

**UPPER MAKEFIELD TOWNSHIP
BUCKS COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH ACCOMPANYING AUDITOR'S REPORTS**

FOR THE YEAR ENDED DECEMBER 31, 2012

UPPER MAKEFIELD TOWNSHIP
Financial Statements
For the Year Ended December 31, 2012

Table of Contents

	Page Number
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Balance Sheet of the Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Activities	16
Proprietary Fund:	
Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Net Position	18
Statement of Cash Flows	19 - 20
Fiduciary Funds:	
Statement of Net Position	21
Statement of Changes in Net Position	22
Notes to Basic Financial Statements	23 - 35
Required Supplementary Information:	
Pension Plan of Upper Makefield Township Police Analysis of Funding Progress	36
Pension Plan of Upper Makefield Township Non-Uniformed Employees Analysis of Funding Progress	37
Budgetary Comparison Schedules:	
Budget Comparison Schedule – General Fund	38
Budget Comparison Schedule – Open Space Fund	39
Budget Comparison Schedule – Riparian Buffer & Restoration Fund	40
Notes to Budgetary Comparison Schedule	41 - 42
Supplementary Information Section:	
Combining Balance Sheet – Other Governmental Funds	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Other Governmental Funds	44



Burton & Browse Division

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Independent Auditor's Report

Board of Supervisors
Upper Makefield Township
Newtown, Pennsylvania 18940

Dear Board Members:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Upper Makefield Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Bee, Bergvall and Company, P.C.
Certified Public Accountants

August 1, 2013

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

The following discussion and analysis of the financial statements of Upper Makefield Township, Bucks County Pennsylvania (the Township) provides an overview of the financial activities of the Upper Makefield Township for the year ended December 31, 2012. Please read this management's discussion and analysis in conjunction with the accompanying financial statements and notes which follow in order to obtain a thorough understanding of the Township's financial condition as of December 31, 2012.

FINANCIAL HIGHLIGHTS

- The net position (assets minus liabilities) of the Township as of December 31, 2012 was \$46,602,595. Of this amount, \$41,349,880 represents governmental net position and, \$5,252,715 represents business-type net position. Of the net position balance, \$9,498,716 is unrestricted and available to meet the Township's ongoing obligations in accordance with Township fund designations and fiscal policies.
- The Township's net position increased by \$725,015 during the year ended December 31, 2012. The governmental net position increased by \$771,420 and the business-type net position decreased by \$46,405.
- The general fund, the Township's primary operating fund, reported an increase in fund balance of \$559,503. As of December 31, 2012 the general fund unassigned fund balance was \$2,717,075 or 55% of total general fund expenditures for the year ended December 31, 2012.
- The Township's governmental and business-type cash and cash equivalents increased by \$47,526 during 2012, with a corresponding increase in negotiable certificates of deposit of \$11,351.
- The Township received \$168,131 from FHA/PENNDOT for traffic upgrades to Stoopville Rd., \$22,516 from FEMA/PEMA for disaster assistance and \$48,600 from DRJTBC for streetscape improvements.
- The Township expended \$203,059 for various capital projects and capital purchases.
- The Township paid \$291,177 principal and \$125,085 interest on the series 2011 note.
- The Township paid \$1,105,000 principal and \$640,376 interest on Series 2006 general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's financial statements are composed of this Management's Discussion and Analysis (MD&A) and the basic financial statements. The MD&A provides analysis and overview of the Township's financial activities. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also includes required and other supplementary information as listed in the table of contents.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements include two statements: a statement of net position and a statement of activities. Fiduciary activities, whose resources are not available to finance Township programs, are excluded from these statements.

The *Statement of Net Position* presents the Township's total assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

The *Statement of Activities* presents information showing how the Township's net position changed during the current year. All revenues and expenses are reported in this statement regardless of the timing of cash flows. The focus of this statement is on the net cost of providing various activities to the citizens of the Township.

Both of these government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works – highways and streets, culture and recreation, community development, debt service and other. The business-type activities of the Township include sanitary sewer and water operations.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial statements are prepared using the economic resources measurement focus, reporting all inflows, outflows, and balances affecting the Township's fund balances. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Township has three types of funds: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds

Governmental funds include the activities of most of the Township's basic services. These funds include the Township's general fund, debt service fund and various special revenue and capital project funds. Governmental Funds focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

Proprietary Funds

Water and Sewer 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 – 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 2013.

Fiduciary Funds

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 position and changes in net position and are reported using accounting principles similar to proprietary funds.

The Township maintains two pension trust funds that cover pension benefits for members of the 1) Township police force and 2) other Township employees. In addition, the Township maintains developer escrow funds which are used to pay professional fees for specific planning and zoning requests.

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

Notes to Basic Financial Statements

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

Required supplementary information is additional information consisting of schedules of funding progress for the Township's pension plans and budgetary comparison schedules for the general fund and each major special revenue fund required to have a budget.

Other Supplementary Information

Other supplementary information, including additional statements can be found immediately following the notes to basic financial statements. These include the combining and individual fund statements for the other governmental funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed comparative Statement of Net Position:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets						
Current Assets:	\$ 9,903,706	\$ 10,066,762	\$ 2,137,535	\$ 2,155,704	\$ 12,041,241	\$ 12,222,466
Capital Assets	50,166,901	50,726,592	3,144,128	3,179,657	53,311,029	53,906,249
Other Assets	<u>32,267</u>	<u>34,749</u>	<u>-</u>	<u>-</u>	<u>32,267</u>	<u>34,749</u>
Total Assets	<u>\$ 60,102,874</u>	<u>\$ 60,828,103</u>	<u>\$ 5,281,663</u>	<u>\$ 5,335,361</u>	<u>\$ 65,384,537</u>	<u>\$ 66,163,464</u>
Liabilities and Net Position						
Current Liabilities:	\$ 1,758,072	\$ 1,738,017	\$ 28,948	\$ 36,241	\$ 1,787,020	\$ 1,774,258
Noncurrent Liabilities:	<u>16,994,922</u>	<u>18,511,626</u>	<u>-</u>	<u>-</u>	<u>16,994,922</u>	<u>18,511,626</u>
Total Liabilities	<u>18,752,994</u>	<u>20,249,643</u>	<u>28,948</u>	<u>36,241</u>	<u>18,781,942</u>	<u>20,285,884</u>
Net Position						
Invested in Capital Assets,						
Net of Related Debt	32,482,825	31,658,153	3,144,128	3,179,657	35,626,953	34,837,810
Restricted	1,476,926	1,811,018	-	-	1,476,926	1,811,018
Unrestricted	<u>7,390,129</u>	<u>7,109,289</u>	<u>2,108,587</u>	<u>2,119,463</u>	<u>9,498,716</u>	<u>9,228,752</u>
Total Net Position	<u>41,349,880</u>	<u>40,578,460</u>	<u>5,252,715</u>	<u>5,299,120</u>	<u>46,602,595</u>	<u>45,877,580</u>
Total Liabilities and Net Position	<u>\$ 60,102,874</u>	<u>\$ 60,828,103</u>	<u>\$ 5,281,663</u>	<u>\$ 5,335,361</u>	<u>\$ 65,384,537</u>	<u>\$ 66,163,464</u>

The current assets of the Township are comprised of cash, short-term investments, accounts receivable, taxes receivable and prepaid expenses. The Township's capital assets are comprised of buildings, land, conservation easements, machinery and equipment, infrastructure and a water and sanitary sewer system.

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

Current liabilities primarily include accrued payroll, accounts payable and current maturities of general obligation bonds and notes payable. The long-term liabilities figure reflects principal balances due in more than one year on general obligation bonds, notes and accrued sick leave. The outstanding principal on bonds and notes make up 96% of the long-term liabilities figure.

