

**REPORT ON
LOWER SAUCON TOWNSHIP
BETHLEHEM, PA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

LOWER SAUCON TOWNSHIP

Financial Statements - Modified Cash Basis

For the Fiscal Year Ended December 31, 2012

TABLE OF CONTENTS

	<u>Page (s)</u>
Introductory Section	
Letter to Management.....	1 - 2
Financial Section	
Independent Auditors' Report.....	3 - 5
Management's Discussion and Analysis	6 - 13
Basic Financial Statements	
Governmental-wide Financial Statements	
Statement of Net Position	14
Statement of Activities.....	15
Balance Sheet - All Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds.....	17
Statement of Net Position - Agency Funds	18
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Budget and Actual - General Fund.....	19
NOTES TO FINANCIAL STATEMENTS	20 - 39
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	40 - 41
Required Supplemental Information	
Schedules of Funding Progress - Pension Funds	42

LOWER SAUCON TOWNSHIP

Financial Statements - Modified Cash Basis

For the Fiscal Year Ended December 31, 2012

TABLE OF CONTENTS (CONTINUED)

	<u>Page (s)</u>
Other Supplemental Information	
Combining Balance Sheet - All Capital Project Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Capital Project Funds	44
Individual Statements	
General Fund	45 - 48
State Liquid Fuels Fund	49
Capital Fund	50
Polk Valley Park Fund	51
Land Acquisition and Parks Fund	51
Developers Escrow Fund	52

INTRODUCTORY SECTION



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

July 22, 2013

Township Council
Lower Saucon Township
3700 Old Philadelphia Pike
Bethlehem, PA 18015

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lower Saucon Township as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Lower Saucon Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lower Saucon Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lower Saucon Township's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Recommendations

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated June 29, 2013, on the financial statements of the Lower Saucon Township. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

Township Council

The following recommendations are presented for your consideration:

Developers Escrow

Our review of the developer's escrow account procedures indicated the need for certain improvements as follows:

1. The Township account should not be kept in the developers' balances spreadsheet. When an invoice is paid from the Township account, it should be recorded in that specific developer's account to reflect the correct balance even if it creates a negative balance.

This communication is intended solely for the information and use of management, those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Craig W. Gillahan ^{II} CPA

July 22,, 2013

FINANCIAL SECTION



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

July 22, 2013

Township Council
Lower Saucon Township
3700 Old Philadelphia Pike
Bethlehem, PA 18015

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lower Saucon Township as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2(B), this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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 from material misstatement.

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

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

LOWER SAUCON TOWNSHIP

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lower Saucon Township as of December 31, 2012, and the respective changes in financial position-modified cash basis, and, where applicable, cash flows and budgetary comparison of the General Fund for the year then ended in accordance with the basis of accounting as described in Note 2(B).

Basis of Accounting

We draw attention to Note 2(B) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Lower Saucon Township has presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Lower Saucon Township has presented the Schedule of Funding Progress for the Pension Funds that accounting principles generally accepted in the United States of America has determined is required to be part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lower Saucon Township's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the basis of accounting described in the notes to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

LOWER SAUCON TOWNSHIP

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on July 22, 2013, on our consideration of Lower Saucon Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lower Saucon Township's internal control over financial reporting and compliance.

Respectfully submitted,

Craig W. Gillahan II CPA

July 22, 2013

LOWER SAUCON TOWNSHIP
Bethlehem, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2012

The discussion and analysis of Lower Saucon Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The reader should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Township's financial performance.

The Discussion and Analysis does not include the discretely presented component unit Lower Saucon Authority. The Township management is not involved in the operations of the Authority; therefore, they are unable to provide any meaningful information as it relates to the operations of the Authority.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

FINANCIAL HIGHLIGHTS

The Township's overall financial position, as reflected in total net assets, increased by \$1,048,338 including special and extraordinary items.

During the year, the Township reduced the amount of their debt by \$668,068.

