

# LOWER MACUNGIE TOWNSHIP, LEHIGH COUNTY, PENNSYLVANIA

FINANCIAL REPORT

DECEMBER 31, 2010



REINSEL KUNTZ LESHER  
certified public accountants & consultants

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Commissioners  
Lower Macungie Township  
Lehigh County, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lower Macungie Township, Lehigh County, Pennsylvania, as of and for the year ended December 31, 2010, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lower Macungie Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Lower Macungie Township, Lehigh County, Pennsylvania, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on Pages 3-16 and Pages 55-58 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Reinsel Kuntz Lesker LLP*

**Wyomissing, Pennsylvania**  
**May 27, 2011**

# **LOWER MACUNGIE TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Lower Macungie Township's (the "Township") financial performance provides an overview of the Township's financial activities for the year ended December 31, 2010. Please read it in conjunction with the Township's financial statements that begin on page 17 and the accompanying notes to those statements. Responsibility for both the accuracy of the presented data and the thoroughness of the presentation rests with the Township. We believe that the data, as presented herein, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and results of operations of the Township as measured by the financial activity of its various funds. We believe that all disclosures necessary to enable the reader to gain the maximum understanding of the Township's financial affairs have been included.

### **PROFILE OF LOWER MACUNGIE TOWNSHIP**

The Township is a Township of the First Class, organized under the laws of the Commonwealth of Pennsylvania, incorporated in 1832 and governed by a Board of Commissioners consisting of five members. The Board is empowered with legislative functions that include enacting ordinances and resolutions, adopting a budget, levying taxes, providing for appropriations, and making appointments for various advisory boards and commissions.

### **FINANCIAL HIGHLIGHTS**

- The net assets (assets minus liabilities) of the Township as of December 31, 2010 were \$ 74,921,943. Of this amount, \$ 61,505,949 represents governmental net assets and \$ 13,415,994 represents business-type net assets. Of the net asset balance, \$ 9,506,916 is unrestricted and is available to meet the Township's ongoing obligations in accordance with the Township's policies.
- The Township's net assets increased by \$ 4,590,876 (7%) in 2010, which includes \$ 5,759,790 of contributed assets. The governmental net assets increased by \$ 2,626,240 and the business-type net assets increased by \$ 1,964,636.
- The General Fund, the Township's primary operating fund, reported a decrease in fund balance in the amount of \$ 399,020 or 5% in 2010. As of December 31, 2010, unreserved fund balance for the General Fund was \$ 7,994,726 or 113% of total general fund expenditures, excluding transfers out and proceeds from the sale of capital assets, for the year ended December 31, 2010.
- The Township's total assets at December 31, 2010 and 2009 were \$ 82,293,422 and \$ 78,494,669, respectively. Of these amounts, governmental activity assets at December 31, 2010 and 2009 were \$ 68,204,412 or 83% and \$ 66,439,121 or 84%, and business-type activity assets were \$ 14,089,010 or 17% and \$ 12,055,548 or 16%, respectively. Trust and Agency Fund assets were \$ 5,634,495 and \$ 4,749,570 at December 31, 2010 and 2009, respectively.

- The Township's total liabilities at December 31, 2010 and 2009 were \$ 7,371,479 and \$ 8,163,602, respectively. Of these amounts, governmental activity liabilities were \$ 6,698,463 or 91% and \$ 7,559,412 or 93% (including general obligation bonds payable of \$ 5,559,568 and \$ 5,890,082 at December 31, 2010 and 2009, respectively), and business-type activity liabilities were \$ 673,016 or 9% and \$ 604,190 or 7% at December 31, 2010 and 2009, respectively. Trust and Agency Fund liabilities were \$ 1,245,693 and \$ 1,072,941 at December 31, 2010 and 2009, respectively.
- Revenue for the years ended 2010 and 2009 years totaled \$ 19,319,297 and \$ 24,322,508, respectively. The major sources of revenue for the Township for the year ended 2010 were earned income taxes totaling \$ 4,314,766, real estate transfer taxes totaling \$ 701,865, sewage and solid waste charges of \$ 2,961,922 and \$ 2,571,039, respectively, and \$ 5,759,790 of contributed assets. The major sources of revenue for the Township for the year ended 2009 were earned income taxes totaling \$ 4,578,151, real estate transfer taxes totaling \$ 858,417, sewage and solid waste charges of \$ 2,721,745 and \$ 2,548,978, respectively, and \$ 9,642,674 of contributed assets.
- Expenditures for the 2010 year totaled \$ 14,728,421. The major expenditures for the year were as follows: highway and streets of \$ 2,012,370, sewer collection and treatment of \$ 3,109,408, solid waste of \$ 2,260,940, and culture and recreation of \$ 1,522,346. Expenditures for the 2009 year totaled \$ 14,127,891. The major expenditures for the year were as follows: highway and streets of \$ 1,613,586, sewer collection and treatment of \$ 3,085,126, solid waste of \$ 2,233,811, and culture and recreation of \$ 1,497,676.
- The Township's long-term liabilities outstanding at December 31, 2010 were \$ 5,825,062, a decrease of \$ 310,925 over the year 2009. Of the amount outstanding, the Township's governmental liabilities were \$ 5,813,919 and the business-type liabilities were \$ 11,143. In 2009, the Township issued \$ 6,065,000 of general obligation bonds to currently refund a previous outstanding general obligation bonds, series of 2001, and for the construction of a fire station and other capital projects.

## **OVERVIEW OF THE FINANCIAL REPORT**

The Township's financial statements are composed of the 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, (3) notes to the financial statements and (4) required supplementary information.

### **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 the 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 assets 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 Assets presents the Township's total assets and liabilities, with the difference between the two reported as net assets. 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.

The Statement of Activities presents information showing how the Township's net assets 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 services 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 administration, revenue and tax collection, public safety, public works, development and inspections, traffic control, recreation, and trash and recycling collection. The business-type activities of the Township include sanitary sewer and solid waste operations.

The government-wide financial statements can be found on pages 17 and 18 of this report.

### **Fund Financial Statements**

The Township's fund financial statements are groupings of related self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. A fund is used to maintain control over resources that have been 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 net assets. All of the funds of the Township can be divided into three categories as follows:

- **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. This information is useful in evaluating the Township's near-term financing decisions.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains five individual governmental funds: general, highway aid, developer fee, capital projects and debt service funds. The Township elects to present all funds as major funds. Information on these funds is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances.

The governmental fund financial statements can be found on pages 19-24 of this report.

- **Proprietary Funds**

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for the sanitary sewer and solid waste operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer and solid waste fund, both of which are considered to be major funds of the Township.

The proprietary fund financial statements can be found on pages 25-28 of this report.

- **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the activities of the Township. The economic resources measurement focus and the accrual basis of accounting are used for fiduciary funds.

The Township fiduciary funds include a pension trust fund and an agency fund. Fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets.

The fiduciary fund financial statements can be found on pages 29 and 30 of this report.

### **Notes to the Financial Statements**

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

The notes to the financial statements can be found on pages 31-54 of this report.

### **Required Supplementary Information**

The management's discussion and analysis (pages 3-16) and the budgetary comparison schedules (pages 55-58) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as the "basic financial statements").

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$ 74,921,943 at December 31, 2010, an increase of \$ 4,590,876 over year 2009.

The following table reflects the condensed comparative statement of net assets:

<b>Lower Macungie Township</b>						
<b>Net Assets</b>						
<b>December 31, 2010 and 2009</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Assets:</b>						
Current and other noncurrent assets	\$ 8,836,713	\$ 10,934,786	\$ 2,951,146	\$ 2,453,320	\$ 11,787,859	\$ 13,388,106
Capital assets	<u>59,367,699</u>	<u>55,504,335</u>	<u>11,137,864</u>	<u>9,602,228</u>	<u>70,505,563</u>	<u>65,106,563</u>
<b>Total assets</b>	<u>68,204,412</u>	<u>66,439,121</u>	<u>14,089,010</u>	<u>12,055,548</u>	<u>82,293,422</u>	<u>78,494,669</u>
<b>Liabilities:</b>						
Other liabilities	884,544	1,763,159	661,873	598,868	1,546,417	2,362,027
Long-term liabilities	<u>5,813,919</u>	<u>5,796,253</u>	<u>11,143</u>	<u>5,322</u>	<u>5,825,062</u>	<u>5,801,575</u>
<b>Total liabilities</b>	<u>6,698,463</u>	<u>7,559,412</u>	<u>673,016</u>	<u>604,190</u>	<u>7,371,479</u>	<u>8,163,602</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	53,808,131	49,614,253	11,137,864	9,602,228	64,945,995	59,216,481
Restricted net assets	469,032	430,525	-	-	469,032	430,525
Unrestricted	<u>7,228,786</u>	<u>8,834,931</u>	<u>2,278,130</u>	<u>1,849,130</u>	<u>9,506,916</u>	<u>10,684,061</u>
<b>Total net assets</b>	<u>\$ 61,505,949</u>	<u>\$ 58,879,709</u>	<u>\$ 13,415,994</u>	<u>\$ 11,451,358</u>	<u>\$ 74,921,943</u>	<u>\$ 70,331,067</u>

For more detailed information, see the Statement of Net Assets (page 17).

The largest portion of the Township's net assets, \$ 64,945,995 or 87%, represents investment in capital assets, less any related outstanding debt used to acquire those assets. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This portion of net assets increased by \$ 5,729,514, or 10%, over the prior year.

Net assets are shown as restricted if they can only be used for a specified purpose. Net assets of \$ 469,032 are restricted at December 31, 2010. Restricted net assets increased by \$ 38,507 or 9% from the prior year.

The remaining portion of net assets, \$ 9,506,916 or 13% of total net assets, represents an additional component of total net assets. This balance reflects the unrestricted financial position of the Township and may be used to meet the Township's ongoing obligations to citizens and creditors.

