totaling \$148,803 of which \$90,770 was distributed to the Police Pension Plan and \$58,033 to the Non-Uniform Pension Plan. The total net pension expense to the Township (after the above reimbursement) for 2010 was \$283,037.

Note 5 - Compensated Absences

The Township has established policies for paying employees, at the time of termination or retirement, for certain accumulated but unused absences. On leaving, an employee will be compensated for all unused sick time up to 1200 hours for Non-Uniformed Personnel, and 800 hours for full time Police Officers. At December 31, 2010, the liability to the Township for compensated absences was \$463,580. The liability was determined by multiplying the accumulated available sick days, for each employee by the applicable daily rate.

Note 6 - Long Term Debt

On March 15, 2006, The Township issued General Obligation Bonds, Series of 2006, in the amount of \$20,235,000. The proceeds of the bonds were used to retire six notes: Series 1999 through 2003B or approximately \$18,030,000. The remainder proceeds (approximately \$2,205,000) were used to construct a new police building. The bonds are scheduled to mature in annual increments starting December 15, 2006 through December 15, 2025. The bonds bear interest at various rates from 3.5% to 4.2%.

During 2007, The Township incurred electoral debt of \$6.1 million for the acquisition of additional conservation easements. This note is scheduled to mature in annual increments of \$421,053 starting June 8, 2010 through June 8, 2027, bearing interest at 4.21% until June 1, 2012 and 89% of the New York Prime Rate thereafter.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 6 – Long Term Debt Continued

All outstanding debt is backed by the full faith and credit of the Township. At December 31, 2010, the Township has \$1,790,000 of non-electoral debt outstanding. The Township is in compliance with all significant requirements of the various note covenants. The Township is not obligated in any manner for special assessment debt.

The following is a summary of the Township's general obligation bonds and notes outstanding as December 31, 2010:

Year of Issue	Original Issue	Balance January 1	Issued During Year	Principal Repayments	Balance December 31	Due Within One Year
2006	\$ 20,235,000	\$ 16,665,000	\$ -	\$ (1,030,000)	\$ 15,635,000	\$ 1,060,000
2007	8,000,000	7,578,947	-	(444,444)	7,134,503	421,053
Total	\$ 28,235,000	\$ 24,243,947	\$ -	\$ (1,474,444)	\$ 22,769,503	\$ 1,481,053

Annual principal repayment requirements are as follows:

	Series 2006 Bond	Series 2007 Note	
Year	Due 12/15/25	Due 6/8/2027	Total
2011	\$ 1,060,000	\$ 421,053	\$ 1,481,053
2012	1,105,000	421,053	1,526,053
2013	1,150,000	421,053	1,571,053
2014	1,195,000	421,053	1,616,053
2015	1,255,000	421,053	1,676,053
2016-2020	6,795,000	2,105,263	8,900,263
2021-2025	3,075,000	2,105,263	5,180,263
2026-2027	-	818,712	818,712
Total	\$ 15,635,000	\$ 7,134,503	\$ 22,769,503

Annual interest payment requirements are as follows:

	Series 2006 Bond	Series 2007 Note	
Year	Due 12/15/25	Due 6/8/2027	Total
2011	\$ 682,776	\$ 292,636	\$ 975,412
2012	640,376	275,696	916,072
2013	596,176	257,203	853,379
2014	555,926	239,487	795,413
2015	496,176	221,770	717,946
2016-2020	1,345,919	844,076	2,189,995
2021-2025	272,753	400,390	673,143
2026-2027	-	36,064	36,064
Total	\$ 4,590,102	\$ 2,567,322	\$ 7,157,424

Expected interest rates for the notes are as follows:

	Series 2006	Series 2007
Type	Variable	Fixed to 6/1/12
Interest Range	3.5%-5.0	4.21%

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 7 – Subsequent Events

On March 30, 2011 The Township made one time only additional principal payment of \$2,184,503 on the 2007 note leaving a remaining principal balance of \$4,950,000. This remaining balance was re-financed with a general obligation note (Series 2011) on May 13, 2011. The note is scheduled to mature in annual increments of \$291,176 starting December 1, 2011 through December 1, 2027. The note bears an interest rate of 2.50% (payable semi-annually) until June 1, 2016 and thereafter on each subsequent five year anniversary date where the rate will reset to 1.90% in excess of the tax-free equivalent of the five year U.S. Treasury Rate then in effect, however, the rate shall not exceed 5.50%.