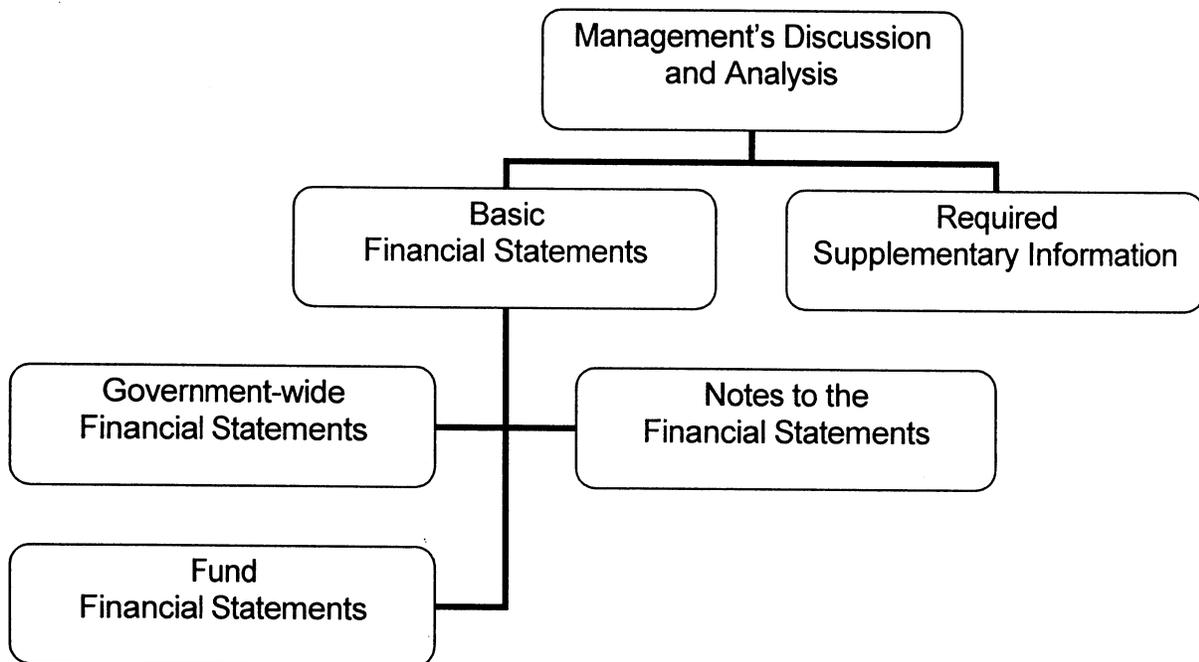
LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the government-wide statements. The governmental funds statements tell how general Township services were financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about financial relationships where the Township acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1
Required Components of
Lower Saucon Township's
Financial Report



LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

Figure A-2 summarizes the major features of the Township's financial statements, including the portion of the Township they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Lower Saucon Township's
Government-wide and Fund Financial Statements

	Fund Statements		
	Government-wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire Township (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary	Instances in which the Township is the trustee or agent to someone else's resources – Developers Escrow Fund
Required financial statements	Statement of net position Statement of activities	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of fiduciary net position, Statement of changes in fiduciary net position
Accounting basis and measurement focus	Modified cash basis	Modified cash basis	Modified cash basis
Type of asset/liability information	Cash and Investments and Interfund receivables and payables	Cash and Investments and Interfund receivables and payables	Cash and Investments and Interfund receivables and payables
Type of inflow-outflow information	All Revenues received and all expenses paid in the time period when cash is received or expenses paid	All Revenues received and all expenses paid in the time period when cash is received or expenses paid	All Revenues received and all expenses paid in the time period when cash is received or expenses paid

LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the Township as a whole using the modified cash basis, which is a comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America. The statement of net assets includes only cash, investments and interfund receivables and payables. All of the current year's revenues and expenses are accounted for in the statement of activities when revenues are received rather than earned and expenses are paid rather than when incurred.

The government-wide statements report the Township's net assets and how they have changed. Net assets, the difference between the Township's assets and liabilities are one way to measure the Township's financial health or position.

Over time, increases or decreases in the Township's net assets are an indication of whether its financial health is improving or deteriorating, respectively, based upon the basis of accounting used.

To assess the overall health of the Township, you need to consider additional non-financial factors, such as changes in the Township's property tax base.

The government-wide financial statements of the Township are divided into two categories:

Governmental Activities

All of the Township's basic services are included here, such as General Government, Public Safety, Public Works and Parks. Property Taxes, Earned Income Taxes and Other Public Taxes finance most of these activities.

Business-Type Activities

The Township does not have any business-type activities.

The Township's fund financial statements, which begin on page 16, provide detailed information about the most significant funds - not the Township as a whole.

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified cash basis of accounting. Under this method revenues are recognized when received rather than earned and expenses are recognized when paid rather than when incurred. The governmental fund statements provide a detailed short-term view of the Township's operations and services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

Fiduciary Funds

In August 2005, all of the plan assets for the uniform and non-uniform pension funds were transferred to the PA State Association of Boroughs Municipal Retirement Trust. These activities have been excluded from the Township's financial statements because the Township cannot use these assets to finance their operations. The Developer's Escrow Fund is the only fiduciary fund of the Township.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The Township's total net assets were \$10,084,657 at December 31, 2012.

Table A-1
Year Ended December 31, 2012 and 2011
Net Position

	2012			2011		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	<u>\$ 10,089,407</u>	<u>\$ -</u>	<u>\$ 10,089,407</u>	<u>\$ 9,041,036</u>	<u>\$ -</u>	<u>\$ 9,041,036</u>
Current and Other Liabilities	<u>\$ 4,750</u>	<u>\$ -</u>	<u>\$ 4,750</u>	<u>\$ 4,717</u>	<u>\$ -</u>	<u>\$ 4,717</u>
Net Position						
Capital Projects	\$ 1,611,174	\$ -	\$ 1,611,174	\$ 1,744,078	\$ -	\$ 1,744,078
Unrestricted	8,473,483	-	8,473,483	7,292,241	-	7,292,241
Total Net Position	<u>\$ 10,084,657</u>	<u>\$ -</u>	<u>\$ 10,084,657</u>	<u>\$ 9,036,319</u>	<u>\$ -</u>	<u>\$ 9,036,319</u>

Most of the Township's net assets are invested in cash and cash equivalents.

The results of this year's operations as a whole are reported in the statement of activities on page 15. All expenses are reported in the first column. The two largest revenues are provided by landfill revenue and general public taxes.

LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

Table A-2 takes the information from that statement, rearranges it slightly, so that you can see our total revenues and expenses for the year.

Table A-2
Fiscal Year Ended December 31, 2012 and 2011
Change in Net Position

	2012			2011		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 2,295,780	\$ -	\$ 2,295,780	\$ 2,339,387	\$ -	\$ 2,339,387
Operating Grants and Contributions	657,409	-	657,409	617,977	-	617,977
Capital Grants and Contributions	354,470	-	354,470	924,470	-	924,470
<i>General Revenues</i>						
Property Taxes	1,834,639	-	1,834,639	1,792,573	-	1,792,573
Other Taxes	3,736,429	-	3,736,429	3,369,096	-	3,369,096
Investment Earnings	22,649	-	22,649	41,302	-	41,302
Other Revenue	184,926	-	184,926	92,086	-	92,086
Total Revenue	9,086,302	-	9,086,302	9,176,891	-	9,176,891
Expenses						
<i>Governmental Activities</i>						
General Government	1,361,230	-	1,361,230	1,211,658	-	1,211,658
Public Safety	2,278,509	-	2,278,509	2,125,840	-	2,125,840
Public Works	1,189,952	-	1,189,952	1,220,045	-	1,220,045
Culture and Recreation	891,008	-	891,008	559,099	-	559,099
Insurance	261,766	-	261,766	76,579	-	76,579
Employee Benefits	1,187,055	-	1,187,055	1,132,823	-	1,132,823
Debt Service Payments	868,444	-	868,444	938,657	-	938,657
Other Expenses	-	-	-	-	-	-
Total Expenses	8,037,964	-	8,037,964	7,264,701	-	7,264,701
Increase in Net Position	\$ 1,048,338	\$ -	\$ 1,048,338	\$ 1,912,190	\$ -	\$ 1,912,190

DEBT ADMINISTRATION

As of January 1, 2012, the Township had a total outstanding debt of \$5,365,229. During the year, the Township paid principal of \$668,068 resulting in ending outstanding debt as of December 31, 2012, of \$4,697,161.

Table A-3
Outstanding Debt

	2012	2011
General Obligation Note – Series 2001	\$ 1,051,658	\$ 1,293,662
General Obligation Note – Series 2005	2,426,095	2,723,728
General Obligation Note – Series 2006	1,219,408	1,347,839

LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

General Fund Budget

The Township adopts an annual budget for its General Fund. This adoption, by law, occurs prior to December 31 of each year for the subsequent year. A comprehensive budgetary comparison, original to final is provided in this report. Below is a summarized version of the budget comparison.

Table A-4
Budgetary Comparison 2012 and 2011

	2012			Variances with Final Budget Positive (Negative)
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	
Revenues	\$ 9,005,139	\$ 9,005,139	\$ 8,663,286	\$ (341,853)
Expenditures	14,641,386	14,641,386	7,554,192	7,087,194
Net Change in Fund Balance	(5,636,247)	(5,636,247)	1,109,094	6,745,341
Fund Balance – January 1, 2012	5,636,247	5,636,247	6,477,009	840,762
Fund Balance – December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,586,103</u>	<u>\$ 7,586,103</u>

	2011			Variances with Final Budget Positive (Negative)
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	
Revenues	\$ 8,475,036	\$ 8,475,036	\$ 8,896,138	\$ 421,102
Expenditures	12,713,375	12,713,375	7,117,075	5,596,300
Net Change in Fund Balance	(4,238,339)	(4,238,339)	1,779,063	6,017,402
Fund Balance – January 1, 2011	4,238,339	4,238,339	4,697,946	459,607
Fund Balance – December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>6,447,009</u>	<u>\$ 6,477,009</u>

Economic Factors and Next Year's Budgets and Rates

The following capital improvements were started or completed in 2012.

Continued support to Local Volunteer Fire Companies - \$200,000.00

Purchase of two (2) Police Cruisers and supporting equipment - \$49,635.00 (partial NCGRERA Funding)

Installed preemptive devices in traffic lights in Lower Saucon Township and Hellertown Borough - \$107,552.00 (NCGRERA Funding)

Purchased new Sweeper for Public Works - \$241,805.00

Made improvements to Heller Homestead building - \$29,834.00

Repainted Old Mill Bridge - \$164,253.00

Continued construction at Kingston Park

Installed new furnace in Seidersville Hall - \$19,616.00

Repared Roads in Lower Saucon - \$194,364.00

LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

Continued plan development of Steel City Park

Purchase of Open Space/Conservation rights - \$374,416.71 including outright purchase of properties for the Saucon Rail Trail trailhead and for a conservation easement of 77.62 acres.

The Township did not experience any significant growth in its real estate tax base and or an increase in taxable income in 2012. We received an increase in earned income tax due to the consolidation of tax collection responsibilities pursuant to Act 32. Although conservative estimates in receipts were assumed, we received funding more timely than in the past.