The difference between the assets and liabilities is labeled as net position. Net position is broken down as capital, restricted and unrestricted. Capital assets (net) are reported net of their accumulated depreciation and any outstanding principal owed on related debt. This represents 79% of the Township's total net position. Restricted amounts are restricted either by Township enabling legislation or by the Commonwealth for items such as debt service, fire protection or road projects. The remaining unrestricted amounts may be used for any purpose that the Township sees fit. Unrestricted amounts are not currently the object of any tentative management plans.

The Following table presents the Township's changes in net position for the years ended December 31, 2012 and 2011:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues						
Charges for Service	\$ 426,608	\$ 528,770	\$ 493,279	\$ 530,737	\$ 919,887	\$ 1,059,507
Grants and Contributions	711,603	926,664	-	-	711,603	926,664
General Revenues						
Taxes	6,137,193	7,099,983	-	-	6,137,193	7,099,983
Cable Franchise Fees	208,884	204,818	-	-	208,884	204,818
Investment Earnings	50,328	33,768	6,051	1,885	56,379	35,653
Gain on Sale of Assets	7,850	2,928	-	-	7,850	2,928
Miscellaneous	101,984	89,353	-	-	101,984	89,353
Total Revenues	<u>7,644,450</u>	<u>8,886,284</u>	<u>499,330</u>	<u>532,622</u>	<u>8,143,780</u>	<u>9,418,906</u>
Expenses						
General Government	1,057,233	1,150,885	-	-	1,057,233	1,150,885
Public Safety	3,529,919	3,567,874	-	-	3,529,919	3,567,874
Public Works (Highways & Streets)	1,220,089	1,220,719	-	-	1,220,089	1,220,719
Public Works (Water & Sewer System)	-	-	545,735	488,324	545,735	488,324
Culture & Recreation	129,691	212,536	-	-	129,691	212,536
Community Development	22,870	125,135	-	-	22,870	125,135
Interest on Long Term Debt	756,019	855,101	-	-	756,019	855,101
Other	113,707	113,957	-	-	113,707	113,957
Unallocated Depreciation	43,502	43,502	-	-	43,502	43,502
Total Expenses	<u>6,873,030</u>	<u>7,289,709</u>	<u>545,735</u>	<u>488,324</u>	<u>7,418,765</u>	<u>7,778,033</u>
Change in Net Position	771,420	1,596,575	(46,405)	44,298	725,015	1,640,873
Net Position - Beginning of Year	<u>40,578,460</u>	<u>38,981,885</u>	<u>5,299,120</u>	<u>5,254,822</u>	<u>45,877,580</u>	<u>44,236,707</u>
Net Position - End of Year	<u>\$ 41,349,880</u>	<u>\$ 40,578,460</u>	<u>\$ 5,252,715</u>	<u>\$ 5,299,120</u>	<u>\$ 46,602,595</u>	<u>\$ 45,877,580</u>

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS
Governmental Funds

The governmental funds are comprised of the general fund, debt service fund, and various special revenue and capital projects funds. The measurement focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance serves as a useful measure of a government's net resources available for spending at the end of the year.

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

The following table presents the Township's changes in Governmental fund balances for the years ended December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues		
Taxes	\$ 6,605,252	\$ 6,963,665
Cable Franchise Fees	208,884	204,818
Licenses & Permits	15,050	18,315
Fines	34,132	37,213
Interest	36,033	19,472
Intergovernmental Revenue	781,756	765,856
Charges for Services	403,111	446,453
Miscellaneous Revenue	129,453	149,803
Total Revenues	<u>8,213,671</u>	<u>8,605,595</u>
Expenditures		
Current:		
General Government	837,088	897,727
Public Safety	2,616,277	2,459,489
Public Works (Highways & Streets)	657,289	822,309
Culture & Recreation	62,426	150,125
Community Development	22,870	125,135
Miscellaneous	1,399,906	1,558,554
Debt Service:		
Principal	1,396,176	8,485,679
Interest	755,452	873,509
Total Expenditures	<u>7,747,484</u>	<u>15,372,527</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>466,187</u>	<u>(6,766,932)</u>
Other Financing Sources (Uses)		
Debt Issued	<u>-</u>	<u>4,950,000</u>
Total Other Financing Sources & Uses	<u>-</u>	<u>4,950,000</u>
Net Change in Fund Balances	466,187	(1,816,932)
Fund Balances - Beginning of Year	<u>7,999,887</u>	<u>9,816,819</u>
Fund Balances - End of Year	<u>\$ 8,466,074</u>	<u>\$ 7,999,887</u>

Proprietary Funds

The Township's proprietary funds provide the same type of information found in the government-wide financial statements. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses proprietary funds to account for the sanitary sewer and water operations for four housing developments located in the Township. Please refer to the business-type activities section listed previously for discussion on the activity in the proprietary funds.

UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012

General Fund Budgetary Highlights

The following table presents budget versus actual (cash basis) for the general fund:

	<u>Budget Amounts</u>	<u>Actual Amounts Budgetary Basis (Cash)</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues			
Taxes	\$ 3,763,800	\$ 3,796,860	\$ 33,060
Licenses & Permits	217,620	221,868	4,248
Fines	43,600	33,472	(10,128)
Interest	2,350	15,541	13,191
Intergovernmental Revenue	613,800	500,046	(113,754)
Charges for Services	540,050	392,082	(147,968)
Miscellaneous Revenue	15,300	103,632	88,332
Total Revenues	<u>5,196,520</u>	<u>5,063,501</u>	<u>(133,019)</u>
Expenditures			
General Government	908,140	808,561	99,579
Public Safety	2,460,077	2,139,780	320,297
Public Works (Highways & Streets)	713,058	518,678	194,380
Culture & Recreation	250	250	-
Community Development	9,500	9,500	-
Miscellaneous	1,568,105	1,389,155	178,950
Total Expenditures	<u>5,659,130</u>	<u>4,865,924</u>	<u>793,206</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(462,610)</u>	<u>197,577</u>	<u>660,187</u>
Other Financing Sources (Uses)			
Interfund Transfers	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total Other Financing Sources & Uses	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (502,610)</u>	<u>157,577</u>	<u>\$ 660,187</u>
Fund Balances - Beginning		<u>2,032,933</u>	
Fund Balances - Ending		<u>\$ 2,190,510</u>	

The following is a brief summary of general fund budget versus actual variances for the year ended December 31, 2012:

- Intergovernmental revenue – Actual amounts were less than budgeted due to a 43% decrease in Commonwealth foreign fire insurance allocations, and an Act 537 planning cost reimbursement grant that was not received.
- Charges for services – Actual amounts were less than budgeted due to a decrease in construction start-ups.
- Miscellaneous revenue – Actual amounts were greater than budgeted due to unbudgeted worker's compensation reimbursements received.
- Public Safety – Actual amounts were less than budgeted due to a 43% decrease in foreign fire pass-through allocations, and conservative budget estimates for code legal, and engineering expenses.
- Public Works – Actual amounts were less than budgeted due to conservative budget estimates.
- Miscellaneous Expenditures – Actual amounts were less than budgeted due to conservative budget estimates for employee benefits.

For more information see page 38 - Budgetary Comparison Schedule – General Fund.

**UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Township are presented in the chart below:

Land and Land Improvements	\$ 3,175,422
Infrastructure	15,196,815
Water and Sewer System	4,670,856
Buildings and Improvements	5,678,692
Equipment and Furniture	2,018,408
Conservation Easements	<u>34,213,440</u>
	64,953,633
Less Accumulated Depreciation	<u>(11,642,604)</u>
	\$ <u>53,311,029</u>

Major capital asset transactions/events during the year ended December 31, 2012 included the following:

- The Township expended \$126,052 for road resurfacing projects.
- The Township expended \$19,270 for road drainage improvement projects.
- The Township expended \$39,737 for new vehicles, equipment and furniture.
- The Township expended \$18,000 for improvements to Lookout Park.

