

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD
(A Component Unit of the Township of Lower Makefield)**

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2005 and 2004



MAILLIE, FALCONIERO & COMPANY, LLP
Certified Public Accountants and Business Counselors

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Independent Auditors' Report

The Municipal Sewer Authority of the
Township of Lower Makefield
Yardley, Pennsylvania

We have audited the accompanying basic financial statements of The Municipal Sewer Authority of the Township of Lower Makefield (a component unit of the Township of Lower Makefield) as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of The Municipal Sewer Authority of the Township of Lower Makefield's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Municipal Sewer Authority of the Township of Lower Makefield as of December 31, 2005 and 2004, and the changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 and 4 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

Maillie Falconiero & Company, LLP

March 3, 2006

**THE MUNICIPAL SEWER AUTHORITY OF THE
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(A Component Unit of the Township of Lower Makefield)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2005

Our discussion and analysis of The Municipal Sewer Authority of the Township of Lower Makefield's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Authority's financial statements, which begin with the Balance Sheet.

FINANCIAL HIGHLIGHTS

- Revenue from tapping fees was \$106,148 in 2005, an increase of \$38,000 over the 2004 tapping fees.
- The assets of the Authority exceeded its liabilities by \$17,098,460 (net assets).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Authority. The components of the report include the Independent Auditors' Report, Management's Discussion and Analysis, Financial Statements and Notes to the Basic Financial Statements.

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

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

The basic financial statements include the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets and the Notes to the Basic Financial Statements.

- The Balance Sheet shows the financial condition of the Authority at the end of the fiscal period or a specific snapshot in time.
- The Statement of Revenues, Expenses and Changes in Net Assets measures the results of operations of the Authority during the fiscal period.

**THE MUNICIPAL SEWER AUTHORITY OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2005

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

REPORTING

As stated in Note A of the Notes to the Basic Financial Statements, The Municipal Sewer Authority of the Township of Lower Makefield was incorporated pursuant to the Municipality Authorities Act 22 of 2001 for the purpose of owning the sanitary sewage collection system and to provide the system for the Township of Lower Makefield's use. A five-member board, appointed by the Township Board of Supervisors, governs the Authority. Members of this Board serve five-year terms. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it. The Authority owns 13 pump stations and approximately 230 miles of sewer lines. The Authority leases the sewer system to the Township for operation and use for \$1 per year. This lease agreement began on December 1, 1991, expired on March 14, 2005, and is continuing on a month-to-month basis with the consent of the parties pending negotiation of a new lease agreement.

The assets of the Authority are comprised 100% of Property, Plant and Equipment. Accumulated depreciation reflects 45.19% of total capital assets, and, in 2004, this percentage was 43.83%.

Tapping fees, the source of revenue for the Authority, were \$106,148 for the year 2005. This compares to \$68,200 in 2004 and \$103,716 in 2003. Revenue from this source has been declining with the rate of development. The increase in tapping fee revenue in 2005 was due to a large, one-time tapping fee in the amount of \$63,800 received from the developer of an office building.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have questions about this report or need additional information, please contact Heidi M. Sheridan, Director of Finance, at 1100 Edgewood Road, Yardley, PA 19067.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**
(A Component Unit of the Township of Lower Makefield)
BALANCE SHEETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Property, plant and equipment		
Sewer system		
Constructed	\$ 11,625,726	\$ 11,465,242
Dedicated	12,639,156	12,222,929
Contributions to other authorities	6,931,890	6,702,402
	<u>31,196,772</u>	<u>30,390,573</u>
Accumulated depreciation	<u>(14,098,312)</u>	<u>(13,320,043)</u>
TOTAL ASSETS	<u>\$ 17,098,460</u>	<u>\$ 17,070,530</u>
NET ASSETS		
Invested in capital assets	<u>\$ 17,098,460</u>	<u>\$ 17,070,530</u>

See accompanying notes to the basic financial statements.

**THE MUNICIPAL SEWER AUTHORITY OF THE
TOWNSHIP OF LOWER MAKEFIELD**
(A Component Unit of the Township of Lower Makefield)
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Tapping fees	\$ 106,148	\$ 68,200
DEPRECIATION	<u>778,269</u>	<u>774,490</u>
LOSS FROM OPERATIONS	<u>(672,121)</u>	<u>(706,290)</u>
CONTRIBUTIONS AND TRANSFERS		
Transfer to the Township of Lower Makefield Sewer Fund	(106,148)	(68,200)
Capital contributions	<u>806,199</u>	<u>1,125,119</u>
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>700,051</u>	<u>1,056,919</u>
CHANGE IN NET ASSETS	27,930	350,629
NET ASSETS AT BEGINNING OF YEAR	<u>17,070,530</u>	<u>16,719,901</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,098,460</u>	<u>\$ 17,070,530</u>

See accompanying notes to the basic financial statements.

**THE MUNICIPAL SEWER AUTHORITY OF THE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The Municipal Sewer Authority of the Township of Lower Makefield (the "Authority") was incorporated pursuant to the Municipality Authorities Act 22 of 2001, as amended. The Authority was created to own the sanitary sewage collection system and provide the system for the Township of Lower Makefield's (the "Township") use.

For financial reporting purposes, the Authority is a component unit of the Township. There are no component units included in the accompanying financial statements.

Basis of Accounting

The measurement focus is on the flow of economic resources and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred.

Property, Plant and Equipment/Contributed Capital

Property, plant and equipment are stated at cost and include the cost of system additions and improvements contributed to the Authority by the Township and other parties, primarily developers. Capital contributions are recorded upon dedication of improvements to the Authority and acceptance of such improvements by the Board of Supervisors. Depreciation is provided using the straight-line method over estimated useful lives of 25 to 40 years.

Use of Estimates

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

Statements of Cash Flows

The statements of cash flows are not meaningful and, therefore, not presented.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE B TAPPING FEES

Pursuant to Act 203 of 1990 of the General Assembly of the Commonwealth of Pennsylvania, the Authority has adopted a resolution charging a tapping fee against the owner of each property connecting to the sewer system.

NOTE C CONTRIBUTIONS TO OTHER AUTHORITIES

The Authority has entered into agreements with certain adjoining municipal authorities in order to guarantee treatment capacity at The Municipal Authority of the Borough of Morrisville's sewage treatment plant and to guarantee the right to connect to and transport through the Yardley Borough Sewer Authority's system. Under terms of the agreements, the Authority has made capital contributions representing its pro rata share for joint use or expansion of the facilities. Cumulative contributions to these authorities are \$6,931,890.

NOTE D CAPITAL CONTRIBUTIONS

Capital contributions in the form of system improvements and expansion were \$806,199 in 2005 and \$1,125,119 in 2004, including Township contributions of \$160,484 in 2005 and \$354,094 in 2004.

NOTE E LEASE AGREEMENT

On December 1, 1991, the Authority entered into a lease agreement with the Township. The Authority leases the sewer system to the Township for operation and use for one dollar (\$1) per annum. The agreement expired on March 14, 2005, and is continuing on a month-to-month basis with the consent of the parties pending negotiation of a new lease agreement. All operating activities of the Authority are conducted through the Township pursuant to the lease.