We are anticipating a continuation of stagnant revenues and increases in fixed expenditures for 2013. Subdivisions that have received approval from the township have not commenced any construction due to market conditions. As expected, developers are delaying building or have filed for bankruptcy protection. Due to the mortgage crisis, Northampton County has seen an increase in assessment appeals and sheriff sales. Depending on the courts determination, any increase we may see in assessments due to new construction could be offset by lowered assessment values through these appeals.

For 2012, the Township was able to maintain the millage rate at 4.14. Historically, the Landfill tipping fees offset the shortfalls in revenue to meet the general fund expenditures. The anticipated shortfalls in 2012 did not occur as quickly as predicted. Revenues that were received were higher than anticipated but Management is still worked to ensure that spending was curtailed due to the unpredictable economy.

A low interest loan was secured through DEP (Conservation Works) to provide funding for energy efficient building modifications for Seidersville Hall to decrease the Township's energy bills. We have yet to draw down from that loan due to priorities changing throughout the year. The use of the building will be reviewed and will determine the upgrades required.

A library task force was formed to review options for library service for Lower Saucon Township residents. Increasing expenses from the Bethlehem Area Library have been ongoing and Council requested that alternative library options be identified.

Grant funding awards were received through the Northampton County Gaming Authority for an additional police officer and cruiser. The installation of the battery backup system was delayed until 2013. Funding was received for a hazmat spill trailer for the Township volunteer fire departments and for equipment for the Dewey Ambulance Company which was co-sponsored by the Township.

Lower Saucon Township also renegotiated the General Obligation Note of 2001 back in late 2011 to lower the interest rate and provide Council with the opportunity to repay the maximum of the principal and avoid prepayment penalties or fees.

In comparison to 2011, the Township's budget for 2012 increased from \$6,475,805.00 to \$6,970,394.00 primarily due to a larger than anticipated fund balance, employment contracts that have been extended, and increasing costs of employee benefits and pension obligations. Some internal capital improvement items that were budgeted were not completed or delayed. In essence, the Township had to do more with less. Increased funding for these expenses has temporarily curtailed our annual investments in the Operational Reserve Fund. Once the economy improves, we are hoping to resume funding the Operational Reserve Fund until we have reached an acceptable amount for emergencies.

Contacting the Township Financial Management

The Township's financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Township's finances and to show Township Council's accountability for the money it receives. If you have questions, please contact the Township Manager, Jack Cahalan, 3700 Old Philadelphia Pike, Bethlehem, PA 18015, phone (610)-865-3291, email: manager@lowersaucontownship.org.

BASIC FINANCIAL STATEMENTS

LOWER SAUCON TOWNSHIP
Statement of Net Assets – Modified Cash Basis
As of December 31, 2012

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 8,879,407	\$ -	\$ 8,879,407	\$ 2,332,991
Investments	1,200,000	-	1,200,000	1,022,173
Internal Balances	-	-	-	-
Other Receivables	10,000	-	10,000	-
TOTAL CURRENT ASSETS	10,089,407	-	10,089,407	3,355,164
NON-CURRENT ASSETS:				
Restricted Cash and Cash Equivalents	-	-	-	37,570
TOTAL NON-CURRENT ASSETS	-	-	-	37,570
TOTAL ASSETS	\$ 10,089,407	\$ -	\$ 10,089,407	\$ 3,392,734
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
LIABILITIES				
CURRENT LIABILITIES:				
Internal Balances	\$ -	\$ -	\$ -	(1) \$ -
Other Payables	4,750	-	4,750	-
Due to Developers	-	-	-	37,233
Total Current Liabilities	4,750	-	4,750	37,233
TOTAL LIABILITIES	4,750	-	4,750	37,233
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Reserved for Capital Projects	1,611,174	-	1,611,174	-
Unrestricted	8,473,483	-	8,473,483	3,355,501
TOTAL NET POSITION	\$ 10,084,657	\$ -	\$ 10,084,657	\$ 3,355,501

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances, if any, are eliminated in the "total" column (GASB Statement No. 34, para. 58).

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2012

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 1,361,230	\$ 135,487	\$ 1,550	\$ -	\$ (1,224,193)	\$ -	\$ (1,224,193)	
Public Safety	2,278,509	33,275	187,395	-	(2,057,839)	-	(2,057,839)	
Public Works	1,189,952	2,000,219	155,363	354,470	1,320,100	-	1,320,100	
Culture and Recreation	891,008	19,389	130,719	-	(740,900)	-	(740,900)	
Miscellaneous	-	-	-	-	-	-	-	
Insurance	261,766	-	-	-	(261,766)	-	(261,766)	
Employee Benefits	1,187,055	107,410	182,382	-	(897,263)	-	(897,263)	
Debt Service	868,444	-	-	-	(868,444)	-	(868,444)	
TOTAL GOVERNMENTAL ACTIVITIES	8,037,964	2,295,780	657,409	354,470	(4,730,305)	-	(4,730,305)	
BUSINESS-TYPE ACTIVITIES:								
No Activities	-	-	-	-	-	-	-	
TOTAL PRIMARY GOVERNMENT	\$ 8,037,964	\$ 2,295,780	\$ 657,409	\$ 354,470	\$ (4,730,305)	\$ -	\$ (4,730,305)	
COMPONENT UNITS:								
Lower Saucon Authority	\$ 1,503,779	\$ 1,734,841	\$ -	\$ -	\$ -	\$ -	\$ -	231,062
GENERAL REVENUES:								
Property Taxes Levied for General Purposes, Net					\$ 1,834,639	\$ -	\$ 1,834,639	
Other Taxes for General Purposes					3,736,429	-	3,736,429	
Grants, Subsidies, & Contributions Not Restricted					-	-	-	
Investment Earnings					22,649	-	22,649	13,201
Miscellaneous Income					141,365	-	141,365	7,689
Sale of Fixed Assets					43,561	-	43,561	-
Transfers					-	-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					5,778,643	-	5,778,643	20,890
CHANGE IN NET POSITION					1,048,338	-	1,048,338	251,952
NET POSITION - BEGINNING					9,036,319	-	9,036,319	3,103,549
NET POSITION - ENDING					\$ 10,084,657	\$ -	\$ 10,084,657	\$ 3,355,501