The following table reflects the condensed comparative statement of changes in net assets:

**Lower Macungie Township  
Changes in Net Assets  
Year Ended December 31, 2010 and 2009**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Charges for services	\$ 926,601	\$ 1,132,015	\$ 5,532,961	\$ 5,270,723	\$ 6,459,562	\$ 6,402,738
Operating grants and contributions	850,069	902,089	-	-	850,069	902,089
Capital grants and contributions	4,512,012	14,364,640	1,799,035	1,685,027	6,311,047	16,049,667
Earned income tax	4,314,766	4,578,151	-	-	4,314,766	4,578,151
Local services tax	163,039	-	-	-	163,039	-
Real estate transfer tax	701,865	858,417	-	-	701,865	858,417
Taxes levied for specific purposes	184,606	231,118	-	-	184,606	231,118
Interest income	35,029	113,751	2,988	8,140	38,017	121,891
Rental income	282,277	237,080	-	-	282,277	237,080
Proceeds from sale of fixed assets	14,049	-	-	-	14,049	-
<b>Total revenue</b>	<u>11,984,313</u>	<u>22,417,261</u>	<u>7,334,984</u>	<u>6,963,890</u>	<u>19,319,297</u>	<u>29,381,151</u>
General government	1,739,287	1,608,538	-	-	1,739,287	1,608,538
Public safety	981,001	924,262	-	-	981,001	924,262
Public works - sanitation	68,976	55,170	-	-	68,976	55,170
Public works - highways and streets	2,012,370	1,613,586	-	-	2,012,370	1,613,586
Culture and recreation	1,522,346	1,497,676	-	-	1,522,346	1,497,676
Interest on long-term debt	200,872	177,767	-	-	200,872	177,767
Unallocated depreciation and amortization	1,804,870	1,490,502	-	-	1,804,870	1,490,502
Other	1,028,351	1,441,453	-	-	1,028,351	1,441,453
Sanitary sewer	-	-	3,109,408	3,085,126	3,109,408	3,085,126
Solid waste	-	-	2,260,940	2,233,811	2,260,940	2,233,811
<b>Total expenses</b>	<u>9,358,073</u>	<u>8,808,954</u>	<u>5,370,348</u>	<u>5,318,937</u>	<u>14,728,421</u>	<u>14,127,891</u>
<b>Change in net assets</b>	2,626,240	13,608,307	1,964,636	1,644,953	4,590,876	15,253,260
Net assets, beginning of year, as restated	<u>58,879,709</u>	<u>45,271,402</u>	<u>11,451,358</u>	<u>9,806,405</u>	<u>70,331,067</u>	<u>55,077,807</u>
Net assets, end of year	<u>\$ 61,505,949</u>	<u>\$ 58,879,709</u>	<u>\$ 13,415,994</u>	<u>\$ 11,451,358</u>	<u>\$ 74,921,943</u>	<u>\$ 70,331,067</u>

For more detailed information, see the Statement of Activities (page 18).

## **Governmental Activities**

Governmental activities increased the Township's net assets by \$ 2,626,240, which accounts for a 4% increase in governmental activities net assets in 2010. Governmental activities are represented by the following funds: General, Highway Aid, Developer Fee, Capital Projects and Debt Service.

For the year ended December 31, 2010, revenues from governmental activities totaled \$ 11,984,313, a decrease of \$ 10,432,948 or 47% compared to the year 2009. Tax revenues of \$ 5,364,276, comprised of earned income tax, local services tax, real estate transfer tax and taxes levied for special purposes, represent 45% of revenues. The Township's earned income tax is the primary revenue source, generating \$ 4,314,766 for 2010, a decrease of \$ 263,385 from 2009. This decrease is attributable to the economic downturn that has led to an increase in unemployment rates. Local services tax generated \$ 163,039 in 2010. This tax was newly enacted by the Township in 2010. The real estate transfer tax generated \$ 701,865 in 2010, a decrease of \$ 156,552 from 2009. This decrease is related to a slowdown in the housing market that has led to a decrease in real estate sales. Taxes levied for special purposes generated revenues of \$ 184,606 in 2010, a decrease of \$ 46,512 from 2009. The prior year balance included remittances for an accumulation of previously unbilled streetlight installations. The accumulated initial billing was nonrecurring in nature.

Charges for services revenue of \$ 926,601 represented 8% of the total governmental activities revenue in 2010, a decrease of \$ 205,414 or 18% from the year 2009. The decrease is primarily attributable to a decline in building permit revenue and charges for tax collection fees.

Operating grants and contributions revenue of \$ 850,069 represented 7% of the total governmental activities revenue in 2010, a decrease of \$ 52,020 or 6% from the year 2009. The Township received \$ 503,652 in state contributions for liquid fuels, \$ 231,874 in state-aid for volunteer firefighters, and \$ 114,543 in other state grants in 2010.

Capital grants and contributions revenue of \$ 4,512,012 represented 38% of the total governmental activities revenue in 2010, a decrease of \$ 4,793,985 or 51% from the year 2009. In 2010, the Township received \$ 34,286 in flood mitigation grants and \$ 4,126,826 in infrastructure dedications. The decrease in revenue in 2010 is attributable to the following sources of revenue in 2009 that did not exist in 2010, \$ 2,865,000 in recreation land contributions and \$ 775,368 in flood mitigation grants.

The remaining year 2010 revenue is comprised of interest income of \$ 35,029 and rental income of \$ 282,277. Interest income decreased \$ 78,722 or 69% as compared to the prior year. The decrease is attributable to lower interest yields on cash and investments. Rental income increased \$ 45,197 or 19% as compared to the prior year. The increase is attributable to new negotiated leases on rental properties.

For the year ended December 31, 2010, expenses represented by governmental activities include: general government, public safety, public works, culture and recreation, interest on long-term debt, and other expenses. Expenses for governmental activities totaled \$ 9,358,073, an increase of \$ 549,119 or 6% as compared to the year 2009.

General government expense accounted for \$ 1,739,287 or 19% of total governmental activities expense and is used to support services for the general administrative operations of the Township. These costs increased \$ 130,749 or 8% as compared to the prior year. Costs include \$ 647,471 for salaries, \$ 224,668 for legal fees, \$ 190,345 for engineering services, and \$ 77,997 for general repairs and maintenance.

Public safety expense accounted for \$ 981,001 or 10% of total governmental activities expense and primarily covers costs of fire protection, code enforcement, and permit inspections. These costs increased \$ 56,739 or 6% as compared to the prior year. The increase is primarily attributed to additional contributions for volunteer firefighter's contributions and costs related to purchases of minor equipment.

Public works highways and streets expense accounted for \$ 2,012,370 or 22% of total governmental activities expense and primarily covers costs of park plans and maintenance, street lights, hydrant rentals, lawn mowing, road salt, and road sealing and paving. These costs increased \$ 398,784 or 25% as compared to the prior year. The increase is primarily attributed to street resurfacing, road salt requirements, and contracted lawn services.

Culture and recreation expense accounted for \$ 1,522,346 or 16% of total governmental activities expense and primarily covers costs of playground programs, community center and swimming pool operations, and park plans and maintenance. These costs increased \$ 24,670 or 2% as compared to the prior year. The increase is primarily attributed to state-mandated work performed on the community swimming pool.

Interest on long-term debt accounted for \$ 200,872 or 2% of total governmental activities expense, an increase of \$ 23,105 or 13% as compared to the prior year. This cost represents interest payments on general obligation bonds issued in 2009.

Depreciation and amortization accounted for \$ 1,804,870 or 19% of total governmental activities expense, an increase of \$ 314,368 or 21% as compared to the prior year. These costs represent depreciation of capital assets, as well as amortization of bond issuance costs, premiums, and discounts.

Uncollected and other expense accounted for \$ 1,028,351 or 11% of total governmental activities expense and primarily covers costs of employee benefits, business insurance, and a refund of prior year revenue. These costs decreased \$ 413,102 or 29% as compared to the prior year. The decrease is primarily attributed to reduced insurance premiums.

The remaining expense is comprised of public works sanitation of \$ 68,976 for 2010, an increase of \$ 13,806 or 25% as compared to the prior year. The increase is attributed to additional fees for recycling equipment rentals.

## **Business-type Activities**

Business-type activities increased the Township's net assets by \$ 1,964,636, which accounts for a 17% increase in business-type activities net assets in 2010. Business-type activities are represented by the sanitary sewer and solid waste funds.

For the year ended December 31, 2010, revenues from business-type activities totaled \$ 7,334,984, an increase of \$ 371,094 or 5% compared to the year 2009. Charges for services, in the amount of \$ 5,532,961, account for 75% of total revenues. Overall, this revenue source is primarily earned through \$ 2,571,039 of solid waste collection fees and \$ 2,961,922 of sewer usage fees.

Capital grants and contributions revenue of \$ 1,799,035 represented 25% of the total business-type activities revenue in 2010, an increase of \$ 114,008 or 7% from the year 2009. In 2010, the Township received \$ 1,632,964 for infrastructure. The increase in revenue in 2010 is attributable to an increase in sewer usage fees earned.

The remaining year 2010 revenue is comprised of interest income of \$ 2,988. Interest income decreased \$ 5,152 or 63% as compared to the prior year. The decrease is attributable to less cash available for investments and lower interest yields on investments.

For the year ended December 31, 2010, expenses represented by business-type activities include the sanitary sewer and solid waste funds. Expenses for business-type activities totaled \$ 5,370,348, an increase of \$ 51,411 or 1.0% as compared to the year 2009.

The expenses for sanitary sewer amounted to \$ 3,109,408, an increase of \$ 24,282 or .7% as compared to the year 2009. The increase is a result of an escalation in fees and sewer usage. The expenses for solid waste collection amounted to \$ 2,260,940, an increase of \$ 27,129 or 1% as compared to the year 2009. The increase is a result of an increase in the number of solid waste customers.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP'S INDIVIDUAL FUNDS**

### **Governmental Funds**

The governmental funds are comprised of the General, Liquid Fuels, Developer Fee, Capital Projects and Debt Service Funds. The following highlights occurred within these funds during 2010:

- The General Fund reported an unrestricted fund balance of \$ 7,994,726 as of December 31, 2010. This amount represents a decrease in fund balance of \$ 399,020 or 5% from 2009. In 2010, the General Fund reported revenues of \$ 7,241,360. This is a decrease of \$ 317,625 or 4% from 2009. In 2010, the General Fund reported expenses, excluding transfers out of \$ 536,460, in the amount of \$ 7,103,920. This is a decrease of \$ 406,480 or 5% from 2009.