Note 8 – 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 unforeseen emergency. Contributions are invested with outside trustees; ICMA Retirement Corporation for non-uniformed employees, and American Funds for uniformed employees.

Note 9 – Interfund Transfers

The Township uses unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2010, consisted of the following amounts:

	<u>General Fund</u>	<u>Park & Recreation Fund</u>	<u>Repetitive Grant Fund</u>	<u>Capital Reserve Fund</u>
	\$ (110,000)	\$ 80,000		\$ 30,000
	<u>20,472</u>		<u>\$(20,472)</u>	
Total	\$ <u>(89,528)</u>	\$ <u>80,000</u>	<u>\$(20,472)</u>	\$ <u>30,000</u>

Note 10 – Fund Equity

Governmental fund balances and Fiduciary fund net assets are categorized as follows:

Fund Balance Reserved for Debt Service – The reserve for debt service was created to segregate a portion of the open space, and building construction funds for debt service. The reservation was established to satisfy legal restrictions imposed by the tax levy.

Fund Balance Designated for Open Space Purchases – This designation was created by the board of supervisors to set aside all monies received from note issues by the open space fund for conservation of natural resources within the Township.

Fund Balance Designated for Building Construction – This designation was created by the board of supervisors to set aside \$2,205,000 of the March 15, 2006 bond issue which was specifically used to complete construction of the new Township Police Facility.

Undesignated Fund Balance – remaining fund balances that are neither reserved nor designated for special purposes.

Net Assets Held in Trust for Pension Benefits – The reserve for pensions was created to restrict the use of all resources contributed to or earned by both pension funds. State statutes require that such a fund balance be fully reserved.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2010

Note 11 – Net Assets Restricted by Enabling Legislation

The following is a listing of net asset balances at December 31, 2010 that are restricted by enabling legislation of the Township:

Restricted for debt service open space fund	\$ 2,586,753
Restricted for debt service building construction fund	320,879
Restricted for road projects per Commonwealth allocation	242,441
Restricted for fire protection services fire fund	<u>309,005</u>
Total	\$ <u>3,459,078</u>

Note 12 – Commitments

As of December 31, 2010, the Township is committed under contract for the following construction projects:

	<u>Eagle Rd. Drainage Improvements</u>	<u>Lookout Park Improvements</u>
Total Contract Amount	\$ 307,747	\$ 35,660
Expenses Incurred to 12/31/10	<u>276,972</u>	<u>13,365</u>
Commitment at 12/31/10	\$ <u>30,775</u>	\$ <u>22,295</u>

Note 13 – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township uses an insurance carrier to minimize these risks. Predetermined limits and deductible amounts are stated in the policy.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this insurance coverage in any of the past five years.

Required Supplementary Information

UPPER MAKEFIELD TOWNSHIP
Required Supplementary Information
Schedule of Funding Progress - Police Pension Plan
Year Ended December 31, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/97	995,128	845,116	(150,012)	117.8%	254,873	-58.9%
1/1/99	1,328,574	1,097,899	(230,675)	121.0%	389,444	-59.2%
1/1/01	1,569,220	1,587,479	18,259	98.8%	564,056	3.2%
1/1/03	1,631,149	1,969,673	338,524	82.8%	715,962	47.3%
1/1/05	1,846,813	2,518,228	671,415	73.3%	873,546	76.9%
1/1/07	2,375,330	2,970,745	595,415	80.0%	1,134,229	52.5%
1/1/09	2,673,746	3,618,813	945,067	73.9%	1,410,226	67.0%