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Balance Sheet – Modified Cash Basis
All Governmental Funds
As of December 31, 2012

	<u>GENERAL</u>	<u>STATE LIQUID FUELS FUND</u>	<u>CAPITAL PROJECT FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 6,676,433	\$ 887,380	\$ 1,315,594	\$ 8,879,407
Investments	900,000	-	300,000	1,200,000
Due from Other Funds	10,000	-	-	10,000
Other Receivables	-	-	-	-
TOTAL ASSETS	<u>\$ 7,586,433</u>	<u>\$ 887,380</u>	<u>\$ 1,615,594</u>	<u>\$ 10,089,407</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-	-
Other Payables	330	-	4,420	4,750
TOTAL LIABILITIES	<u>330</u>	<u>-</u>	<u>4,420</u>	<u>4,750</u>
<u>FUND BALANCES:</u>				
- Nonspendable	-	-	-	-
- Restricted	-	887,380	-	887,380
- Committed	-	-	-	-
- Assigned	-	-	1,611,174	1,611,174
- Unassigned	7,586,103	-	-	7,586,103
TOTAL FUND BALANCES	<u>7,586,103</u>	<u>887,380</u>	<u>1,611,174</u>	<u>10,084,657</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,586,433</u>	<u>\$ 887,380</u>	<u>\$ 1,615,594</u>	<u>\$ 10,089,407</u>

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
All Governmental Funds
For the Year Ended December 31, 2012

<u>REVENUES</u>	<u>GENERAL</u>	<u>STATE LIQUID FUELS FUND</u>	<u>CAPITAL PROJECT FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Taxes	\$ 5,473,514	-	-	\$ 5,473,514
Licenses and Permits	94,139	-	-	94,139
Fines and Forfeits	108,667	-	-	108,667
Intergovernmental	594,589	354,470	69,755	1,018,814
Charges for Services	2,175,154	-	12,189	2,187,343
Investment Earnings	16,925	2,207	3,515	22,647
Miscellaneous	32,481	3,258	2	35,741
TOTAL REVENUES	8,495,469	359,935	85,461	8,940,865
<u>EXPENDITURES</u>				
<u>CURRENT:</u>				
General Government	1,361,170	60	-	1,361,230
Public Safety	2,168,853	-	109,656	2,278,509
Public Works	643,689	330,727	215,536	1,189,952
Culture and Recreation	842,835	-	48,173	891,008
Miscellaneous	-	-	-	-
Insurance	261,766	-	-	261,766
Employee Benefits	1,187,055	-	-	1,187,055
DEBT SERVICE:				
Principal	668,068	-	-	668,068
Interest	200,376	-	-	200,376
TOTAL EXPENDITURES	7,333,812	330,787	373,365	8,037,964
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,161,657	29,148	(287,904)	902,901
OTHER FINANCING SOURCES (USES)				
Refund of Prior Year Outflows	117,817	-	-	117,817
Refund of Prior Year Inflows	(15,380)	-	-	(15,380)
Sale of Fixed Assets	-	43,000	-	43,000
Interfund Transfers In	50,000	-	205,000	255,000
Interfund Transfers Out	(205,000)	-	(50,000)	(255,000)
TOTAL OTHER FINANCING SOURCES	(52,563)	43,000	155,000	145,437
NET CHANGE IN FUND BALANCES	1,109,094	72,148	(132,904)	1,048,338
FUND BALANCES - BEGINNING	6,477,009	815,232	1,744,078	9,036,319
FUND BALANCES - ENDING	\$ 7,586,103	\$ 887,380	\$ 1,611,174	\$ 10,084,657

Reconciliation to Statement of Activities:
Amounts recorded for governmental activities in the statement of activities are the same as the amounts recorded in the statement of revenues, expenditures, and changes in fund balances of all governmental funds, since both statements are prepared on the modified cash basis of accounting.