- The Liquid Fuels Fund reported a restricted fund balance of \$ 469,032 of December 31, 2010. This amount represents an increase in fund balance of \$ 38,507 or 9% from 2009. In 2010, the Liquid Fuels Fund reported revenues of \$ 504,029. This is a decrease of \$ 25,252 or 5% from 2009. In 2010, the Liquid Fuels Fund reported expenses of \$ 465,522. This is a decrease of \$ 539,106 or 54% from 2009. In 2010, the Township completed road resurfacing projects at a cost approximating \$ 275,000. The Township also purchased vehicles at a cost approximating \$ 65,500. The decrease in expense is attributable to a traffic light installation project in 2009 at a cost approximating \$ 699,000.
- The Developer Fee Fund reported an unrestricted fund balance of \$ 191,051 as of December 31, 2010. This amount represents a decrease in fund balance of \$ 228,608 or 54% from 2009. In 2010, the Developer Fee Fund reported revenues of \$ 214,000. This is an increase of \$ 82,832 or 63% from 2009. In 2010, the Developer Fee Fund reported expenses, excluding transfers out of \$ 427,400. This is an increase of \$ 15,103 or 14,383% from 2009.
- The Capital Projects Fund reported an unrestricted fund balance of (deficit) (\$ 850,725) at December 31, 2010. This amount represents a decrease in fund balance of \$ 957,256 or 899% from 2009. In 2010, the Capital Projects Fund reported revenues, excluding transfers in of \$ 427,400, in the amount of \$ 35,412. This is a decrease of \$ 6,866,029 or 99% from 2009. In 2009, the Township issued a \$ 6,065,000 bond and the proceeds were reported in the Capital Projects Fund. In 2009, the Township also received a federal grant in the amount of \$ 775,000 for the purchase of two properties for flood mitigation. In 2010, the Capital Projects Fund reported expenses in the amount of \$ 1,420,068. This is a decrease of \$ 5,859,092 or 80% from 2009. The decrease in expense is attributed to a reduction in planned capital expenditures.
- The Debt Service Fund reported an unrestricted fund balance of \$ 103 as of December 31, 2010. This amount represents an increase of \$ 10 or 11% from 2009. In 2010, the Debt Service Fund reported revenues, excluding transfers in of \$ 536,440, in the amount of \$ 10. This is a decrease of \$ 296 or 97% from 2009. In 2010, the Debt Service Fund reported expenditures of \$ 536,460. This is an increase of \$ 289,541 or 117% from 2009.

### **Proprietary Funds**

The proprietary funds provide the same type of information found in the government-wide financial statements. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for the sanitary sewer and solid waste operations. Please refer to the business-type activities section listed previously for discussion on the activity in the proprietary funds.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The Township's approved 2010 General Fund budget included total revenues of \$ 7,963,710 and total expenditures of \$ 7,963,710, including transfers out of \$ 535,680. In 2010, the Board of Commissioners amended the original adopted budget to include total revenue of \$ 7,338,424 and total expenditures of \$ 8,000,584, including transfers out of \$ 536,460. The amended budget included revisions to revenue line items as a result of unanticipated revenue for state aid to volunteer fire companies and health insurance rebates. Variations between the original and final budget for expenditures are a result of unanticipated costs for litigation, telephones, computer hardware, electricity, and engineering services.

For the year ended December 31, 2010, expenditures were less than the final budgeted amount by \$ 360,204 and actual resources available for appropriations were less than the final budgeted amount by \$ 111,113. The expenditures savings of \$ 360,204 experienced in 2010 were not enough to offset the revenue shortfall, and the result was a realization of a \$ 399,020 deficit in the General Fund in 2010.

Overall, financial performance of the General Fund in 2010 was unfavorable when compared to budget. During the year, General Fund revenues were lower than the 2010 budget. Earned income tax revenues, fines and forfeits, rents and royalties, state grants, local grants, and refund of prior year expenses exceeded budget, while local services taxes, real estate transfer taxes, street light taxes, licenses and permits, and charges for services were under budget. General Fund expenditures were also lower than budgeted appropriations in 2010. General government, public safety, public works, culture and recreation, other expense and capital outlay were all favorable in relation to the budget.

The earned income tax revenue, real estate transfer tax, local service tax, licenses and permit fees, and other revenues, along with prudent financial management and proper planning, has enabled the Township to continue to operate without a real estate tax burden for residents of Lower Macungie Township.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2010 amounted to \$ 70,505,563 (net of accumulated depreciation). This is an increase of \$ 10,457,643 or 17% over the year 2009. This investment in capital assets includes land, land improvements, infrastructure, buildings and building improvements, machinery and equipment, vehicles and construction in progress. Capital acquisitions are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation.

Major capital asset transactions/events during the year ended December 31, 2010 included the following:

- Contributed assets in the amount of \$ 5,759,790 (includes \$ 4,126,826 for roads and no land or park improvements).
- Contributed assets in the amount of \$ 1,632,964 for additions to the sewer collection system

- Completion of road, parking lot paving and other work required for the new fire station as well as Township building improvements for \$ 255,779.
- Pavement of Township walking trails for \$ 89,250.
- Improvements of the Butz-Leister Farm property for \$ 92,386.
- Playground Equipment for \$ 47,469.
- Heating, ventilation and air conditioning systems and other Township office building improvements for \$ 168,254.

The Township's governmental activities investment in capital assets as of December 31, 2010 and 2009, net of accumulated depreciation, amounted to \$ 59,367,699 and \$ 55,504,335, respectively. These amounts represent a net increase (including additions, deletions and depreciation) of \$ 3,863,364 or 7% from the previous year.

**Governmental Activities  
Capital Assets at December 31 (Net of Accumulated Depreciation)**

	<b>2010</b>	<b>2009</b>
Capital assets not being depreciated:		
Land	\$ 16,339,983	\$ 15,428,895
Construction in progress	<u>632,645</u>	<u>4,081,190</u>
	<u>16,972,628</u>	<u>19,510,085</u>
Capital assets being depreciated:		
Land improvements	3,273,101	3,228,384
Infrastructure	28,632,244	24,998,674
Building and building improvements	9,118,359	6,420,970
Machinery and equipment	611,134	504,205
Vehicles	<u>760,233</u>	<u>842,017</u>
	<u>42,395,071</u>	<u>35,994,250</u>
Total capital assets	<u>\$ 59,367,699</u>	<u>\$ 55,504,335</u>

The Township's business-type activities investment in capital assets as of December 31, 2010 and 2009, net of accumulated depreciation, amounted to \$ 11,137,864 and \$ 9,602,228, respectively. These amounts represent a net increase (including additions, deletions and depreciation) of \$ 1,535,636 or 16% from the previous year.

**Business-Type Activities**  
**Capital Assets at December 31 (Net of Accumulated Depreciation)**

	<b>2010</b>	<b>2009</b>
Capital assets not being depreciated:		
Construction in progress	\$ <u>579,821</u>	\$ <u>621,553</u>
Capital assets being depreciated:		
Sewer collection system	10,408,974	8,861,928
Machinery and equipment	<u>149,069</u>	<u>118,747</u>
	<u>10,558,043</u>	<u>8,980,675</u>
Total capital assets	<u>\$ 11,137,864</u>	<u>\$ 9,602,228</u>

The Township has made commitments for the following capital expenditures as of December 31, 2010:

- Hills at Lockridge Pavilion for \$ 23,365.
- Township building and annex boiler design and installation for \$ 27,233.
- Sanitary and sewer rehabilitation for \$ 182,869.
- Church Lane Bridge timber replacement for \$ 65,000.
- Gehman Road Bridge guiderail replacement for \$ 12,437.

Additional information on the Township's capital assets can be found in Note 4 to the financial statements.

**Debt Administration**

As of December 31, 2010, the Township's total amount for general obligation bonds outstanding was \$ 5,559,568 compared to \$ 5,890,082 for the year ended December 31, 2009. The Township's total debt decreased in 2010 due to principal repayment. The Township's total debt increased in 2009 due to the issuance of \$ 6,065,000 in General Obligation Bonds, Series of 2009. The proceeds of the bonds were used to currently refund the General Obligation Bonds, Series of 2001, pay the costs and expenses related to the issuance of the Bonds, and fund the construction of a new fire station and other capital projects of the Township.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 5,559,568	\$ 5,890,082	\$ -	\$ -	\$ 5,559,568	\$ 5,890,082

Additional information on the Township's long-term debt can be found in Note 5 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

With the adoption of the 2011 budget, the Township continues plans to generate revenue through earned income taxes, real estate transfers taxes, local service taxes, license and permit fees, as well as other revenue sources. The Township will continue to operate without the enactment of a real estate tax on residents of Lower Macungie Township.

In 2011, the Township expects to receive grant revenue from the Commonwealth of Pennsylvania for Conservation and Natural Resources Greenways Plan in the amount of \$ 20,000, Environmental Protection Agency Conservation Works Grant in the amount of \$ 45,917 and Environmental Protection Agency Performance Grant in the amount of \$ 83,997. The Township will also receive the remaining grant money from a 2009 Pennsylvania Emergency Management Grant. Additionally, the Township was awarded a Pennsylvania Department of Transportation Grant for \$ 125,000, which must be shared with a neighboring municipality.

Based on the master site plan prepared for the Township, there are plans to make improvements to Camp Olympic to provide additional park facilities to residents. Besides the work to be completed at Camp Olympic, the Township also has plans to expand walking trails. Additionally, the Township will reimburse the East Penn School District \$ 57,245 for paving of the driveway shared with the new fire station.

## **CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Township's citizens, taxpayers, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Township's Office at 3400 Brookside Drive, Macungie, PA 18062 - telephone (610) 966-4343.