UPPER MAKEFIELD TOWNSHIP
Required Supplementary Information
Schedule of Funding Progress - Non-Uniformed Employees Pension Plan
Year Ended December 31, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/97	375,349	381,460	6,111	98.4%	326,314	1.9%
1/1/99	535,017	484,231	(50,786)	110.5%	326,190	-15.6%
1/1/01	662,677	542,448	(120,229)	122.2%	396,395	-30.3%
1/1/03	694,991	783,075	88,084	88.8%	584,910	15.1%
1/1/05	805,677	1,042,526	236,849	77.3%	640,263	37.0%
1/1/07	1,038,287	1,081,548	43,261	96.0%	753,674	5.7%
1/1/09	1,083,425	1,497,097	413,672	72.4%	726,533	56.9%

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis (Cash)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,504,202	\$ 3,504,202	\$ 3,593,454	\$ 89,252
Licenses & Permits	190,180	190,180	202,533	12,353
Fines	61,000	61,000	54,341	(6,659)
Interest	52,000	52,000	20,135	(31,865)
Intergovernmental Revenue	337,757	337,757	344,761	7,004
Charges for Services	594,500	594,500	697,239	102,739
Miscellaneous Revenue	22,800	22,800	37,725	14,925
Total Revenues	<u>4,762,439</u>	<u>4,762,439</u>	<u>4,950,188</u>	<u>187,749</u>
Expenditures				
General Government	1,079,395	1,079,395	878,669	200,726
Public Safety	2,735,400	2,735,400	2,663,596	71,804
Public Works (Highways & Streets)	570,312	570,312	520,314	49,998
Culture & Recreation	-	-	25	(25)
Community Development	10,500	10,500	9,500	1,000
Miscellaneous	1,549,196	1,549,196	1,479,514	69,682
Total Expenditures	<u>5,944,803</u>	<u>5,944,803</u>	<u>5,551,618</u>	<u>393,185</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,182,364)</u>	<u>(1,182,364)</u>	<u>(601,430)</u>	<u>580,934</u>
Other Financing Sources (Uses)				
Interfund Transfers	<u>(110,000)</u>	<u>(110,000)</u>	<u>(89,528)</u>	<u>20,472</u>
Total Other Financing Sources & Uses	<u>(110,000)</u>	<u>(110,000)</u>	<u>(89,528)</u>	<u>20,472</u>
Net Change in Fund Balances	<u>\$ (1,292,364)</u>	<u>\$ (1,292,364)</u>	<u>(690,958)</u>	<u>\$ 601,406</u>
Fund Balances - January 1			<u>2,371,284</u>	
Fund Balances - December 31			<u>\$ 1,680,326</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
Open Space Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis (Cash)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes	\$ 2,517,990	\$ 2,517,990	\$ 2,440,978	\$ (77,012)
Interest	13,800	13,800	6,344	(7,456)
Total Revenues	<u>2,531,790</u>	<u>2,531,790</u>	<u>2,447,322</u>	<u>(84,468)</u>
Expenditures				
Current:				
General Government	45,000	45,000	7,246	37,754
Community Development	2,500,000	2,500,000	1,660	2,498,340
Debt Service:				
Principal	1,366,053	1,366,053	1,389,444	(23,391)
Interest	948,981	948,981	944,059	4,922
Total Expenditures	<u>4,860,034</u>	<u>4,860,034</u>	<u>2,342,409</u>	<u>2,517,625</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,328,244)</u>	<u>(2,328,244)</u>	<u>104,913</u>	<u>2,433,157</u>
Other Financing Sources (Uses)				
Notes Issued	-	-	-	-
Total Other Financing Sources & Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (2,328,244)</u>	<u>\$ (2,328,244)</u>	<u>104,913</u>	<u>\$ 2,433,157</u>
Fund Balances - January 1			<u>2,702,895</u>	
Fund Balances - December 31			<u>\$ 2,807,808</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
Riparian Buffer & Restoration Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis (Cash)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest	\$ 11,500	\$ 11,500	\$ 11,423	\$ (77)
Total Revenues	<u>11,500</u>	<u>11,500</u>	<u>11,423</u>	<u>(77)</u>
Expenditures				
Current:				
Legal	10,000	10,000	5,493	4,507
Engineering	10,000	10,000	9,541	459
Community Development	<u>500,000</u>	<u>500,000</u>	<u>80,457</u>	<u>419,543</u>
Total Expenditures	<u>520,000</u>	<u>520,000</u>	<u>95,491</u>	<u>424,509</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(508,500)</u>	<u>(508,500)</u>	<u>(84,068)</u>	<u>(424,432)</u>
Other Financing Sources (Uses)				
Interfund Transfers	-	-	-	-
Total Other Financing Sources & Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (508,500)</u>	<u>\$ (508,500)</u>	<u>(84,068)</u>	<u>\$ (424,432)</u>
Fund Balances - January 1			<u>2,980,142</u>	
Fund Balances - December 31			<u>\$ 2,896,074</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Notes to Budgetary Comparison Schedules
December 31, 2010