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
As of December 31, 2012

	AGENCY FUNDS
ASSETS	
Cash and Cash Equivalents	\$ 266,262
Investments	-
Due from Other Funds	-
Other Receivables	-
TOTAL ASSETS	\$ 266,262
 LIABILITIES	
Due to Other Funds	\$ 10,000
Due to Developers	256,262
Pension Fund Liability	-
Accrued Investment Expense	-
TOTAL LIABILITIES	266,262
 NET POSITION	
Unrestricted	-
TOTAL NET POSITION	\$ -

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balances – Budget and Actual –
Modified Cash Basis – General Fund
Year Ended December 31, 2012

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO MODIFIED CASH DIFFERENCE	ACTUAL AMOUNTS MODIFIED CASH BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 4,982,801	\$ 4,982,801	\$ 5,473,514	\$ 490,713	\$ -	\$ 5,473,514
Licenses and Permits	89,014	89,014	94,139	5,125	-	94,139
Fines and Forfeits	90,671	90,671	108,667	17,996	-	108,667
Intergovernmental	713,926	713,926	594,589	(119,337)	-	594,589
Charges for Services	2,080,452	2,080,452	2,175,154	94,702	-	2,175,154
Miscellaneous	21,925	21,925	32,481	10,556	-	32,481
Interest Received	20,350	20,350	16,925	(3,425)	-	16,925
Refund of Prior Year Outflows	90,000	90,000	117,817	27,817	-	117,817
Sale of Fixed Assets	1,000	1,000	-	(1,000)	-	-
Transfers from Other Funds	915,000	915,000	50,000	(865,000)	-	50,000
TOTAL RESOURCES	9,005,139	9,005,139	8,663,286	(341,853)	-	8,663,286
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government:						
Legal	156,700	186,700	191,273	(4,573)	-	191,273
Mayor, Legislative, Borough Manager	289,569	290,204	274,457	15,747	-	274,457
Finance and Accounting	224,635	224,635	173,811	50,824	-	173,811
Data Processing	58,862	58,862	30,271	28,591	-	30,271
Engineering	176,500	186,500	220,062	(33,562)	-	220,062
Buildings and Plant	559,512	554,512	471,296	83,216	-	471,296
Public Safety:						
Police	1,527,429	1,538,319	1,490,773	47,546	-	1,490,773
Fire	454,021	454,021	464,910	(10,889)	-	464,910
Inspections	192,833	217,833	209,208	8,625	-	209,208
Crossing Guards	5,000	5,000	3,962	1,038	-	3,962
Public Works:						
Public Works Administration	108,317	108,317	61,316	47,001	-	61,316
Sanitation and Recycling	140,950	140,950	18,439	122,511	-	18,439
Street Maintenance and Lighting	680,516	680,516	563,934	116,582	-	563,934
Culture and Recreation:						
Parks	2,070,039	2,178,943	659,368	1,519,575	-	659,368
Library	183,467	183,467	183,467	-	-	183,467
Non-Departmental:						
Miscellaneous	46,300	46,300	-	46,300	-	-
Debt Service	878,866	878,866	868,444	10,422	-	868,444
Insurance	265,150	265,150	261,766	3,384	-	261,766
Employee Benefits	1,247,703	1,247,703	1,187,055	60,648	-	1,187,055
Contingencies	4,305,017	4,124,588	-	4,124,588	-	-
Refund of Prior Year Inflows	-	-	15,380	(15,380)	-	15,380
Transfer to Other Funds	1,070,000	1,070,000	205,000	865,000	-	205,000
TOTAL CHARGES TO APPROPRIATIONS	14,641,386	14,641,386	7,554,192	7,087,194	-	7,554,192
Excess (Deficiency) of Inflows Over Outflows	(5,636,247)	(5,636,247)	1,109,094	6,745,341	-	1,109,094
FUND BALANCE - JANUARY 1, 2012	5,636,247	5,636,247	6,477,009	840,762	-	6,477,009
FUND BALANCE - DECEMBER 31, 2012	-	-	\$ 7,586,103	\$ 7,586,103	\$ -	\$ 7,586,103

The Accompanying Notes are an integral part of these financial statements.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Note 1 - Description of the Township and Reporting Entity

The Township of Lower Saucon was incorporated in 1743 and adopted its first Administrative Code on September 20, 1976, under the provision of Act 62 of 1972, Public Law 184, as amended (Home Rule Charter). The Township operates under a council-manager form of government and provides the following services as authorized by its Administrative Code: Public Safety-Police, Highways and Streets, Sanitation, Health and Social Services, Culture - Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Township are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

Lower Saucon Township is a municipal corporation governed by an elected council. As required by generally accepted accounting principles, these financial statements are to present Lower Saucon Township (the primary government) and organizations for which the primary government is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the Township in that the Township approved the budget, the issuance of debt, or the levying of taxes. The Lower Saucon Township has one component unit. The Lower Saucon Township Authority is a component unit.

Component Units

In conformity with accounting principles, generally accepted in the United States of America, the following component unit has been included in the financial reporting entity as a discretely presented component unit.

Lower Saucon Authority

The Authority owns and operates the water and sewer systems, reservoir, and treatment plants. Operation of the water system by the Authority began on January 1, 1996, and operation of the sewer system by the Authority began on July 28, 2000. Any capital improvements are approved jointly by the Township Council and the Authority Board. The Township Council appoints the members serving on the Authority Board.

Copies of separate financial statements of Lower Saucon Authority may be obtained at the Township office, 3700 Old Philadelphia Pike, Bethlehem, PA. 18025.