Additional information on the Township's capital assets can be found in Note 3 of the Notes to Basic Financial Statements.

Long-term Debt

The Township's long-term debt has been utilized to construct the current Township administrative and police facilities and to acquire various conservation easements. As of December 31, 2012, the Township had total long-term debt outstanding of \$17,837,647.

Additional information on the Township's long-term debt can be found in Note 6 of the Notes to Basic Financial Statements.

MANAGER'S DISCUSSION

The following is a list of projected highlights for the Township as of August 1, 2013:

In 2013, the Township will continue to manage insurance costs through participation in the Delaware Valley Health Insurance Trust, Worker's Compensation Trust and Insurance Trust.

The Township is in the 2nd year of a 4 year contract with the Police Dept. which provides for a 3% increase. This is ½% over 2012.

In 2013, negotiations will begin with the Public Works Dept. on a new contract.

The 2013 Minimum Municipal Obligation is budgeted at \$245,322 for the Police Pension and \$133,091 for the NonPolice Pension. This obligation is offset by \$157,000 in anticipated revenue from the Commonwealth of PA.

**UPPER MAKEFIELD TOWNSHIP
Management's Discussion and Analysis
For The Year Ended December 31, 2012**

MANAGER'S DISCUSSION – CONTINUED

In 2013, the Township budgeted expenditures of \$170,000 from the Capital Reserve Fund for the federally mandated replacement of all Township radios. A transfer of \$7,000 from the Emergency Services Fund will also be made in preparation for this replacement.

Purchase of one police vehicle for \$37,000 is also budgeted in the Capital Reserve Fund.

Purchase of a new Dump Truck for \$147,000 and a Brine Machine for \$55,000 is also budgeted in the Capital Reserve Fund for the Public Works Dept.

The Township's 2013 infrastructure needs include \$274,000 for the Road Improvement Program and \$50,000 for bridge improvement projects and \$28,000 for drainage improvements.

In the Water and Sewer Fund – Heritage Hills has \$358,000 allocated for capital improvements to the Heritage Hills Wastewater Treatment Plant and Water Storage Tank along with \$95,000 for the replacement of meters in the Traditions development.

In the Open Space Fund \$1,049,385 has been allocated for the preservation of open space.

Other than those issues listed in the MD&A and in the Notes to the Basic Financial Statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

CONTACTING THE TOWNSHIP FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Township finances and to demonstrate the Township's accountability for the financial resources it receives. Questions concerning this report or requests for additional financial information should be directed to Sally Slook, Township Manager, Upper Makefield Township, 1076 Eagle Road, Newtown, PA 18940, telephone (215) 968-3340, or visit the Township's web site at www.upper-makefield.com.

UPPER MAKEFIELD TOWNSHIP
Government-wide Statement of Net Position
December 31, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 7,155,306	\$ 1,020,322	\$ 8,175,628
Investments (Negotiable CD's)	756,669	1,004,682	1,761,351
Accounts Receivable	122,411	104,515	226,926
Taxes Receivable (net)	1,869,320	-	1,869,320
Prepaid Expenses	-	8,016	8,016
Total Current Assets	<u>9,903,706</u>	<u>2,137,535</u>	<u>12,041,241</u>
Capital Assets			
Conservation Easements	34,213,440	-	34,213,440
Other Capital Assets, net of Depreciation	<u>15,953,461</u>	<u>3,144,128</u>	<u>19,097,589</u>
Total Capital Assets	<u>50,166,901</u>	<u>3,144,128</u>	<u>53,311,029</u>
Total Assets	<u>60,070,607</u>	<u>5,281,663</u>	<u>65,352,270</u>
Deferred Outflows of Resources			
Unamortized Bond Issuance Costs	<u>32,267</u>	-	<u>32,267</u>
Total Deferred Outflows	<u>32,267</u>	-	<u>32,267</u>
Liabilities			
Current Liabilities:			
Accrued Payroll & Withholdings	93,513	-	93,513
Accounts Payable	199,190	28,948	228,138
Interest Payable	24,193	-	24,193
Bonds & Notes Payable - Current Portion	<u>1,441,176</u>	-	<u>1,441,176</u>
Total Current Liabilities	<u>1,758,072</u>	<u>28,948</u>	<u>1,787,020</u>
Noncurrent Liabilities:			
Bonds & Notes Payable,			
Less Current Portion Above	16,396,471	-	16,396,471
Compensated Absences	<u>412,613</u>	-	<u>412,613</u>
Total Noncurrent Liabilities	<u>16,809,084</u>	-	<u>16,809,084</u>
Total Liabilities	<u>18,567,156</u>	<u>28,948</u>	<u>18,596,104</u>
Deferred Inflows of Resources			
Unamortized Bond Premium	<u>185,838</u>	-	<u>185,838</u>
Total Deferred Inflows	<u>185,838</u>	-	<u>185,838</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	32,482,825	3,144,128	35,626,953
Restricted	1,476,926	-	1,476,926
Unrestricted	<u>7,390,129</u>	<u>2,108,587</u>	<u>9,498,716</u>
Total Net Position	<u>\$ 41,349,880</u>	<u>\$ 5,252,715</u>	<u>\$ 46,602,595</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Government-wide Statement of Activities
For the Year Ended December 31, 2012

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government & Administration	\$ 1,057,233	\$ 145,867	\$ 34,754	\$ -	\$ (876,612)	\$ -	\$ (876,612)
Public Safety	3,529,919	254,828	260,116	-	(3,014,975)	-	(3,014,975)
Public Works (Highways & Streets)	1,220,089	23,267	265,092	143,387	(788,343)	-	(788,343)
Culture & Recreation	129,691	2,646	7,784	-	(119,261)	-	(119,261)
Community Development	22,870	-	470	-	(22,400)	-	(22,400)
Interest on Long Term Debt	756,019	-	-	-	(756,019)	-	(756,019)
Other	113,707	-	-	-	(113,707)	-	(113,707)
Unallocated Depreciation	43,502	-	-	-	(43,502)	-	(43,502)
Total Governmental Activities	6,873,030	426,608	568,216	143,387	(5,734,819)	-	(5,734,819)
Business-type Activities							
Public Works (Sewer System)	55,117	65,679	-	-	-	10,562	10,562
Public Works (Water & Sewer System)	490,618	427,600	-	-	-	(63,018)	(63,018)
Total Business-type Activities	545,735	493,279	-	-	-	(52,456)	(52,456)
Total Government	\$ 7,418,765	\$ 919,887	\$ 568,216	\$ 143,387	(5,734,819)	(52,456)	(5,787,275)
General Revenues:							
Taxes:							
Real Estate Taxes Levied for General Purposes					1,113,380	-	1,113,380
Real Estate Taxes Levied for Debt Service					2,246,845	-	2,246,845
Earned Income Taxes					2,776,968	-	2,776,968
Cable Franchise Fees					208,884	-	208,884
Investment Earnings					50,328	6,051	56,379
Gain on Sale of Capital Assets					7,850	-	7,850
Miscellaneous					101,984	-	101,984
Transfers					-	-	-
Total General Revenues & Transfers					6,506,239	6,051	6,512,290
Change in Net Position					771,420	(46,405)	725,015
Net Position - January 1					40,578,460	5,299,120	45,877,580
Net Position - December 31					\$ 41,349,880	\$ 5,252,715	\$ 46,602,595