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF NET ASSETS**  
December 31, 2010

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Cash	\$ 752,392	\$ 1,311,400	\$ 2,063,792
Investments	6,341,322	673,041	7,014,363
Accrued investment income	8,193	-	8,193
Accounts receivable	142,193	2,264,560	2,406,753
Taxes receivable	70,517	-	70,517
Prepaid expenses	12,580	-	12,580
Due (to) from other funds	1,297,816	(1,297,855)	(39)
Deferred charges, net	211,700	-	211,700
Capital assets not being depreciated	16,972,628	579,821	17,552,449
Capital assets, net of accumulated depreciation	<u>42,395,071</u>	<u>10,558,043</u>	<u>52,953,114</u>
<b>Total assets</b>	<b><u>\$ 68,204,412</u></b>	<b><u>\$ 14,089,010</u></b>	<b><u>\$ 82,293,422</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 594,524	\$ 656,409	\$ 1,250,933
Accrued expenses	100,257	5,464	105,721
Other liabilities	351	-	351
Returnable deposits	189,412	-	189,412
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	4,023	1,623	5,646
Bonds payable	340,514	-	340,514
Portion due or payable after one year:			
Compensated absences	250,328	9,520	259,848
Bonds payable	<u>5,219,054</u>	<u>-</u>	<u>5,219,054</u>
	<u>6,698,463</u>	<u>673,016</u>	<u>7,371,479</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	53,808,131	11,137,864	64,945,995
Restricted for public works - highways and streets	469,032	-	469,032
Unrestricted	<u>7,228,786</u>	<u>2,278,130</u>	<u>9,506,916</u>
	<b><u>\$ 61,505,949</u></b>	<b><u>\$ 13,415,994</u></b>	<b><u>\$ 74,921,943</u></b>

See Notes to Financial Statements.

## LOWER MACUNGIE TOWNSHIP

### STATEMENT OF ACTIVITIES Year Ended December 31, 2010

	Expenses	----- Program Revenues Charges for Services	Operating Grants and Contributions
<b>Functions/Programs:</b>			
Government:			
Governmental activities:			
General government	\$ 1,739,287	\$ 704,238	\$ 114,543
Public safety	981,001	35,284	231,874
Public works - sanitation	68,976	-	-
Public works - highways and streets	2,012,370	-	503,652
Culture and recreation	1,522,346	187,079	-
Interest	200,872	-	-
Depreciation and amortization	1,804,870	-	-
Unallocated and other	1,028,351	-	-
	<hr/>	<hr/>	<hr/>
<b>Total governmental activities</b>	<b>9,358,073</b>	<b>926,601</b>	<b>850,069</b>
	<hr/>	<hr/>	<hr/>
Business-type activities:			
Solid waste	2,260,940	2,571,039	-
Sewer	3,109,408	2,961,922	-
	<hr/>	<hr/>	<hr/>
<b>Total business-type activities</b>	<b>5,370,348</b>	<b>5,532,961</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>Total government</b>	<b>\$ 14,728,421</b>	<b>\$ 6,459,562</b>	<b>\$ 850,069</b>
	<hr/>	<hr/>	<hr/>

General revenues:

- Earned income taxes
- Local services taxes
- Real estate transfer taxes
- Taxes levied for specific purposes
- Interest income
- Rental income
- Proceeds from sale of capital assets

**Total general revenues and transfers**

**Changes in net assets**

Net assets, beginning of year, as restated

Net assets, end of year

**See Notes to Financial Statements.**

----- Capital Grants and Contributions	Net (Expenses) Revenues and ----- Changes in Net Assets -----		
	Governmental Activities	Business-Type Activities	Total
\$ -	\$ (920,506)	\$ -	\$ (920,506)
34,285	(679,558)	-	(679,558)
-	(68,976)	-	(68,976)
4,151,666	2,642,948	-	2,642,948
326,061	(1,009,206)	-	(1,009,206)
-	(200,872)	-	(200,872)
-	(1,804,870)	-	(1,804,870)
-	(1,028,351)	-	(1,028,351)
<u>4,512,012</u>	<u>(3,069,391)</u>	<u>-</u>	<u>(3,069,391)</u>
-	-	310,099	310,099
<u>1,799,035</u>	<u>-</u>	<u>1,651,549</u>	<u>1,651,549</u>
<u>1,799,035</u>	<u>-</u>	<u>1,961,648</u>	<u>1,961,648</u>
<u>\$ 6,311,047</u>	<u>(3,069,391)</u>	<u>1,961,648</u>	<u>(1,107,743)</u>
	4,314,766	-	4,314,766
	163,039	-	163,039
	701,865	-	701,865
	184,606	-	184,606
	35,029	2,988	38,017
	282,277	-	282,277
	14,049	-	14,049
	<u>5,695,631</u>	<u>2,988</u>	<u>5,698,619</u>
	2,626,240	1,964,636	4,590,876
	<u>58,879,709</u>	<u>11,451,358</u>	<u>70,331,067</u>
	<u>\$ 61,505,949</u>	<u>\$ 13,415,994</u>	<u>\$ 74,921,943</u>

**LOWER MACUNGIE TOWNSHIP**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2010**

<b>ASSETS</b>	<b>General Fund</b>	<b>Liquid Fuels Fund</b>	<b>Developer Fee Fund</b>
Cash	\$ 708,047	\$ -	\$ 9,895
Investments	4,767,885	469,621	293,941
Accrued investment income	1,898	-	-
Accounts receivable	142,193	-	-
Taxes receivable	70,517	-	-
Prepaid expenses	12,580	-	-
Due (to) from other funds	2,941,516	-	5,850
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 8,644,636</b>	<b>\$ 469,621</b>	<b>\$ 309,686</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 548,538	\$ 589	\$ -
Accrued expenses	30,244	-	-
Other liabilities	351	-	-
Returnable deposits	70,777	-	118,635
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>649,910</b>	<b>589</b>	<b>118,635</b>
	<hr/>	<hr/>	<hr/>
<b>COMMITMENTS AND CONTINGENCIES</b>			
	-	-	-
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES</b>			
Unrestricted (deficit), reported in:			
General Fund	7,994,726	-	-
Special revenue funds	-	-	191,051
Capital projects funds	-	-	-
Debt service funds	-	-	-
Restricted for public works - highways and streets	-	469,032	-
	<hr/>	<hr/>	<hr/>
	<b>\$ 7,994,726</b>	<b>\$ 469,032</b>	<b>\$ 191,051</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ 34,450	\$ -	\$ 752,392
809,772	103	6,341,322
-	-	1,898
-	-	142,193
-	-	70,517
-	-	12,580
<u>(1,649,550)</u>	<u>-</u>	<u>1,297,816</u>
<u>\$ (805,328)</u>	<u>\$ 103</u>	<u>\$ 8,618,718</u>
\$ 45,397	\$ -	\$ 594,524
-	-	30,244
-	-	351
-	-	189,412
<u>45,397</u>	<u>-</u>	<u>814,531</u>
-	-	-
-	-	7,994,726
-	-	191,051
(850,725)	-	(850,725)
-	103	103
-	-	469,032
<u>\$ (850,725)</u>	<u>\$ 103</u>	<u>\$ 7,804,187</u>

**LOWER MACUNGIE TOWNSHIP**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
December 31, 2010**

<b>Total fund balances, governmental funds</b>	<b>\$ 7,804,187</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Interest on long-term investments is not collectible in the current period and, therefore, is not reported as an asset in the funds. This interest increased the investments in the statement of net assets	<b>6,295</b>
Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in the governmental funds. The cost of the capital assets is \$ 73,496,304, less the accumulated depreciation of \$ 14,128,605	<b>59,367,699</b>
Costs incurred for the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements. Deferred expenses consist of issuance costs of \$ 150,314 and accumulated amortization of \$ 12,628	<b>137,686</b>
Deferred refunding loss is recognized as a result of current refunding of debt. This amount is deferred and amortized in the statement of net assets	<b>74,014</b>
Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized in the statement of net assets. In connection with the issuance of debt in a prior year, there was a reoffering premium of \$ 18,484 and an original issue discount of \$ 8,039. The premium and discount will be amortized in the statement of activities over the remaining life of the new debt. This adjustment is a combination of five items:	
Accrued interest on bonds payable	<b>(74,036)</b>
Bonds payable	<b>(5,550,000)</b>
Unamortized premium	<b>(16,931)</b>
Unamortized discount	<b>7,363</b>
Compensated absences	<b>(250,328)</b>
	<hr/> <b>(5,883,932)</b> <hr/>
<b>Total net assets, governmental activities</b>	<b>\$ 61,505,949</b>

**See Notes to Financial Statements.**

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended December 31, 2010**

	General Fund	Liquid Fuels Fund	Developer Fee Fund
<b>REVENUES</b>			
Taxes:			
Earned income	\$ 4,314,766	\$ -	\$ -
Local services	163,039	-	-
Real estate transfer	701,865	-	-
Street light	184,606	-	-
Licenses and permits	662,329	-	-
Fines and forfeits	35,284	-	-
Interest, rents and royalties	309,958	377	852
State grants	346,417	503,652	-
Local grants	137,753	-	-
Contributions	-	-	213,148
Charges for services	230,087	-	-
Refund of prior year expense	133,467	-	-
Miscellaneous	7,740	-	-
	<b>7,227,311</b>	<b>504,029</b>	<b>214,000</b>
<b>EXPENDITURES</b>			
Current:			
General government	1,530,442	-	208
Public safety	988,039	-	-
Public works - sanitation	53,976	-	-
Public works - highways and streets	1,752,127	394,855	-
Culture and recreation	1,603,318	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other	1,166,227	-	-
Refund of prior year revenue	-	-	15,000
Capital outlay	9,791	70,667	-
	<b>7,103,920</b>	<b>465,522</b>	<b>15,208</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>			
	<b>123,391</b>	<b>38,507</b>	<b>198,792</b>