Note 2 - Summary of Significant Accounting Policies

A. *Basis of Presentation*

The Township's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds, and discretely presented component units. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Township at year-end, along with the discretely presented component units. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities of the Township and the discretely presented Component Unit. There are no business-type activities of the Township. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township and the Component Unit, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each Township governmental function or Component Unit is self-financing or draws from the general revenues of the Township or Component Unit.

Fund Financial Statements During the year, the Township segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Basis of Accounting

Lower Saucon Township prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred, with the exception of certain receivables and liabilities. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

C. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

The following are the Township's **major** governmental funds:

General Fund

The General Fund is the general operating fund of the Township. Substantially all tax revenues, Federal and State aid (except aid restricted for use in Special Revenue Funds) and other operating revenues are accounted for in the General Fund. This Fund also accounts for expenditures and transfers as appropriated in the budget which provides for the Township's day-to-day operations.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major equipment and facilities. The Township has three Capital Project Funds.

Special Revenue Fund

The Township has one major special revenue fund consisting of the State Liquid Fuels Fund. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of net income, financial position, and changes in cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the Township's Proprietary Funds:

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Township does not have any major Enterprise Funds, except for the discretely presented component unit:

Lower Saucon Authority

The operations of the water and sewer systems owned and operated by the Lower Saucon Authority are shown as a discretely presented component unit on the modified cash basis of accounting.

The Township follows alternative #1 under GASB Statement No. 20 which requires following the FASB Statements and interpretations, APB opinions, and ARB's issued on or before November 30, 1989, except those that conflict with a GASB Statement.

Fiduciary Funds Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Township under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Township's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

D. Budgets and Budgetary Accounting

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

1. In accordance with the Township Code and Township procedures, the Township Manager submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, public works, culture and recreation, and insurance, employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 31, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications, transfers and amendments must be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The legally adopted budgets of the Township are for the General Fund.
7. The budgets are adopted on the modified cash basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes.)
8. The Council may authorize supplemental appropriations during the year. The Council must approve all expenditures of appropriations or transfers of appropriated amounts.

E. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Since these financial statements are prepared on the modified cash basis, no estimates have been used.

F. Investments

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust and Pennsylvania Treasurer's Invest Program) are recorded at the pool's share price.

G. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Any residual balances outstanding between the primary government and discretely presented component units are shown as a separate line item on the Government-wide Statement of Net Assets.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Real Estate Taxes

The total taxable assessed real estate valuation for the year ended 2012 is \$444,871,200 at a rate of 4.14 mills. Real estate taxes are levied on January 1 and are payable by June 30.

Real estate taxes paid by April 30 are subject to a 2% discount and after June 30 are subject to a 10% penalty. Delinquent real estate taxes are generally lien by January 1 of the following year.

I. Fund Balance Classifications

GASB Statement No. 54, effective for financial statements for periods beginning after June 15, 2010, established accounting and financial reporting standards for all governments that report governmental funds. The statement established criteria for classifying fund balances into the following specifically defined classifications:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Township's highest level of decision making is the Township Council.
- **Assigned** fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

Note 3 - Stewardship, Compliance and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Retained Earnings of Individual Funds

There are no deficits in fund balances or net assets at December 31, 2012.

C. Excess of Expenditures over Appropriations in Individual Funds

No individual fund, which has a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The Township has a legally adopted budget for the General Fund. The Township does make budget transfers between expenditure/expense accounts.

Note 4 - Cash

Primary Government

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a policy for custodial credit risk. As of December 31, 2012, \$9,910,723 of the Township's bank balance of \$10,410,723 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Township's name	9,910,723
TOTAL	<u>\$ 9,910,723</u>

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 9,910,723
Plus: Insured Amount	500,000
Deposits in Transit	3
Less: Outstanding Checks	<u>(101,083)</u>
Carrying Amount – Bank Balance	10,309,643
Plus: Petty Cash	300
Deposits in Pooled Investments Considered Cash Equivalents	35,726
Less: Certificates of Deposit considered Investment by the Township	<u>(1,200,000)</u>
Total Cash per Financial Statements	<u>\$ 9,145,669</u>

Restricted Cash

The cash balance includes \$266,262 held as developer's escrow funds. These funds are held by the Township to guarantee the completion of various construction projects by the developers.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Component Unit

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority does have a policy for custodial credit risk.

As of December 31, 2012, \$2,846,195 of the Authority's bank balance of \$3,096,195 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Authority's name	2,846,195
TOTAL	\$ 2,846,195

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 2,846,195
Plus: Insured Amount	250,000
Less: Outstanding Checks	(16,116)
Plus: Deposits in Transit	-
Carrying Amount – Bank Balance	3,080,079
Plus: Petty Cash	700
Pooled Cash Equivalent in Enterprise Funds	311,955
Less: Certificates of Deposit considered Investment by the Authority	(1,022,173)
Total Cash per Financial Statements	\$ 2,370,561

Restricted Cash

The cash balance includes \$37,570 held as developer's escrow funds. These funds are held by the Authority to guarantee the completion of various water and sewer lines by the developers.