See accompanying notes to basic financial statements

**Upper Makefield Township
Balance Sheet
Governmental Funds
December 31, 2012**

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Riparian Buffer & Restoration Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current Assets					
Cash & Cash Equivalents	\$ 2,197,797	\$ 805,179	\$ 2,534,541	\$ 1,872,787	\$ 7,410,304
Investments (Negotiable CD's)	-	251,139	250,532	-	501,671
Accounts Receivable	122,410	-	-	-	122,410
Taxes Receivable	1,769,391	85,201	-	14,729	1,869,321
Total Current Assets	<u>4,089,598</u>	<u>1,141,519</u>	<u>2,785,073</u>	<u>1,887,516</u>	<u>9,903,706</u>
 Total Assets	 <u>\$ 4,089,598</u>	 <u>\$ 1,141,519</u>	 <u>\$ 2,785,073</u>	 <u>\$ 1,887,516</u>	 <u>\$ 9,903,706</u>
Liabilities					
Payroll Withholdings	\$ 7,287	\$ -	\$ -	\$ -	\$ 7,287
Accounts Payable	194,030	2,600	87	2,473	199,190
Accrued Payroll	86,226	-	-	-	86,226
Total Liabilities	<u>287,543</u>	<u>2,600</u>	<u>87</u>	<u>2,473</u>	<u>292,703</u>
Deferred Inflows of Resources					
Unavailable Revenue for:					
Property Taxes	11,048	51,111	-	8,838	70,997
Earned Income Taxes	1,036,750	-	-	-	1,036,750
Other Revenues	37,182	-	-	-	37,182
Total Deferred Inflows of Resources	<u>1,084,980</u>	<u>51,111</u>	<u>-</u>	<u>8,838</u>	<u>1,144,929</u>
Fund Balances					
Nonspendable:	-	-	-	-	-
Restricted for:					
Debt Service	-	889,342	-	257,024	1,146,366
Highways & Streets	-	-	-	245,194	245,194
Local Fire Companies	-	-	-	103,079	103,079
Committed for:					
Open Space Purchases	-	198,466	-	-	198,466
Grants to Others	-	-	2,784,986	22,436	2,807,422
Park & Rec. Operations	-	-	-	73,915	73,915
Capital Purchases	-	-	-	1,174,557	1,174,557
General Operations	-	-	-	-	-
Unassigned:	<u>2,717,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,717,075</u>
 Total Fund Balances	 <u>2,717,075</u>	 <u>1,087,808</u>	 <u>2,784,986</u>	 <u>1,876,205</u>	 <u>8,466,074</u>
 Total Liabilities, Deferred Inflows and Fund Balances	 <u>\$ 4,089,598</u>	 <u>\$ 1,141,519</u>	 <u>\$ 2,785,073</u>	 <u>\$ 1,887,516</u>	 <u>\$ 9,903,706</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Reconciliation of Balance Sheet of the Governmental Funds
to the Statement of Net Position
December 31, 2012

Total Fund Balances - Governmental Funds \$ 8,466,074

Amounts reported for governmental activities in the statement of net position are different because:

Taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 1,107,746

Accounts receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 37,183

Unamortized bond issuance costs are recorded and amortized over the life expectancy of the bond issue in the statement of net assets but are expensed in the year of issuance for the governmental funds. 32,267

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets and the accumulated depreciation are as follows:

Cost of assets	\$ 60,282,777	
Accumulated depreciation	(10,115,876)	
	50,166,901	

Certain long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. This includes general fund compensated absences.

Notes Payable	\$ (17,837,647)	
Accrued interest on Notes Payable	(24,193)	
Compensated absences	(412,613)	
Unamortized Bond Premium	(185,838)	
	(18,460,291)	

Total Net Position - Governmental Activities **\$ 41,349,880**

UPPER MAKEFIELD TOWNSHIP
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
December 31, 2012

	General Fund	Open Space Fund	Riparian Buffer & Restoration Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Real Estate Taxes	\$ 449,761	\$ 2,073,348	\$ -	\$ 358,849	\$ 2,881,958
Real Estate Transfer Taxes	491,220	-	-	-	491,220
Earned Income Taxes	3,232,074	-	-	-	3,232,074
Cable Franchise Fees	208,884	-	-	-	208,884
Licenses & Permits	15,050	-	-	-	15,050
Fines	34,132	-	-	-	34,132
Interest	15,541	3,547	13,517	3,428	36,033
Intergovernmental Revenue	509,940	-	-	271,816	781,756
Charges for Services	400,465	-	-	2,646	403,111
Miscellaneous Revenue	111,199	50	420	17,784	129,453
Total Revenues	<u>5,468,266</u>	<u>2,076,945</u>	<u>13,937</u>	<u>654,523</u>	<u>8,213,671</u>
Expenditures					
Current:					
General Government	805,504	25,803	5,781	-	837,088
Public Safety	2,143,322	-	-	472,955	2,616,277
Public Works (Highways & Streets)	510,481	-	-	146,808	657,289
Culture & Recreation	250	-	-	62,176	62,426
Community Development	9,500	7,800	5,570	-	22,870
Miscellaneous	1,399,906	-	-	-	1,399,906
Debt Service:					
Principal	-	1,306,176	-	90,000	1,396,176
Interest	-	681,629	-	73,823	755,452
Total Expenditures	<u>4,868,963</u>	<u>2,021,408</u>	<u>11,351</u>	<u>845,762</u>	<u>7,747,484</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>599,303</u>	<u>55,537</u>	<u>2,586</u>	<u>(191,239)</u>	<u>466,187</u>
Other Financing Sources (Uses)					
Interfund Transfers	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
Total Other Financing Sources & Uses	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
Net Change in Fund Balances	<u>559,303</u>	<u>55,537</u>	<u>2,586</u>	<u>(151,239)</u>	<u>466,187</u>
Fund Balances - January 1	<u>2,157,772</u>	<u>1,032,271</u>	<u>2,782,400</u>	<u>2,027,444</u>	<u>7,999,887</u>
Fund Balances - December 31	<u>\$ 2,717,075</u>	<u>\$ 1,087,808</u>	<u>\$ 2,784,986</u>	<u>\$ 1,876,205</u>	<u>\$ 8,466,074</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances to Statement of Activities
Year Ended December 31, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ 466,187**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$	203,059	
Sale of capital assets		(1,350)	
Depreciation expense		<u>(761,400)</u>	
			(559,691)

Because some taxes will not be collected for several months after the Township's fiscal year end, they are not considered as "available" revenues in the governmental funds. Tax revenues increased by this amount this year. (468,059)

Because some revenues will not be collected for several months after the Township's fiscal year end, they are not considered as "available" revenues in the governmental funds. Revenues decreased by this amount this year. (138,153)

The issuance and repayment of long-term debt provides/uses current financial resources to/from governmental funds. These transactions have no effect on net position. Also governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. The net effects of these differences in the current period are:

Amortization of Issuance Costs and Premium	\$	11,814	
Principal Repayments		<u>1,396,176</u>	
			1,407,990

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,915

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 61,231

Change in Net Position of Governmental Activities **\$ 771,420**

UPPER MAKEFIELD TOWNSHIP
Statement of Net Position
Proprietary Funds
December 31, 2012