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ -	\$ -	\$ 4,314,766
-	-	163,039
-	-	701,865
-	-	184,606
-	-	662,329
-	-	35,284
1,126	10	312,323
34,286	-	884,355
-	-	137,753
-	-	213,148
-	-	230,087
-	-	133,467
-	-	7,740
<u>35,412</u>	<u>10</u>	<u>7,980,762</u>
-	-	1,530,650
-	-	988,039
-	-	53,976
-	-	2,146,982
-	-	1,603,318
-	330,000	330,000
-	205,680	205,680
-	780	1,167,007
-	-	15,000
<u>1,420,068</u>	<u>-</u>	<u>1,500,526</u>
<u>1,420,068</u>	<u>536,460</u>	<u>9,541,178</u>
<u>(1,384,656)</u>	<u>(536,450)</u>	<u>(1,560,416)</u>

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (CONTINUED)**

**GOVERNMENTAL FUNDS**

Year Ended December 31, 2010

	General Fund	Liquid Fuels Fund	Developer Fee Fund
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	\$ -	\$ -	\$ -
Transfers out	(536,460)	-	(427,400)
Proceeds from sale of capital assets	14,049	-	-
	<hr/>	<hr/>	<hr/>
<b>Total other financing sources (uses)</b>	<b>(522,411)</b>	<b>-</b>	<b>(427,400)</b>
	<hr/>	<hr/>	<hr/>
<b>Net change in fund balances</b>	<b>(399,020)</b>	<b>38,507</b>	<b>(228,608)</b>
Fund balances, beginning of year	8,393,746	430,525	419,659
	<hr/>	<hr/>	<hr/>
Fund balances (deficit), end of year	<b><u>\$ 7,994,726</u></b>	<b><u>\$ 469,032</u></b>	<b><u>\$ 191,051</u></b>

**See Notes to Financial Statements.**

<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
\$ 427,400	\$ 536,460	\$ 963,860
-	-	(963,860)
-	-	14,049
<hr/>	<hr/>	<hr/>
427,400	536,460	14,049
<hr/>	<hr/>	<hr/>
(957,256)	10	(1,546,367)
106,531	93	9,350,554
<hr/>	<hr/>	<hr/>
<u>\$ (850,725)</u>	<u>\$ 103</u>	<u>\$ 7,804,187</u>

## LOWER MACUNGIE TOWNSHIP

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended December 31, 2010

**Net change in fund balances, governmental funds** **\$ (1,546,367)**

The change in net assets reported for governmental activities in the statement of activities is different because:

Some revenues reported in the statement of activities are not available as current financial resources and are not reported as revenues in governmental funds. This amount is for the change in accrued interest income recognized on investments **3,882**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which net capital outlays of \$ 5,658,670 exceeded depreciation of \$ 1,789,066 in the current year **3,869,604**

In the statement of activities, only the gain (loss) on the disposal of assets is reported, whereas in the government funds, the entire proceeds from the disposal of assets increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset disposed **(6,240)**

Debt issuance costs, premiums and discounts are recognized in the governmental funds when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Amortization of issuance costs, premiums and discounts are as follows:

Issuance costs	<b>(7,392)</b>
Premium	<b>909</b>
Discount	<b>(395)</b>

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount is for the amortization of the deferred refunding loss on the current refunding of the 2001 Bond Series **(8,926)**

**LOWER MACUNGIE TOWNSHIP**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)  
Year Ended December 31, 2010**

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of bond principal repayment

**\$ 330,000**

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of two balances:

Accrued interest on bonds	4,808
Compensated absences	<u>(13,643)</u>

**Change in net assets, governmental activities** **\$ 2,626,240**

**See Notes to Financial Statements.**

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 December 31, 2010**

<b>ASSETS</b>	<b>Solid Waste Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
Cash	\$ 407,950	\$ 903,450	\$ 1,311,400
Investments	51,636	621,405	673,041
Accounts receivable	1,090,311	1,174,249	2,264,560
Capital assets not being depreciated	-	579,821	579,821
Capital assets, net of accumulated depreciation	<u>-</u>	<u>10,558,043</u>	<u>10,558,043</u>
<b>Total assets</b>	<b><u>\$ 1,549,897</u></b>	<b><u>\$ 13,836,968</u></b>	<b><u>\$ 15,386,865</u></b>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 5,328	\$ 651,081	\$ 656,409
Accrued expenses	415	6,672	7,087
Due to other funds	639,420	658,435	1,297,855
Compensated absences	<u>-</u>	<u>9,520</u>	<u>9,520</u>
<b>Total liabilities</b>	<b><u>645,163</u></b>	<b><u>1,325,708</u></b>	<b><u>1,970,871</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	11,137,864	11,137,864
Unrestricted	<u>904,734</u>	<u>1,373,396</u>	<u>2,278,130</u>
	<b><u>\$ 904,734</u></b>	<b><u>\$ 12,511,260</u></b>	<b><u>\$ 13,415,994</u></b>

See Notes to Financial Statements.

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

Year Ended December 31, 2010

	Solid Waste Fund	Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 2,571,039	\$ 2,961,922	\$ 5,532,961
Allocation fees	-	22,893	22,893
Settlement proceeds	-	119,924	119,924
Refund of prior year expense	-	23,254	23,254
	<b>2,571,039</b>	<b>3,127,993</b>	<b>5,699,032</b>
<b>OPERATING EXPENSES</b>			
Administrative expenses	67,961	580,050	648,011
Contracted services	2,192,453	36,235	2,228,688
Collection and treatment	-	2,186,847	2,186,847
Materials and supplies	526	-	526
Depreciation expense	-	306,276	306,276
	<b>2,260,940</b>	<b>3,109,408</b>	<b>5,370,348</b>
<b>Total operating expenses</b>	<b>2,260,940</b>	<b>3,109,408</b>	<b>5,370,348</b>
<b>Operating income</b>	<b>310,099</b>	<b>18,585</b>	<b>328,684</b>
<b>NONOPERATING REVENUES</b>			
Interest income	588	2,400	2,988
	<b>310,687</b>	<b>20,985</b>	<b>331,672</b>
<b>Net income before contributions</b>	<b>310,687</b>	<b>20,985</b>	<b>331,672</b>
Capital contributions	-	1,632,964	1,632,964
	<b>310,687</b>	<b>1,653,949</b>	<b>1,964,636</b>
<b>Change in net assets</b>	<b>310,687</b>	<b>1,653,949</b>	<b>1,964,636</b>
Net assets, beginning of year	594,047	10,857,311	11,451,358
	<b>594,047</b>	<b>10,857,311</b>	<b>11,451,358</b>
Net assets, end of year	<b>\$ 904,734</b>	<b>\$ 12,511,260</b>	<b>\$ 13,415,994</b>
	<b>\$ 904,734</b>	<b>\$ 12,511,260</b>	<b>\$ 13,415,994</b>

See Notes to Financial Statements.

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended December 31, 2010**

	<b>Solid Waste Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,476,028	\$ 2,955,239	\$ 5,431,267
Payments to suppliers	(2,233,893)	(2,455,270)	(4,689,163)
Payments to employees	<u>(23,918)</u>	<u>(282,165)</u>	<u>(306,083)</u>
<b>Net cash provided by operating activities</b>	<u>218,217</u>	<u>217,804</u>	<u>436,021</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund activity	<u>(14,954)</u>	<u>358,588</u>	<u>343,634</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(14,954)</u>	<u>358,588</u>	<u>343,634</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	<u>-</u>	<u>(208,948)</u>	<u>(208,948)</u>
<b>Net cash used in capital and related financing activities</b>	<u>-</u>	<u>(208,948)</u>	<u>(208,948)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments, net	(33)	(319,666)	(319,699)
Investment income	<u>588</u>	<u>2,777</u>	<u>3,365</u>
<b>Net cash provided by (used in) investing activities</b>	<u>555</u>	<u>(316,889)</u>	<u>(316,334)</u>

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF CASH FLOWS (CONTINUED)**

**PROPRIETARY FUNDS**

Year Ended December 31, 2010

	<b>Solid Waste Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Net increase in cash</b>	\$ 203,818	\$ 50,555	\$ 254,373
<b>Cash:</b>			
Beginning	204,132	852,895	1,057,027
Ending	\$ 407,950	\$ 903,450	\$ 1,311,400
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 310,099	\$ 18,585	\$ 328,684
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	306,276	306,276
Change in assets and liabilities:			
(Increase) in accounts receivable	(95,011)	(172,754)	(267,765)
Increase in accounts payable and accrued expenses	3,129	65,697	68,826
<b>Net cash provided by operating activities</b>	<b>\$ 218,217</b>	<b>\$ 217,804</b>	<b>\$ 436,021</b>
 <b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	\$ -	\$ 1,632,964	\$ 1,632,964

**See Notes to Financial Statements.**

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2010**

<b>ASSETS</b>	<b>Agency Funds</b>	<b>Pension Trust Fund</b>	<b>Total</b>
Cash	\$ 1,130,515	\$ 101,623	\$ 1,232,138
Investments	-	3,969,357	3,969,357
Accounts receivable	115,139	311,570	426,709
Due from Township	39	-	39
Accrued income	-	6,252	6,252
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b><u>\$ 1,245,693</u></b>	<b><u>\$ 4,388,802</u></b>	<b><u>\$ 5,634,495</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 228,578	\$ -	\$ 228,578
Refundable escrow deposits	970,042	-	970,042
Earned income taxes to be remitted	47,073	-	47,073
	<u>          </u>	<u>          </u>	<u>          </u>
	1,245,693	-	1,245,693
<b>NET ASSETS, held in trust for pension benefits</b>	<b><u>          </u></b>	<b><u>4,388,802</u></b>	<b><u>4,388,802</u></b>
	<b><u>\$ 1,245,693</u></b>	<b><u>\$ 4,388,802</u></b>	<b><u>\$ 5,634,495</u></b>

See Notes to Financial Statements.