Note 1 - Budgetary Data

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Thirty days prior to the final supervisor's meeting in December, the Board of Supervisors submits a proposed operating budget for the fiscal year commencing the following January 1st. The operating budget includes proposed expenses and the means of financing them.
2. The proposed operating budget is advertised in the newspaper at least thirty days prior to the final budget hearing.
3. At the last Board of Supervisors' meeting in December, the budget is adopted by resolution.
4. Within 30 days of adoption, the approved budget is advertised in the newspaper as being approved and available for inspection.
5. Budgetary data are included in the Township management information system and are employed as a management control device during the year.
6. Budgets for the General, Special Revenue and Capital Projects Funds are adopted substantially on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

UPPER MAKEFIELD TOWNSHIP
Notes to Budgetary Comparison Schedules
December 31, 2010

Note 2 - Budget to Actual Reconciliation

An explanation of the differences between budgetary revenues and expenditures (cash basis) and revenues and expenditures determined in accordance with generally accepted accounting principles (modified accrual).

	General Fund	Open Space Fund	Riparian Buffer and Restoration Fund
Total revenues as reported in the budgetary comparison schedule (cash basis)	\$ 4,950,188	\$ 2,447,322	\$ 11,423
Change in taxes receivable	77,109	(62,587)	-
Change in accounts receivable	58,357	-	-
Change in deferred revenue	(139,858)	69,877	-
Total revenues as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds (modified accrual)	<u>\$ 4,945,796</u>	<u>\$ 2,454,612</u>	<u>\$ 11,423</u>
 Total expenditures as reported in the budgetary comparison schedule (cash basis)	 \$ 5,551,618	 \$ 2,342,409	 \$ 95,491
Change in deferred revenue	(27,113)	-	-
Change in accounts payable	24,293	1,037	(20,090)
Change in accrued payroll	10,896	-	-
Change in prepaid expenses	(23,603)	-	-
Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds (modified accrual)	<u>\$ 5,536,091</u>	<u>\$ 2,343,446</u>	<u>\$ 75,401</u>

Note 3 - Excess of expenditures over appropriations

For the year ended December 31, 2010, expenditures exceeded appropriations in the General, Liquid Fuels, Riparian, Cable TV, Rev Run, 3-Year Cap, and Tree Bank Funds. These over-expenditures were financed either by interfund transfers or prior year reserves.

Supplementary Information Section

UPPER MAKEFIELD TOWNSHIP
Combining Balance Sheet
Other Governmental Funds
December 31, 2010