	<u>Water & Sewer Enterprise Fund</u>	<u>Dutchess Farm Sewer Enterprise Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash & Cash Equivalents	\$ 1,047,344	\$ 176,237	\$ 1,223,581
Investments (Negotiable CD's)	801,423	-	801,423
Accounts Receivable (net)	94,564	9,951	104,515
Prepaid Expenses	<u>7,014</u>	<u>1,002</u>	<u>8,016</u>
Total Current Assets	<u>1,950,345</u>	<u>187,190</u>	<u>2,137,535</u>
Capital Assets			
Water & Sewer System	4,670,856	-	4,670,856
Less: Accumulated Depreciation	<u>(1,526,728)</u>	<u>-</u>	<u>(1,526,728)</u>
Total Capital Assets	<u>3,144,128</u>	<u>-</u>	<u>3,144,128</u>
Total Assets	<u>5,094,473</u>	<u>187,190</u>	<u>5,281,663</u>
Liabilities			
Current Liabilities:			
Accounts Payable	<u>23,940</u>	<u>5,008</u>	<u>28,948</u>
Total Liabilities	<u>23,940</u>	<u>5,008</u>	<u>28,948</u>
Net Position			
Invested in Capital Assets	3,144,128	-	3,144,128
Unrestricted	<u>1,926,405</u>	<u>182,182</u>	<u>2,108,587</u>
Total Net Position	<u>\$ 5,070,533</u>	<u>\$ 182,182</u>	<u>\$ 5,252,715</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	<u>Water & Sewer Enterprise Fund</u>	<u>Dutchess Farm Sewer Enterprise Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for Services:			
Resident User Fees	\$ 427,600	\$ 65,679	\$ 493,279
Total Operating Revenues	<u>427,600</u>	<u>65,679</u>	<u>493,279</u>
Operating Expenses:			
Administrative	33,975	1,829	35,804
Depreciation	117,300	-	117,300
Engineering Services	17,895	439	18,334
Electric	43,768	-	43,768
Fuel	5,150	-	5,150
Insurance	15,608	1,516	17,124
Legal	-	197	197
Licensed Operator	132,472	36,146	168,618
Supplies	5,067	5,445	10,512
Repairs & Maintenance	113,554	6,062	119,616
Telephone	1,952	-	1,952
Testing	3,877	3,483	7,360
Total Operating Expenses	<u>490,618</u>	<u>55,117</u>	<u>545,735</u>
Net Operating Income	(63,018)	10,562	(52,456)
Non Operating Revenue:			
Interest	<u>5,816</u>	<u>235</u>	<u>6,051</u>
Change in Net Position	(57,202)	10,797	(46,405)
Net Position - January 1	<u>5,127,735</u>	<u>171,385</u>	<u>5,299,120</u>
Net Position - December 31	<u>\$ 5,070,533</u>	<u>\$ 182,182</u>	<u>\$ 5,252,715</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	Water & Sewer Enterprise Fund	Dutchess Farm Sewer Enterprise Fund	Total
Cash Flows from Operating Activities			
Receipts from Customers	\$ 432,894	\$ 66,393	\$ 499,287
Payments to Suppliers	<u>(370,198)</u>	<u>(53,405)</u>	<u>(423,603)</u>
Net Cash Provided (Used) by Operating Activities	<u>62,696</u>	<u>12,988</u>	<u>75,684</u>
Cash Flows from Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities			
Sale of Negotiable CD's	198,577	-	198,577
Interest	5,816	235	6,051
Equipment Purchases	<u>(81,771)</u>	<u>-</u>	<u>(81,771)</u>
Net Cash Provided (Used) by Investing Activities	<u>122,622</u>	<u>235</u>	<u>122,857</u>
Net Increase (Decrease) in Cash and Cash Equivalents	185,318	13,223	198,541
Cash and Cash Equivalents - January 1	<u>862,026</u>	<u>163,014</u>	<u>1,025,040</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,047,344</u></u>	<u><u>\$ 176,237</u></u>	<u><u>\$ 1,223,581</u></u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	<u>Water & Sewer Enterprise Fund</u>	<u>Dutchess Farm Sewer Enterprise Fund</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (63,018)	\$ 10,562	\$ (52,456)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	117,300	-	117,300
Change in Assets and Liabilities			
Receivables	5,295	714	6,009
Prepaid Expenses	10,608	1,516	12,124
Accounts Payable	(3,633)	5,008	1,375
Accrued Expenses	<u>(3,856)</u>	<u>(4,812)</u>	<u>(8,668)</u>
Net Cash Provided by Operating Activities	\$ <u>62,696</u>	\$ <u>12,988</u>	\$ <u>75,684</u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Net Position
Fiduciary Funds
Year Ended December 31, 2012

	<u>Police Pension Fund</u>	<u>Non-Uniformed Pension Fund</u>	<u>Escrow Fund</u>
Assets			
Cash	\$ -	\$ -	\$ 777,413
Investments, at Fair Value	4,534,175	1,902,561	-
Prepaid Expenses	1,083	1,083	-
Interest Receivable	<u>14,507</u>	<u>6,392</u>	<u>-</u>
Total Assets	<u>4,549,765</u>	<u>1,910,036</u>	<u>\$ 777,413</u>
Liabilities			
Accounts Payable	740	740	\$ -
Escrow Deposits	<u>-</u>	<u>-</u>	<u>777,413</u>
Total Liabilities	<u>740</u>	<u>740</u>	<u>\$ 777,413</u>
Net Position			
Held in Trust for Pension Benefits	\$ <u>4,549,025</u>	\$ <u>1,909,296</u>	

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2012

	Police Pension Fund	Non-Uniformed Pension Fund
Additions		
Contributions		
Employer	\$ 144,668	\$ 61,366
Plan Members	69,353	-
State Aid	95,983	105,573
Total Contributions	<u>310,004</u>	<u>166,939</u>
Investment Earnings		
Interest	62,008	28,090
Dividends	55,288	20,798
Net Realized Appreciation (Depreciation)	318,499	130,315
Total Investment Earnings	<u>435,795</u>	<u>179,203</u>
Total Additons	<u>745,799</u>	<u>346,142</u>
Deductions		
Benefits	116,591	26,063
Administrative Expenses	50,245	20,745
Total Deductions	<u>166,836</u>	<u>46,808</u>
Change in Net Position	578,963	299,334
Net Position - January 1	<u>3,970,062</u>	<u>1,609,962</u>
Net Position - December 31	<u><u>\$ 4,549,025</u></u>	<u><u>\$ 1,909,296</u></u>

See accompanying notes to basic financial statements

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

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.

Financial Reporting Entity

Financial accountability is defined, in GASB Statement No. 14 "The Financial Reporting Entity," as amended by GASB No. 61. The Township has considered all potential organizations for which the nature and significance of their relationships with the Township are such exclusion would cause the Township's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and 1) the ability of the Township to impose its will on that organization, or 2) the potential for that organization to provide specific benefits or to impose specific financial burdens 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 Position 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.

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.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 1 - Summary of Significant Accounting Policies – Continued

Basis of Presentation - Continued

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 debt service and open space purchases.

Riparian Buffer and Restoration Fund (a special revenue 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 2013.

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 position and changes in net position 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.

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 position and the operating statements present increases (revenues) and decreases (expenses) in net position. 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.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 1 – Summary of Significant Accounting Policies – Continued

Measurement Focus and Basis of Accounting - Continued

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 include 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

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.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 1 – Summary of Significant Accounting Policies – Continued

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 2012 was 2.00 mills for the general fund, .75 mills for the fire protection fund, .85 mills for the building construction fund, and 9.25 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.

Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- Nonspendable fund balance – amounts that are not in spendable form (such as prepayments) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Township itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the Township itself takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Township intends to use for a specific purpose; intent can be expressed by the governing body, or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

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 insured 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.

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, 2012, \$6,449,776 of the Township's bank balance for governmental and business-type activities of \$8,246,675 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's agent
but not in the Township's name. \$6,449,776

As of December 31, 2012, \$675,847 of the Township's bank balance of \$777,413 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. \$675,847

Cash equivalents include Morgan Stanley Active Assets Money Trust which seeks to maintain a share price of \$1.00 per share and is not subject to custodial credit risk. The total value of these cash equivalents at December 31, 2012 was \$454,855.