**LOWER MACUNGIE TOWNSHIP**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year Ended December 31, 2010**

	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>	
Contributions, employer	<u>\$ 311,570</u>
Investment income:	
Net increase in fair value of investments	304,952
Interest and dividends	<u>106,811</u>
	<u>411,763</u>
<b>Total</b>	<b>723,333</b>
<b>DEDUCTIONS</b>	
Benefit payments	<u>11,160</u>
<b>Change in net assets</b>	<b>712,173</b>
Net assets held in trust for pension benefits, beginning	<u>3,676,629</u>
Net assets held in trust for pension benefits, ending	<u><u>\$ 4,388,802</u></u>

**See Notes to Financial Statements.**

**LOWER MACUNGIE TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Nature of Activity and Significant Accounting Policies**

**Nature of activity:**

Lower Macungie Township (the "Township"), Lehigh County, Pennsylvania, founded in 1832, has an approximate population of 30,600, based on a 2010 census report, living within an area of 22.6 square miles. The Township is in the southeastern portion of the Commonwealth of Pennsylvania and is located in Lehigh County.

**A summary of the Township's significant accounting policies follows:**

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**A. THE FINANCIAL REPORTING ENTITY**

The Township is a Pennsylvania First Class Township which operates under a Board of Commissioners form of government. Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the significance of their operational or financial relationships with the Township and there are no agencies or entities which should be presented with the Township.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### B. BASIS OF PRESENTATION

##### *Government-wide financial statements:*

The statement of net assets and the statement of activities display information about the reporting government as a whole. The statements 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 nonexchange revenues. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services

##### *Fund financial statements:*

In the fund financial statements, financial transactions and accounts of the Township are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity with a self-balancing set of accounts recording cash and/or other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are organized into two major categories: governmental and proprietary. 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:

Total assets, liabilities, revenues or expenditures of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and total assets, liabilities, revenues or expenditures of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Township may also report as a major fund any fund it believes to be of particular importance to the financial statement users. The Township has elected to present all funds as major funds.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### B. BASIS OF PRESENTATION (CONTINUED)

##### *Fund financial statements (continued):*

The funds of the financial reporting entity are described below:

##### **Governmental funds:**

Governmental funds are those through which most governmental functions of the Township are financed. The acquisition, use and balances of the Township's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

**General Fund** - is the primary operating fund of the Township and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds** - are used to account for the proceeds of the specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Township. The reporting entity includes the following special revenue funds, which are reported as major funds:

**Liquid Fuels Fund** - is used to account for the proceeds from the State Motor License Fund. Under the Act of June 1, 1956, P.L. 1944, No. 145, this Fund must be kept separate from all other funds and no other funds shall be commingled with this Fund. Expenditures are legally restricted to expenditures for highway purposes in accordance with the Department of Transportation regulations. County liquid fuels tax payments to the local government are not accounted for in this Fund.

**Developer Fee Fund** - is used to account for developer fees received and expenditures of those fees for new development in the Township.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### B. BASIS OF PRESENTATION (CONTINUED)

##### *Fund financial statements (continued):*

**Capital Projects Funds** - are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special revenue funds and trust funds). The reporting entity includes the following capital projects fund, which is reported as a major fund:

**Capital Projects Fund** - is used to account for resources used to construct or acquire capital assets from resources derived from budgetary transfers, long-term debt proceeds and investment earnings.

**Debt Service Funds** - are used for the accumulation of resources and payments of long-term debt of governmental funds. The reporting entity includes the following debt service fund, which is reported as a major fund:

**Debt Service Fund** - is used for the payment of debt related to the Township's General Obligation Bonds, Series of 2009.

##### *Proprietary funds:*

**Enterprise Funds** - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private-sector. The reporting entity includes the following enterprise funds, which are reported as major funds:

**Solid Waste Fund** - is used to account for the collection of fees and payment of expenses related to trash collection.

**Sewer Fund** - is used to account for the operation of the sewer system, which is operated as a public utility.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### B. BASIS OF PRESENTATION (CONTINUED)

*Fund financial statements (continued):*

##### *Fiduciary fund types:*

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Township reports the following fiduciary fund types:

***Pension Trust Fund*** - is used to account for assets held for the Township's pension plan, which is funded by employer contributions. This Fund accounts for fiduciary resources legally held in trust for the receipt and distribution of retirement benefits.

***Agency Funds*** - are used to account for assets held in trust for the benefit of others, with the Township having no equity or ownership in the assets. The reporting entity includes the following agency funds:

***Developer Escrow Fund*** - is used to record receipt of developer escrow deposits to be used as expense reimbursement for legal and engineering fees.

***Earned Income Tax (EIT) Fund*** - is used for the collection of EIT tax from employers in the Township and disbursement to the Township and to local governments.

#### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The basic financial statements of the Township are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements
- Required supplemental information

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

##### ***Government-wide financial statements:***

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) fees, fines and charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

##### ***Fund financial statements:***

The fund financial statements are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities of the government-wide financial statements.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

##### *Fund financial statements (continued):*

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one type, funds must be expended for the specific purpose or project before any amounts will be paid to the Township; therefore, revenues are recognized based upon the expenditures incurred. In the other type, funds are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reported as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment income is recognized as earned.

The Township reports deferred revenue in the form of returnable deposits on its balance sheets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Township has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the Township has a legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

##### *Fund financial statements (continued):*

The Township's Fiduciary Funds are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other local governments, litigants, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Operating revenues in the Proprietary Funds, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

#### D. ASSETS AND LIABILITIES

##### *Cash:*

For the purpose of the statement of cash flows for proprietary funds, cash includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

##### *Investments:*

The Board of Commissioners is authorized by statutes to invest its funds as defined in the Township Code. Authorized types of investments include the following:

1. U. S. Treasury Bills.
2. Short-term obligations of the U. S. Government or its agencies or instrumentalities.
3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### D. ASSETS AND LIABILITIES (CONTINUED)

##### *Investments (continued):*

4. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
5. Shares of mutual funds whose investments are restricted to the above categories.

Investments are carried at fair value.

Investments of pension trust funds are pursuant to the guidelines established by the Pension Board.

##### *Due to and from other funds:*

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

##### *Capital assets:*

Capital outlays are recorded as expenditures in the General, Special Revenue and Capital Projects Funds and assets in the government-wide financial statements to the extent the Township's capitalization threshold is met. The Township has elected, under the provisions of GASB Statement No. 34, to capitalize infrastructure on a prospective basis beginning January 1, 2004; therefore, amounts expended for infrastructure prior to January 1, 2004 are not included in the financial statements.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation. The Township maintains a capitalization threshold of \$ 5,000 for all capital assets, except infrastructure for which the capitalization threshold is \$ 25,000.

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Nature of Activity and Significant Accounting Policies (Continued)**

**A summary of the Township's significant accounting policies follows (continued):**

**D. ASSETS AND LIABILITIES (CONTINUED)**

***Capital assets (continued):***

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<b>Years</b>
Land improvements	20
Infrastructure (streets and roads)	40
Buildings and building improvements	20-40
Machinery and equipment	5-20
Vehicles	5-20
Sewer collection system	20-50

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend its useful life is not capitalized.

The Township's infrastructure consists of 130 miles of roads and 8 bridges.

***Bond premiums, discounts and issuance costs:***

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. In proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

***Long-term debt:***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column in the statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### D. ASSETS AND LIABILITIES (CONTINUED)

##### *Long-term debt (continued):*

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources. Proprietary fund types recognize long-term debt and other long-term obligations as liabilities in the statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

##### *Compensated absences:*

Township employees are allowed sick leave in varying amounts based on their length of employment. Employees covered under the respective collective bargaining agreements accumulate sick and vacation pay as defined in the agreement.

#### E. EQUITY

##### *Government-wide statements:*

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt consists of the cost of capital assets, less accumulated depreciation and long-term debt directly associated with acquisition of capital assets.

Restricted net assets consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets are all other net assets that do not meet the definition of "restricted."

It is the Township's policy to first use restricted net assets prior to the use of unrestricted net assets when an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### F. REVENUES AND EXPENDITURES

##### *Program revenues:*

All revenues are recognized when received.

In the statement of activities, revenues that are derived directly from each activity or from parties outside the Township's taxpayers are program revenues. Amounts reported as program revenues include (1) charges to customers or applicants for goods and services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Proprietary funds distinguish operating revenues and expenditures from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are usage charges. The Township also recognizes as operating revenues in the Sewer Fund, allocation fees intended to recover the cost of connecting new customers to the system. Operating expenses of the proprietary funds include the cost of the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Township's proprietary funds are interest income and capital contributions.

##### *Intergovernmental revenues:*

Intergovernmental revenues are received from the Commonwealth of Pennsylvania, federal agencies and local governmental units, generally to fund specific programs, and are recognized when received.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Township's significant accounting policies follows (continued):

#### G. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

##### *Fund financial statements:*

Interfund activity, if any, within and among the governmental and proprietary fund categories, is reported as follows in the fund financial statements:

##### *Interfund services:*

Sales or purchases of goods and services between funds are reported as revenues and expenditures.

##### *Interfund reimbursements:*

Repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures in the respective funds.

##### *Interfund transfers:*

Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

#### H. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note 2. Stewardship, Compliance and Accountability

#### **Compliance with finance-related legal and contractual provisions:**

The Township had no material violations of finance-related legal and contractual provisions.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Stewardship, Compliance and Accountability (Continued)

#### Excess of expenditures over appropriations in individual funds:

No individual fund, which was budgeted as required by the Commonwealth of Pennsylvania, contained an excess of expenditures over appropriations that was not covered by the cash balance at December 31, 2009 and the cash received for the year ended December 31, 2010. Expenditures exceeded appropriations in the Sewer Fund by \$ 31,908 due to calculated depreciation expense. Depreciation expense is not a budgetary item but is an estimate of the declining value of the assets that are recorded in the Sewer Fund.

The Township did not adopt a budget for the Developer Fee Fund in 2010.

### Note 3. Deposits and Investments

The Township's available cash is invested in demand deposit accounts, money market accounts and the Pennsylvania Local Government Investment Trust. Pension fund assets are invested in mutual funds. The carrying amounts of cash and investments at December 31, 2010 consist of the following:

Cash deposits	\$ 3,293,480
Petty cash	2,450
Investments	<u>10,983,720</u>
	<u>\$ 14,279,650</u>

#### Reconciliation to statement of net assets/balance sheet:

Cash:	
Governmental	\$ 752,392
Business-type	1,311,400
Fiduciary	<u>1,232,138</u>
	<u>3,295,930</u>
Investments:	
Governmental	6,341,322
Business-type	673,041
Fiduciary	<u>3,969,357</u>
	<u>10,983,720</u>
	<u>\$ 14,279,650</u>

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Deposits and Investments (Continued)**

**Custodial credit risk - deposits:**

Custodial credit risk is the risk that, in the event of a financial institution failure, the Township's deposits may not be returned. The Pennsylvania Local Government Code and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provisions for deposits: Pennsylvania Act 72 requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies.