	Special Revenue Funds					Capital Projects Funds					Total Other Governmental Funds	
	Liquid Fuels Fund	Repetitive Flood Grant Fund	Fire Fund	Building Construction Fund	Rev. Run Emergency Svc. Fund	Operation & Maint. Fund	Park & Recreation Fund	3 Year Cap Fund	Capital Reserve Fund	Cable TV Fund		Tree Bank Fund
Assets												
Cash	\$ 238,196	\$ 7	\$ 306,499	\$ 194,119	\$ 26,254	\$ 20,796	\$ 107,056	\$ 275,099	\$ 60,198	\$ 741,856	\$ 116,580	\$ 2,086,660
Taxes Receivable	-	-	5,861	6,642	-	-	-	-	-	-	-	12,503
Total Assets	\$ 238,196	\$ 7	\$ 312,360	\$ 200,761	\$ 26,254	\$ 20,796	\$ 107,056	\$ 275,099	\$ 60,198	\$ 741,856	\$ 116,580	\$ 2,099,163
Liabilities												
Accounts Payable	\$ 4,244	\$ -	\$ -	\$ -	\$ 1,125	\$ -	\$ 1,667	\$ 1,331	\$ -	\$ -	\$ -	\$ 8,367
Deferred Revenue	-	-	3,355	3,803	-	-	-	-	-	-	-	7,158
Total Liabilities	4,244	-	3,355	3,803	1,125	-	1,667	1,331	-	-	-	15,525
Fund Balances												
Reserved for:												
Debt Service	-	-	-	320,879	-	-	-	-	-	-	-	320,879
Unreserved, Undesignated												
Reported In:												
Special Revenue Funds	233,952	7	309,005	(123,921)	25,129	20,796	-	-	-	-	-	464,968
Capital Project Funds	-	-	-	-	-	-	105,389	273,768	60,198	741,856	116,580	1,297,791
Total Fund Balances	233,952	7	309,005	196,958	25,129	20,796	105,389	273,768	60,198	741,856	116,580	2,083,638
Total Liabilities and Fund Balances	\$ 238,196	\$ 7	\$ 312,360	\$ 200,761	\$ 26,254	\$ 20,796	\$ 107,056	\$ 275,099	\$ 60,198	\$ 741,856	\$ 116,580	\$ 2,099,163

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
December 31, 2010

	Special Revenue Funds					Capital Projects Funds					Total Other Governmental Funds	
	Liquid Fuels Fund	Repetitive Flood Grant Fund	Fire Fund	Building Construction Fund	Rev. Run Emergency Svc. Fund	Operation & Maint. Fund	Park & Recreation Fund	3 Year Cap Fund	Capital Reserve Fund	Cable TV Fund		Tree Bank Fund
Revenues												
Real Estate Taxes	\$ -	\$ -	170,770	193,539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	364,309
Interest	845	-	1,060	441	86	80	296	602	113	2,945	452	6,920
Intergovernmental Revenue	201,881	30,232	-	-	-	-	-	-	-	-	-	232,113
Charges for Services	-	-	-	-	-	-	3,273	-	-	-	-	3,273
Miscellaneous Revenue	-	-	-	-	7,750	-	-	28,925	-	-	-	36,675
Total Revenues	202,726	30,232	171,830	193,980	7,836	80	3,569	29,527	113	2,945	452	643,290
Expenditures												
Current:												
General Government	-	-	-	-	-	-	-	-	-	-	-	39,674
Public Safety	-	-	125,973	-	8,325	-	-	-	-	39,674	-	134,298
Public Works (Highways & Streets)	313,119	-	-	-	-	-	-	-	-	-	-	313,119
Culture & Recreation	-	-	-	-	-	-	60,134	61,051	-	-	496	121,681
Conservation of Natural Resources	-	975	-	-	-	-	-	-	-	-	-	975
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service:												
Principal	-	-	-	85,000	-	-	-	-	-	-	-	85,000
Interest	-	-	-	80,198	-	-	-	-	-	-	-	80,198
Total Expenditures	313,119	975	125,973	165,198	8,325	-	60,134	61,051	-	39,674	496	774,945
Excess (Deficiency) of Revenues Over Expenditures	(110,393)	29,257	45,857	28,782	(489)	80	(56,565)	(31,524)	113	(36,729)	(44)	(131,655)
Other Financing Sources (Uses)												
Interfund Transfers	-	(20,472)	-	-	-	-	80,000	-	30,000	-	-	89,528
Total Other Financing Sources & Uses	-	(20,472)	-	-	-	-	80,000	-	30,000	-	-	89,528
Net Change in Fund Balances	(110,393)	8,785	45,857	28,782	(489)	80	23,435	(31,524)	30,113	(36,729)	(44)	(42,127)
Fund Balances - January 1	344,345	(8,778)	263,148	168,176	25,618	20,716	81,954	305,292	30,085	778,585	116,624	2,125,765
Fund Balances - December 31	\$ 233,952	\$ 7	\$ 309,005	\$ 196,958	\$ 25,129	\$ 20,796	\$ 105,389	\$ 273,768	\$ 60,198	\$ 741,856	\$ 116,580	\$ 2,083,638

See accompanying notes to basic financial statements