Governmental and Business-Type Activity Investments

The following is a schedule of governmental and business-type activity investments which consist of Negotiable Certificates of Deposit with separate banks and insured by FDIC (no custodial credit risk):

	<u>Governmental</u>	<u>Business-type</u>
12-month or less maturity	<u>\$501,671</u>	<u>\$801,423</u>
Total	<u>\$501,671</u>	<u>\$801,423</u>

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 2 – Cash and Investments - Continued

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 Pension Plan	Non-Uniformed Pension Plan
Cash	\$ 10,825	\$ (3,066)
Money Market	349,204	206,644
Equities	1,468,954	644,196
Mortgage Backed Securities	25,118	6,685
Corporate Bonds	306,522	91,066
U.S. Government Bonds	210,971	106,575
Municipal Bonds	520,472	258,266
Closed End Mutual Funds	1,641,597	591,951
Unsettled Purchases/Sales	512	244
Total	\$ 4,534,175	\$ 1,902,561

Custodial Credit Risk Investments

Township pension funds are held and administered by Morgan Stanley Smith Barney LLC. Custodial credit risk is the risk that, in the event of the failure of Morgan Stanley Smith Barney, the Township will not be able to recover the value of plan investments or collateral security that are in Morgan Stanley Smith Barney'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, 2012, none of the Township's Police Pension Plan, and Non-uniformed Pension Plan investments of \$4,534,175 and \$1,902,561, 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	\$ 349,204	\$ 206,644
Mortgage Backed Securities - Aaa	25,118	6,685
Corporate Bonds - Aa1	25,090	-
Corporate Bonds - Aa3	53,336	-
Corporate Bonds - A1	102,528	34,176
Corporate Bonds - A2	125,569	56,890
U.S. Government Bonds - Aaa	210,971	106,575
Municipal Bonds - Aa	63,019	41,279
Municipal Bonds - Aa1	55,445	27,723
Municipal Bonds - Aa2	180,715	124,206
Municipal Bonds - Aa3	81,433	26,984
Municipal Bonds - A	56,139	28,070
Municipal Bonds - A1	83,721	10,004
Closed End Mutual bond Funds - Aaa	76,615	28,182
Closed End Mutual bond Funds - Aa	62,657	21,561
Closed End Mutual bond Funds - A	54,639	18,670
Closed End Mutual bond Funds - Baa	54,680	18,803
Closed End Mutual bond Funds - B	55,325	19,052
Total	\$ 1,716,204	\$ 775,504

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

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, 2012 the Township's Pension funds had no holdings 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:

Police Pension Plan	Investment Maturities (in Years)				Total
	Less than 1	1-5	6-10	More than 10	
Mortgage Backed Securities	\$ -	\$ -	\$ -	\$ 25,118	\$ 25,118
Corporate Bonds	-	78,426	58,945	169,151	306,522
U.S. Government Bonds	-	104,832	106,139	-	210,971
Municipal Bonds	-	80,151	-	440,321	520,472
Closed End Mutual Bond Funds	-	114,008	127,250	62,657	303,915
Total	\$ -	\$ 377,417	\$ 292,334	\$ 697,247	\$ 1,366,998

Non-Uniformed Pension Plan	Investment Maturities (in Years)				Total
	Less than 1	1-5	6-10	More than 10	
Mortgage Backed Securities	\$ -	\$ -	\$ -	\$ 6,685	\$ 6,685
Corporate Bonds	-	-	23,578	67,488	91,066
U.S. Government Bonds	-	44,140	62,435	-	106,575
Municipal Bonds	-	34,978	-	223,288	258,266
Closed End Mutual Bond Funds	-	26,455	58,252	21,561	106,268
Total	\$ -	\$ 105,573	\$ 144,265	\$ 319,022	\$ 568,860

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. As of December 31, 2012 none of the Township's investments are subject to foreign currency risk.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Capital Assets:

	<u>Balance Jan. 1, 2012</u>	<u>Additions</u>	<u>(Disposals)</u>	<u>Balance Dec. 31, 2012</u>
Governmental Activities				
Capital Assets not Subject to Depreciation:				
Land	\$ 1,487,583	\$ -	\$ -	\$ 1,487,583
Conservation Easements	34,213,440	-	-	34,213,440
Subtotal	<u>35,701,023</u>	<u>-</u>	<u>-</u>	<u>35,701,023</u>
Capital Assets Subject to Depreciation:				
Buildings & Improvements	5,678,692	-	-	5,678,692
Land Improvements	1,669,839	18,000	-	1,687,839
Infrastructure	15,052,084	145,322	(591)	15,196,815
Furniture & Equipment	2,007,882	39,737	(29,211)	2,018,408
Accumulated Depreciation	<u>(9,382,928)</u>	<u>(761,400)</u>	<u>28,452</u>	<u>(10,115,876)</u>
Subtotal	<u>15,025,569</u>	<u>(558,341)</u>	<u>(1,350)</u>	<u>14,465,878</u>
Total Gov't Activities	<u>\$ 50,726,592</u>	<u>\$ (558,341)</u>	<u>\$ (1,350)</u>	<u>\$ 50,166,901</u>
Business-type Activities				
Capital Assets Subject to Depreciation:				
Water & Sewer System	\$ 4,589,085	\$ 81,771	\$ -	\$ 4,670,856
Accumulated Depreciation	<u>(1,409,428)</u>	<u>(117,300)</u>	<u>-</u>	<u>(1,526,728)</u>
Total Business-type Activities	<u>\$ 3,179,657</u>	<u>\$ (35,529)</u>	<u>\$ -</u>	<u>\$ 3,144,128</u>

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

Governmental Activities:

General Government and Administration	\$ 8,709
Public Safety	137,898
Public Works - Roads	486,026
Culture & Recreation	85,265
Unallocated	43,502
Total	<u>\$ 761,400</u>

Business-type Activities:

Water & Sewer System	<u>\$ 117,300</u>
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UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

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, 2011 using a cost method of entry age normal and an amortization method of level dollar, closed. For 2012, the contribution rate for members was 5%. The Plan has 9 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, 2011 using a cost method of entry age normal and an amortization method of level dollar, closed. For 2012, the contribution rate for members was 0%. The Plan has 11 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, 2012, the Township's total payroll for all employees was \$2,317,809. The Township received State Aid for pensions totaling \$157,349 of which \$95,983 was distributed to the Police Pension Plan and \$61,366 to the Non-Uniform Pension Plan. The total net pension expense to the Township (after the above reimbursement) for 2012 was \$319,594.

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, 2012, the liability to the Township for compensated absences was \$412,613. 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 \$18,030,000 (electoral). The remainder proceeds (\$2,205,000 non-electoral) 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 5.0%.

On May 13, 2011 the Township issued General Obligation Note, Series 2011, in the amount of \$4,950,000 (electoral). The proceeds of this note were to refinance the remaining balance of the General Obligation Note, Series 2007 (electoral). The 2011 note is scheduled to mature in annual increments of \$291,176 starting December 1, 2011 through June 8, 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%.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 6 – Long Term Debt Continued

All outstanding debt is backed by the full faith and credit of the Township. At December 31, 2012, the Township has \$1,615,000 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 debt outstanding at December 31, 2012:

The following is a summary of the Township's general obligation bonds and notes outstanding as December 31, 2012:

Year of Issue	Original Issue	Balance January 1	Issued During Year	Principal Repayments	Balance December 31	Due Within One Year
2006	\$ 20,235,000	\$ 14,575,000	\$ -	\$ (1,105,000)	\$ 13,470,000	\$ 1,150,000
2011	4,950,000	4,658,824	-	(291,177)	4,367,647	291,176
Total	\$ 25,185,000	\$ 19,233,824	\$ -	\$ (1,396,177)	\$ 17,837,647	\$ 1,441,176

Annual principal repayment requirements are as follows:

Year	Series 2006 Bond	Series 2011 Note	Total
	Due 12/15/25	Due 6/8/27	
2013	\$ 1,150,000	\$ 291,176	\$ 1,441,176
2014	1,195,000	291,176	1,486,176
2015	1,255,000	291,176	1,546,176
2016	1,310,000	291,176	1,601,176
2017	1,365,000	291,176	1,656,176
2018-2022	6,155,000	1,455,883	7,610,883
2023-2027	1,040,000	1,455,884	2,495,884
Total	\$ 13,470,000	\$ 4,367,647	\$ 17,837,647

Annual interest payment requirements are as follows:

Year	Series 2006 Bond	Series 2011 Note	Total
	Due 12/15/25	Due 6/8/27	
2013	\$ 596,176	\$ 109,191	\$ 705,367
2014	555,926	101,912	657,838
2015	496,176	94,632	590,808
2016	436,564	148,500	585,064
2017	241,139	176,162	417,301
2018-2022	877,914	640,588	1,518,502
2023-2027	63,055	240,221	303,276
Total	\$ 3,266,950	\$ 1,511,206	\$ 4,778,156

Expected interest rates for the notes are as follows:

Type	Series 2006	Series 2011
	Variable	fixed to 6/1/16
Interest Range	3.5%-5.0%	2.5%-5.5%

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 7 – 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 8 – 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, 2012, consisted of the following amounts:

	General Fund	Rev Run	Park & Rec	Cable TV	Capital Reserve Fund
\$	(40,000)	\$ -	\$ 40,000	\$ -	\$ -
	-	-		(744,554)	744,554
	-	(5,000)	-	-	5,000
Total	\$ (40,000)	\$ (5,000)	\$ 40,000	\$ (744,554)	\$ 749,554

Note 9 – Fund Equity

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

Fund Balance Restricted for Debt Service – This restriction was created to segregate a portion of the open space fund and the entire balance of the building construction fund for debt service. The restriction was established to satisfy legal restrictions imposed by the tax levy.

Fund Balance Restricted for Highways & Streets – The restriction was created for the Liquid Fuels fund to satisfy Commonwealth restrictions imposed by the liquid fuels municipal allocation.

Fund Balance Restricted for Local Fire Companies – The restriction was created to segregate the Fire fund to satisfy legal restrictions imposed by the tax levy.

Fund Balance Committed for Open Space Purchases – This commitment 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 Committed for Grants to Others – This commitment was created by the board of supervisors to set aside all monies received 1) a developer for the preservation of the Riparian watershed to fund grants to homeowner's based upon engineering studies 2) proceeds of the annual Revolutionary Run race to fund an annual grant to the local ambulance service.

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

Net Position 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 restricted.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 10 – Net Position Restricted by Enabling Legislation

The following is a listing of net position balances at December 31, 2012 that are restricted by enabling legislation of the Township:

Restricted for debt service open space fund	\$ 872,850
Restricted for debt service building construction fund	256,375
Restricted for road projects per Commonwealth allocation	245,194
Restricted for fire protection services fire fund	<u>102,507</u>
Total	\$ <u>1,476,926</u>

Note 11 – Commitments

As of December 31, 2012, the Township is committed under contract for the following construction projects:

	Water & Sewer Pump Station Upgrades
Total Contract Amounts	\$ 162,913
Expenses Incurred to 12/31/12	<u>-</u>
Commitment at 12/31/12	\$ <u>162,913</u>

Note 12 – 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 the following insurance policies to minimize these risks.

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. DVIT retains the first \$250,000 of each general liability, police professional liability and automobile liability and assumes the first \$100,000 of each first-party property loss. Reinsurance coverage is through commercial companies. DVIT also serves as group purchaser of boiler and machinery and crime and public officials' 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 insurance expense for the year ended December 31, 2012 was \$74,630. The pooling agreement permits the pool to make additional assessments to its members. At December 31, 2012 there were no additional assessments due or anticipated. Instead the pool declared a dividend of which the Township's share was \$10,701.

The Township is also a member of the Delaware Valley Workers' Compensation Trust (DVWCT), a risk retention pool. The insurance expense for the year ended December 31, 2012 was \$78,732. At December 31, 2012, there were no additional assessments due or anticipated.

The Township is also a member of the Delaware Valley Health Insurance Trust, a risk retention pool. The insurance expense for the year ended December 31, 2012 was \$552,251 for medical coverage.

UPPER MAKEFIELD TOWNSHIP

Notes to Basic Financial Statements

December 31, 2012

Note 12 – Risk Management (Continued)

The Township continues to carry insurance for all other risks of loss. There has been no significant reduction in insurance coverage from the previous year in any of the Township's policies.

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.

Note 13 – New Accounting Pronouncements

Statement No. 63—*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement only applies to full accrual accounting – governmental activities, business-type activities, proprietary funds, and fiduciary funds. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011.

Required Supplementary Information

UPPER MAKEFIELD TOWNSHIP
Required Supplementary Information
Schedule of Funding Progress – Police Pension Plan
Year Ended December 31, 2012

<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%
1/1/11	3,548,132	4,281,491	733,359	82.9%	1,508,749	48.6%

UPPER MAKEFIELD TOWNSHIP
Required Supplementary Information
Schedule of Funding Progress – Non-Uniformed Employees Pension Plan
Year Ended December 31, 2012

<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%
1/1/11	1,414,452	1,837,587	423,135	77.0%	874,397	48.4%

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2012

	<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	\$ 3,763,800	\$ 3,763,800	\$ 3,796,860	\$ 33,060
Licenses & Permits	217,620	217,620	221,868	4,248
Fines	43,600	43,600	33,472	(10,128)
Interest	2,350	2,350	15,541	13,191
Intergovernmental Revenue	613,800	613,800	500,046	(113,754)
Charges for Services	540,050	540,050	392,082	(147,968)
Miscellaneous Revenue	15,300	15,300	103,632	88,332
Total Revenues	<u>5,196,520</u>	<u>5,196,520</u>	<u>5,063,501</u>	<u>(133,019)</u>
Expenditures				
General Government	908,140	908,140	808,561	99,579
Public Safety	2,460,077	2,460,077	2,139,780	320,297
Public Works (Highways & Streets)	713,058	713,058	518,678	194,380
Culture & Recreation	250	250	250	-
Community Development	9,500	9,500	9,500	-
Miscellaneous	1,568,105	1,568,105	1,389,155	178,950
Total Expenditures	<u>5,659,130</u>	<u>5,659,130</u>	<u>4,865,924</u>	<u>793,206</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(462,610)</u>	<u>(462,610)</u>	<u>197,577</u>	<u>660,187</u>
Other Financing Sources (Uses)				
Interfund Transfers	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total Other Financing Sources & Uses	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (502,610)</u>	<u>\$ (502,610)</u>	<u>157,577</u>	<u>\$ 660,187</u>
Fund Balances - January 1			<u>2,032,933</u>	
Fund Balances - December 31			<u>\$ 2,190,510</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
Open Space Fund
For the Year Ended December 31, 2012

	<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	\$ 2,186,862	\$ 2,186,862	\$ 2,084,240	\$ (102,622)
Interest	<u>2,000</u>	<u>2,000</u>	<u>3,597</u>	<u>1,597</u>
Total Revenues	<u>2,188,862</u>	<u>2,188,862</u>	<u>2,087,837</u>	<u>(101,025)</u>
Expenditures				
Current:				
General Government	20,000	57,000	27,993	29,007
Community Development	-	-	8,200	(8,200)
Debt Service:				
Principal	1,306,177	1,306,177	1,306,176	1
Interest	<u>683,024</u>	<u>683,024</u>	<u>681,629</u>	<u>1,395</u>
Total Expenditures	<u>2,009,201</u>	<u>2,046,201</u>	<u>2,023,998</u>	<u>22,203</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>179,661</u>	<u>142,661</u>	<u>63,839</u>	<u>(78,822)</u>
Other Financing Sources (Uses)				
Proceeds of General Long-Term Debt	-	-	-	-
Total Other Financing Sources & Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 179,661</u>	<u>\$ 142,661</u>	63,839	<u>\$ (78,822)</u>
Fund Balances - January 1			<u>992,479</u>	
Fund Balances - December 31			<u>\$ 1,056,318</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Budgetary Comparison Schedule
Riparian Buffer & Restoration Fund
For the Year Ended December 31, 2012