At December 31, 2010, the carrying amount of the Township's bank deposits was \$ 3,293,480, and the corresponding bank balances were \$ 3,360,856, of which \$ 534,450 was covered by Federal Depository Insurance. The remaining \$ 2,826,406 of deposits was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

**Investments:**

As of December 31, 2010, the Township has the following investments:

	<b>Fair Value</b>	<b>Cost</b>	<b>Maturity - Less than One Year</b>	<b>Rating as of Year-End</b>
Pennsylvania Local Government Investment Trust	<u>\$ 7,014,363</u>	<u>\$ 7,014,363</u>	<u>\$ 7,014,363</u>	AAAm by Standard & Poor's

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Deposits and Investments (Continued)

#### Investments (continued):

As of December 31, 2010, the Township's pension trust fund has the following mutual fund investments:

	<b>Fair Value</b>
American Growth Fund of America	\$ 151,111
Federated Strategic Value Dividend Fund	2,164
MFS Value Fund	151,884
Retirement Common Stock Fund	367,519
Retirement Value Stock Fund	519,644
T. Rowe Price Growth Stock Fund Inc	2,441
Gabelli Small Cap Growth	6,763
Principal Midcap Blend	190,390
Royce PA Mutual Fund	143,441
Royce Premier Fund	952
American Europacific Growth Fund	16,752
Harbor International	262,061
Eaton Vance Parametric Tax-Managed Emerging Markets Fund	117,604
T. Rowe Price Emerging Market Stock	856
Vanguard Interim Term Bond Index	202,636
Federated Total Return Bond Fund	1,238,385
Managers Pimco Bond Fund	111,681
Federated Prudent Bear Fund	3,347
Goldman Sachs Satellite Strategies Portfolio	4,500
T. Rowe Price Retirement 2010 Fund	429,201
T. Rowe Price Retirement 2020 Fund	42,387
T. Rowe Price Retirement 2030 Fund	26,638
Unsettled trades - cash due to broker	<u>(23,000)</u>
	<u><b>\$ 3,969,357</b></u>

#### Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Township limits the type of investments permitted as defined in the Township Code. Permitted investments are defined in Note 1. When making investments, the Township can combine monies from more than one fund under the Township's control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Deposits and Investments (Continued)

#### Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Custodial credit risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2010, \$ 3,969,357 is held by the investment's counterparties, not in the name of the Township.

### Note 4. Capital Assets

Capital asset activity is as follows:

	<b>Balance January 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2010</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 15,428,895	\$ 911,088	\$ -	\$ 16,339,983
Construction in progress	<u>4,081,190</u>	<u>1,532,174</u>	<u>4,980,719</u>	<u>632,645</u>
Total capital assets not being depreciated	<u>19,510,085</u>	<u>2,443,262</u>	<u>4,980,719</u>	<u>16,972,628</u>
Capital assets being depreciated:				
Land improvements	5,465,392	451,321	-	5,916,713
Infrastructure	27,283,186	4,392,947	-	31,676,133
Buildings and building improvements	10,776,571	3,016,571	-	13,793,142
Machinery and equipment	1,473,000	199,103	125,575	1,546,528
Vehicles	<u>3,529,975</u>	<u>136,185</u>	<u>75,000</u>	<u>3,591,160</u>
Total capital assets being depreciated	<u>48,528,124</u>	<u>8,196,127</u>	<u>200,575</u>	<u>56,523,676</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets

Capital asset activity is as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
<b>Governmental activities</b>				
<b>(continued):</b>				
Less accumulated depreciation for:				
Land improvements	\$ 2,237,008	\$ 406,604	\$ -	\$ 2,643,612
Infrastructure	2,284,512	759,377	-	3,043,889
Buildings and building improvements	4,355,601	319,182	-	4,674,783
Machinery and equipment	968,795	90,934	124,335	935,394
Vehicles	<u>2,687,958</u>	<u>212,969</u>	<u>70,000</u>	<u>2,830,927</u>
 Total accumulated depreciation	 <u>12,533,874</u>	 <u>1,789,066</u>	 <u>194,335</u>	 <u>14,128,605</u>
 Total capital assets being depreciated, net	 <u>35,994,250</u>	 <u>6,407,061</u>	 <u>6,240</u>	 <u>42,395,071</u>
 Total governmental activities capital assets, net	 <u>\$ 55,504,335</u>	 <u>\$ 8,850,323</u>	 <u>\$ 4,986,959</u>	 <u>\$ 59,367,699</u>
 <b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 621,553	\$ 208,948	\$ 250,680	\$ 579,821
 Capital assets being depreciated:				
Sewer collection system	13,634,684	1,838,577	-	15,473,261
Machinery and equipment	<u>384,935</u>	<u>45,067</u>	<u>-</u>	<u>430,002</u>
 Total capital assets being depreciated	 <u>14,019,619</u>	 <u>1,883,644</u>	 <u>-</u>	 <u>15,903,263</u>
 Less accumulated depreciation for:				
Sewer collection system	4,772,756	291,531	-	5,064,287
Machinery and equipment	<u>266,188</u>	<u>14,745</u>	<u>-</u>	<u>280,933</u>
 Total accumulated depreciation	 <u>5,038,944</u>	 <u>306,276</u>	 <u>-</u>	 <u>5,345,220</u>
 Total capital assets being depreciated, net	 <u>8,980,675</u>	 <u>1,577,368</u>	 <u>-</u>	 <u>10,558,043</u>
 Total business-type activities capital assets, net	 <u>\$ 9,602,228</u>	 <u>\$ 1,786,316</u>	 <u>\$ 250,680</u>	 <u>\$ 11,137,864</u>

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Long-Term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2010 are as follows:

	<b>Balance January 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2010</b>	<b>Current Portion</b>
<b>Governmental activities:</b>					
Bonds payable, Series of 2009, General Obligation Bonds, with interest at 2.50%-4.50% to 2029, due in installments of \$ 330,000 to \$ 730,000 plus interest	\$ 5,880,000	\$ -	\$ 330,000	\$ 5,550,000	\$ 340,000
Deferred amounts:					
Discounts	(7,758)	-	(395)	(7,363)	(395)
Premiums	<u>17,840</u>	<u>-</u>	<u>909</u>	<u>16,931</u>	<u>909</u>
	<u>5,890,082</u>	<u>-</u>	<u>330,514</u>	<u>5,559,568</u>	<u>340,514</u>
 Other long-term liabilities, compensated absences	 <u>238,809</u>	 <u>57,379</u>	 <u>41,837</u>	 <u>254,351</u>	 <u>4,023</u>
 Total governmental activities long- term liabilities	 <u>\$ 6,128,891</u>	 <u>\$ 57,379</u>	 <u>\$ 372,351</u>	 <u>\$ 5,813,919</u>	 <u>\$ 344,537</u>
 <b>Business-type activities:</b>					
Other long-term liabilities, compensated absences	<u>\$ 7,096</u>	<u>\$ 10,891</u>	<u>\$ 6,844</u>	<u>\$ 11,143</u>	<u>\$ 1,623</u>

Compensated absences have been liquidated in the General Fund and Sewer Fund in prior years.

**General obligation bonds:**

On April 23, 2009, General Obligation Bonds, Series of 2009, were issued to currently refund the remaining outstanding General Obligation Bonds, Series of 2001, to fund the construction of a new fire station and other capital projects of the Township and to pay the costs and expenses related to the issuance of the Bonds.

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Long-Term Liabilities (Continued)**

**General obligation bonds (continued):**

Proceeds from the sale of the Bonds were deposited with Manufacturers and Traders Trust Company, as the paying agent for the Series of 2001 Bonds. The amount deposited was used to pay the interest on the 2001 Bonds to and including April 23, 2009, and to redeem on April 23, 2009 at a redemption price of 100%, all outstanding 2001 Bonds maturing after such date.

Aggregate maturities required on long-term debt at December 31, 2010 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2011	\$ 340,000	\$ 197,430	\$ 537,430
2012	345,000	188,930	533,930
2013	360,000	180,305	540,305
2014	370,000	171,305	541,305
2015	380,000	160,205	540,205
2016-2020	1,630,000	603,650	2,233,650
2021-2025	955,000	336,050	1,291,050
2026-2029	<u>1,170,000</u>	<u>109,125</u>	<u>1,279,125</u>
	<u>\$ 5,550,000</u>	<u>\$ 1,947,000</u>	<u>\$ 7,497,000</u>

Substantially all of the Township's assets are pledged as collateral to the long-term debt.

**Note 6. Interfund Transfers and Balances**

Transfers to/from other funds for the year ended December 31, 2010 were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ -	\$ 536,460
Debt Service Fund	536,460	-
Capital Projects Fund	427,400	-
Developer Fee Fund	<u>-</u>	<u>427,400</u>
	<u>\$ 963,860</u>	<u>\$ 963,860</u>

Transfers in and transfers out from (to) other funds in the statement of revenues, expenditures and changes in fund balances represent transfers between funds. Transfers from the Developer Fee Fund to the Capital Projects Fund represent funding for land development expenditures. Semiannual bond payments are funded by transfers from the General Fund to the Debt Service Fund.

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. Interfund Transfers and Balances (Continued)**

The composition of interfund balances as of December 31, 2010 is as follows:

	<b>Due To Other Funds</b>	<b>Due From Other Funds</b>
General Fund	\$ -	\$ 2,941,516
Capital Projects Fund	1,649,550	-
Developer Escrow Fund	-	39
Developer Fee Fund	-	5,850
Solid Waste Fund	639,420	-
Sewer Fund	<u>658,435</u>	<u>-</u>
	<u>\$ 2,947,405</u>	<u>\$ 2,948,405</u>

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed between funds within the Township's reporting entity. The amounts due from the Capital Projects Fund to the General Fund represent an allocation of cash outlay for park and road improvement expenditures. The amounts due from the Solid Waste Fund and Sewer Fund to the General Fund represent the allocation of expenses to the General Fund.