	<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	\$ 9,000	\$ 9,000	\$ 13,938	\$ 4,938
Total Revenues	<u>9,000</u>	<u>9,000</u>	<u>13,938</u>	<u>4,938</u>
Expenditures				
Current:				
General Government	15,000	15,000	5,838	9,162
Community Development	<u>100,000</u>	<u>100,000</u>	<u>5,570</u>	<u>94,430</u>
Total Expenditures	<u>115,000</u>	<u>115,000</u>	<u>11,408</u>	<u>103,592</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(106,000)</u>	<u>(106,000)</u>	<u>2,530</u>	<u>108,530</u>
Other Financing Sources (Uses)				
Interfund Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources & Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (106,000)</u>	<u>\$ (106,000)</u>	2,530	<u>\$ 108,530</u>
Fund Balances - January 1			<u>2,782,544</u>	
Fund Balances - December 31			<u>\$ 2,785,074</u>	

See accompanying notes to budgetary comparison schedules

UPPER MAKEFIELD TOWNSHIP
Notes to Budgetary Comparison Schedules
December 31, 2012

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, 2012

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)	\$ 5,063,501	\$ 2,087,837	\$ 13,937
Change in taxes receivable	(70,619)	(27,384)	-
Change in accounts receivable	(119,707)	-	-
Change in deferred revenue	595,091	16,492	-
Total revenues as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds (modified accrual)	<u>\$ 5,468,266</u>	<u>\$ 2,076,945</u>	<u>\$ 13,937</u>
Total expenditures as reported in the budgetary comparison schedule (cash basis)	\$ 4,865,924	\$ 2,023,998	\$ 11,408
Change in deferred revenue	20,468	-	-
Change in accrued payroll	(384)	-	-
Change in accounts payable	31,864	(2,590)	(57)
Change in accrued expenses	(37,272)	-	-
Change in prepaid expenses	(11,637)	-	-
Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds (modified accrual)	<u>\$ 4,868,963</u>	<u>\$ 2,021,408</u>	<u>\$ 11,351</u>

Note 3 – Excess of Expenditures over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the Liquid Fuels, Fire, Rev Run, Cable and Water & Sewer 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, 2012

	Special Revenue Funds				Capital Projects Funds					Debt Service Fund	Total Other Governmental Funds
	Liquid Fuels Fund	Fire Fund	Rev. Run Emergency Svc. Fund	Operation & Maint. Fund	Park & Recreation Fund	Park 3 Year Cap Fund	Capital Reserve Fund	Tree Bank Fund	Cable TV Fund	Building Construction Fund	
Assets											
Current Assets											
Cash & Cash Equivalents	\$ 247,328	\$ 100,318	\$ 22,436	\$ 20,889	\$ 74,154	\$ 240,022	\$ 797,556	\$ 116,190	\$ -	\$ 253,894	\$ 1,872,787
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-
Taxes Receivable	-	6,904	-	-	-	-	-	-	-	7,825	14,729
Total Current Assets	247,328	107,222	22,436	20,889	74,154	240,022	797,556	116,190	-	261,719	1,887,516
Total Assets	\$ 247,328	\$ 107,222	\$ 22,436	\$ 20,889	\$ 74,154	\$ 240,022	\$ 797,556	\$ 116,190	\$ -	\$ 261,719	\$ 1,887,516
Liabilities											
Accounts Payable	\$ 2,134	-	-	-	\$ 239	\$ 100	-	-	-	-	\$ 2,473
Total Liabilities	2,134	-	-	-	239	100	-	-	-	-	2,473
Deferred Inflows of Resources											
Unavailable Revenue for:											
Property Taxes	-	4,143	-	-	-	-	-	-	-	4,695	8,838
Total Deferred Inflows of Resources	-	4,143	-	-	-	-	-	-	-	4,695	8,838
Fund Balance											
Restricted for:											
Debt Service	-	-	-	-	-	-	-	-	-	257,024	257,024
Highways & Streets	245,194	-	-	-	-	-	-	-	-	-	245,194
Local Fire Companies	-	103,079	-	-	-	-	-	-	-	-	103,079
Assigned for:											
Grants to Others	-	-	22,436	-	-	-	-	-	-	-	22,436
Parks & Rec. Operations	-	-	-	-	73,915	-	-	-	-	-	73,915
Capital Purchases	-	-	-	20,889	-	239,922	797,556	116,190	-	-	1,174,557
General Operations	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	245,194	103,079	22,436	20,889	73,915	239,922	797,556	116,190	-	257,024	1,876,205
Total Liabilities, Deferred Inflows and Fund Balances	\$ 247,328	\$ 107,222	\$ 22,436	\$ 20,889	\$ 74,154	\$ 240,022	\$ 797,556	\$ 116,190	\$ -	\$ 261,719	\$ 1,887,516

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, 2012

	Special Revenue Funds				Capital Projects Funds					Debt Service Fund	Total Other Governmental Funds
	Liquid Fuels Fund	Fire Fund	Rev. Rtn Emergency Svc. Fund	Operation & Maint. Fund	Park & Recreation Fund	Park 3 Year Cap Fund	Capital Reserve Fund	Tree Bank Fund	Cable TV Fund	Building Construction Fund	
Revenues											
Real Estate Taxes	\$ -	\$ 168,210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,639	\$ 358,849
Interest	377	390	39	32	107	287	1,000	225	522	449	3,428
Intergovernmental Revenue	223,216	-	-	-	-	48,600	-	-	-	-	271,816
Charges for Services	-	-	-	-	2,646	-	-	-	-	-	2,646
Miscellaneous Revenue	-	-	10,000	-	-	4,584	-	3,200	-	-	17,784
Total Revenues	223,593	168,600	10,039	32	2,753	53,471	1,000	3,425	522	191,088	654,523
Expenditures											
Current:											
General Government	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	423,699	5,982	-	-	-	43,274	-	-	-	472,955
Public Works (Highways & Streets)	146,808	-	-	-	-	-	-	-	-	-	146,808
Culture & Recreation	-	-	-	-	36,292	25,884	-	-	-	-	62,176
Conservation of Natural Resources	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-
Debt Service:											
Principal	-	-	-	-	-	-	-	-	-	90,000	90,000
Interest	-	-	-	-	-	-	-	-	-	73,823	73,823
Total Expenditures	146,808	423,699	5,982	-	36,292	25,884	43,274	-	-	163,823	845,762
Excess (Deficiency) of Revenues Over Expenditures	76,785	(255,099)	4,057	32	(33,539)	27,587	(42,274)	3,425	522	27,265	(191,239)
Other Financing Sources (Uses)											
Interfund Transfers	-	-	(5,000)	-	40,000	-	749,554	-	(744,554)	-	40,000
Total Other Financing Sources & Uses	-	-	(5,000)	-	40,000	-	749,554	-	(744,554)	-	40,000
Net Change in Fund Balances	76,785	(255,099)	(943)	32	6,461	27,587	707,280	3,425	(744,032)	27,265	(151,239)
Fund Balances - January 1	168,409	358,178	23,379	20,857	67,454	212,335	90,276	112,765	744,032	229,759	2,027,444
Fund Balances - December 31	\$ 245,194	\$ 103,079	\$ 22,436	\$ 20,889	\$ 73,915	\$ 239,922	\$ 797,556	\$ 116,190	\$ -	\$ 257,024	\$ 1,876,205

See accompanying notes to basic financial statements