**Note 7. Lower Macungie Township Municipal Pension Plan**

The Township administers and contributes to a single-employer defined contribution money purchase plan: the Lower Macungie Township Non-uniformed Employees' Money Purchase Pension Plan and Trust. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. All employees who have attained the age of 21 and completed two years of service are eligible to participate. In February 2010, the Board of Commissioners approved lowering the required contributions equal to 10% of the employee's annual salary for all new employees. The plan requires contributions equal to 20% of the employee's salary each year, as defined by the plan. The plan is eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program, which must be used for pension funding. Any funding requirement in excess of the state aid must be paid by the Township.

The Township's contributions for each employee and investment earnings allocated to each employee's account are fully vested after five years of continuous service. The Township's contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Township's current contribution requirement. Plan provisions and contribution requirements are established by, and may be amended by, the Board of Commissioners, in accordance with Pennsylvania law. The Township contributed \$ 311,570, of which \$ 103,515 was provided through state aid for the year ended December 31, 2010.

**NOTES TO FINANCIAL STATEMENTS**

**Note 8. Deferred Compensation**

The Township offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to those employees who meet the eligibility requirements set forth in 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, disability or unforeseeable emergency.

The Township has no liability for losses under the plan arising from expense charges of any kind, or from depreciation or shrinkage in the value of assets of the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

**Note 9. Deficit Fund Equity**

The Capital Project Fund has deficit fund equity of \$ 850,725 as of December 31, 2010. The fund has incurred the deficit due to plans to use prior year reserves to fund capital expenditures. These reserves could include amounts from the General Fund. The Township plans to eliminate this deficit through the sale of capital assets and transfers from the General Fund.

**Note 10. Prior Period Adjustment**

A prior period adjustment was made to add estimated values of land parcels that were previously recorded with no value:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Net assets, as previously reported at December 31, 2009	\$ 53,821,066	\$ 11,451,358	\$ 65,272,424
Adjustment, estimated value of land parcels at acquisition date	<u>5,058,643</u>	<u>-</u>	<u>5,058,643</u>
Net assets, as restated, at December 31, 2009	<u>\$ 58,879,709</u>	<u>\$ 11,451,358</u>	<u>\$ 70,331,067</u>

**Note 11. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Township purchases commercial insurance as protection against those losses.

## NOTES TO FINANCIAL STATEMENTS

### Note 12. Commitments and Contingencies

#### Commitments:

##### *Loan guarantee:*

The Township has guaranteed a loan for the Alhurtis Fire Company that was used for the purchase of a new fire truck. The outstanding loan balance at December 31, 2010 is \$ 4,781.

##### *Construction commitments and capital purchases:*

The Township entered into various contracts for construction and capital purchases. The total amount of these commitments remaining is approximately \$ 310,904 at December 31, 2010.

#### Contingencies:

##### *Fraud:*

During the first quarter of 2006, the Township became aware of fraudulent activity in the Sewer Fund. Over a period from 1999 to 2006, a Township supervisor/employee (now former supervisor/employee), diverted wastewater allocation fees and sewer assessment fees into a personal bank account. The Township recorded a theft loss of \$ 106,401 in the 2006 financial statements and estimated the total loss to be in excess of \$ 2,500,000.

In 2007, the Township settled litigation for \$ 775,000 against the bank where the former supervisor/employee deposited the Township checks into a personal bank account.

In 2008, the Township settled litigation for \$ 83,357 against the accounting firm and insurance company that the Township contracted with during the time of the embezzlement. In connection with this settlement, an additional installment of \$ 25,000 was received in 2009 and a final installment of \$ 25,000 was received in 2010. These amounts are recorded as settlement proceeds revenue in the December 31, 2008, 2009 and 2010 financial statements, respectively.

In 2009, the Township settled litigation with the estate of a former Township supervisor/employee. The first installment amount of \$ 100,000 in connection with this litigation was received in 2009 and was recorded as settlement proceeds in the 2009 financial statements. An additional \$ 94,924 was received in 2010 as the final installment and recorded as settlement proceeds in the 2010 financial statements.

## NOTES TO FINANCIAL STATEMENTS

### Note 12. Commitments and Contingencies (Continued)

#### Litigation:

The Township is a defendant in several lawsuits. While it is not feasible to determine the outcome of these matters, in the opinion of management, any total ultimate liability would not have a material effect on the Township's financial position.

#### Concentration of labor:

The Township entered into a collective bargaining agreement with the office employees that expires December 31, 2013. In addition to the agreement with the office employees, the Township also has a collective bargaining agreement with the public works employees that expires December 31, 2012. Of the Township's total workforce, 21% is covered by the agreement with the office employees and 47% is covered by the agreement with the public works employees.

### Note 13. Subsequent Events

The Township has evaluated subsequent events through May 27, 2011. This date is the date the financial statements were available to be issued. No events subsequent to December 31, 2010 were noted:

**LOWER MACUNGIE TOWNSHIP**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

Year Ended December 31, 2010

	- - - - Budgeted Amounts - - - -	
	Original	Final
<b>REVENUES</b>		
Taxes:		
Earned income	\$ 4,000,000	\$ 4,000,000
Local services	416,000	416,000
Real estate transfer	750,000	750,000
Street light	215,000	215,000
Licenses and permits	859,710	859,710
Fines and forfeits	30,000	30,000
Interest, rents and royalties	302,540	302,540
State grants	315,700	337,574
Local grants	125,000	125,000
Contributions	-	-
Charges for services	236,100	236,100
Refund of prior year expense	50,000	65,000
Miscellaneous	1,500	1,500
<b>Total revenues</b>	<b>7,301,550</b>	<b>7,338,424</b>
<b>EXPENDITURES</b>		
Current:		
General government	1,567,061	1,611,481
Public safety	1,020,033	1,006,537
Public works - sanitation	81,500	80,750
Public works - highways and streets	1,903,981	1,863,106
Culture and recreation	1,721,955	1,703,695
Other	1,133,500	1,188,755
Refund of prior year revenue	-	-
Capital outlay	-	9,800
<b>Total expenditures</b>	<b>7,428,030</b>	<b>7,464,124</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(126,480)</b>	<b>(125,700)</b>

<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
\$ 4,314,766	\$ 314,766
163,039	(252,961)
701,865	(48,135)
184,606	(30,394)
662,329	(197,381)
35,284	5,284
309,958	7,418
346,417	8,843
137,753	12,753
-	-
230,087	(6,013)
133,467	68,467
7,740	6,240
<u>7,227,311</u>	<u>(111,113)</u>
1,530,442	81,039
988,039	18,498
53,976	26,774
1,752,127	110,979
1,603,318	100,377
1,166,227	22,528
-	-
9,791	9
<u>7,103,920</u>	<u>360,204</u>
<u>123,391</u>	<u>249,091</u>

**LOWER MACUNGIE TOWNSHIP**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)**

**GENERAL FUND**

**Year Ended December 31, 2010**

	- - - - Budgeted Amounts - - - -	
	Original	Final
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in	\$ -	\$ -
Transfers out	(535,680)	(536,460)
Proceeds from sale of capital assets	-	-
<b>Total other financing sources (uses)</b>	<b>(535,680)</b>	<b>(536,460)</b>
<b>Net change in fund balance</b>	<b>\$ (662,160)</b>	<b>\$ (662,160)</b>
Fund balance, beginning of year		
Fund balance, end of year		

**See Note to Budgetary Comparison Schedules.**

**Actual  
Amounts**

**Variance with  
Final Budget**

\$ -	\$ -
(536,460)	-
<u>14,049</u>	<u>14,049</u>
<u>(522,411)</u>	<u>14,049</u>
(399,020)	<u>\$ 263,140</u>
<u>8,393,746</u>	
<u>\$ 7,994,726</u>	

**LOWER MACUNGIE TOWNSHIP**

**BUDGETARY COMPARISON SCHEDULE**

**LIQUID FUELS FUND**

**Year Ended December 31, 2010**

	- - - - Budgeted Amounts - - - -	
	Original	Final
<b>REVENUES</b>		
Interest, rents and royalties	\$ 4,000	\$ 4,000
State grants	504,000	504,000
<b>Total revenues</b>	<b>508,000</b>	<b>508,000</b>
<b>EXPENDITURES</b>		
Public works - highways and streets	645,000	617,200
Capital outlay	80,000	107,800
<b>Total expenditures</b>	<b>725,000</b>	<b>725,000</b>
<b>Net change in fund balance</b>	<b>\$ (217,000)</b>	<b>\$ (217,000)</b>
Fund balance, beginning of year		
Fund balance, end of year		

**See Note to Budgetary Comparison Schedules.**

Actual Amounts	Variance with Final Budget
\$ 377	\$ (3,623)
<u>503,652</u>	<u>(348)</u>
504,029	(3,971)
394,855	222,345
<u>70,667</u>	<u>37,133</u>
<u>465,522</u>	<u>259,478</u>
38,507	<u>\$ 255,507</u>
<u>430,525</u>	
<u>\$ 469,032</u>	

## LOWER MACUNGIE TOWNSHIP

### NOTE TO BUDGETARY COMPARISON SCHEDULES

#### **Note 1. Budget Matters**

The Board of Commissioners annually adopts the budget for the General, Liquid Fuels, Capital Projects, Solid Waste and Sewer Funds. Budgetary control is legally maintained at the line item level.

The First Class Township Code provides for the modification of the budget and supplemental appropriations and transfers. All changes to the budget must be approved by the Board of Commissioners.

Appropriations, except open project appropriations, encumbrances and unexpended grant appropriations, lapse at the end of each fiscal year.

The budget is prepared on the modified accrual basis of accounting for the General, Liquid Fuels and Capital Projects Funds. The budget is prepared on the accrual basis of accounting for the Solid Waste and Sewer Funds.