Note 5 - Investments

Primary Government

The permitted investments for Pennsylvania Township are defined in the Township Code as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share of accounts of institutions insured by the F.D.I.C.; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

As of December 31, 2012, the Township had the following investments:

<u>Investments</u>	<u>Fair Value</u>
PA Local Government Investment Trust	\$ 35,726
Certificates of Deposit	1,200,000
TOTAL	\$ 1,235,726

Interest Rate Risk

The Township does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Township has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2012, the Township's investment in the PA Local Government Investment Trust was rated AAA by Standard & Poors.

Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. Of the Township's investments, 97.11% are in certificates of deposit at Lafayette Ambassador Bank. Of the Governmental Activities investments, 97.11% are in certificates of deposit at Lafayette Ambassador Bank. Of the Capital Projects Funds' investments, 93.16% are in certificates of deposit at Lafayette Ambassador Bank. Of the General Fund's investments, 99.99% are in certificates of deposit at Lafayette Ambassador Bank.

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 security that are in the possession of an outside party. The Township had no investments subject to custodial credit risk.

Reconciliation to Financial Statements

Total Investments Above	\$ 1,235,726
Less: Deposits in Investment Pool Considered Cash Equivalents	(35,726)
Total Investments per Financial Statements	\$ 1,200,000

Component Unit

As of December 31, 2012, the Authority had the following investments:

Investment

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
PA Local Government Investment Trust		\$ 311,955
Certificates of Deposit	12-23 Months	1,022,173
TOTAL		\$ 1,334,128

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

Interest Rate Risk

The Authority 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.

Credit Risk

The Authority has no investment policy that would limit its investment choices to certain credit ratings. The investments in the PA Local Government Investment Trust were rated AAA by Standard & Poor's.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. Of the Authority's investments, 100% is in certificates of deposit at Lafayette Ambassador Bank.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority had no investments subject to custodial credit risk and has adopted a formal custodial credit risk policy.

Reconciliation to Financial Statements

Total Investments Above	\$ 1,334,128
Less: Deposits in Investment Pool Considered Cash Equivalents	(311,955)
Total Investments per Financial Statements	\$ 1,022,173

Note 6 – Long-Term Debt Commitments

Long-term liability balances and activity for the year ended December 31, 2012, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General Obligation Debt:					
<i>Bonds and Notes Payable:</i>					
Capital Projects	\$ 5,365,229	-	668,068	4,697,161	694,540
Total Governmental Activities	\$ 5,365,229	\$ -	\$ 668,068	\$ 4,697,161	\$ 694,540

Payments on bonds and notes were made by the Landfill Revenue Fund.

Total interest paid during the year:

	Paid
Governmental Activities	
General Obligation Debt	\$ 200,376
Capital Leases	-
Short-Term Borrowings and Other Liabilities	-
TOTAL	\$ 200,376

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Primary Government Debt

General Obligation Note - Series of 2001

On May 4, 2001, the Township issued a \$4,000,000 general obligation note purchased by Lafayette Ambassador Bank. The purpose of this note was to finance the construction of the new township building facility. The original interest rate was 5.25%; however, effective November 12, 2011 the interest rate has been modified to 3.45%. The annual payment, effective December 31, 2012, is \$286,768. The future debt service obligations are:

Fiscal Year	Principal	Interest
2013	\$ 249,922	\$ 36,846
2014	258,664	28,104
2015	267,712	19,056
2016	275,360	9,692
Total Outstanding	\$ 1,051,658	\$ 93,698

General Obligation Note – Series of 2005

On May 13, 2005, the Township issued a \$4,650,000 general obligation note purchased by Lafayette Ambassador Bank. The purpose of this note is (1) to refinance the existing General Obligation Note – Series of 2002, and (2) to acquire real property and make land improvements for recreational facilities. The effective interest rate is 3.55% for the initial sixty (60) months and to be reset by the bank at 65% of the prime rate for the remaining loan term never to exceed 6.0%. On May 20, 2010, the effective interest rate on this General Obligation Note was reset to 3.78%. The loan term was adjusted from 10 years to 15 years on November 16, 2005. The current annual payment is \$402,215. The future debt service obligations are:

Fiscal Year	Principal	Interest
2013	\$ 310,760	\$ 91,455
2014	322,256	79,959
2015	334,437	67,778
2016	346,927	55,288
2017	360,192	42,023
2018-2019	751,523	42,685
Total Outstanding	\$ 2,426,095	\$ 379,188

General Obligation Note – Series of 2006

On January 10, 2006, the Township issued a \$2,000,000 general obligation note purchased by Lafayette Ambassador Bank. The purpose of this note is to acquire real property and make land improvements for recreational facilities. The effective interest rate is 4.25% for the initial sixty (60) months and to be reset by the bank at 65% of the prime rate for the remaining loan term never to exceed 6%. On February 19, 2011, the effective interest rate on this General Obligation Note was modified to 3.75%. The loan term is 15 years. The current annual payment is \$179,460.

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

The future debt service obligations are:

Fiscal Year	Principal	Interest
2013	\$ 133,858	\$ 45,602
2014	138,752	40,708
2015	143,955	35,505
2016	149,271	30,189
2017	154,951	24,509
2018-2020	498,621	37,801
Total Outstanding	\$ 1,219,408	\$ 214,314

Alternative/Clean Energy Program Note

On January 28, 2011, the Township issued a General Obligation Note in the amount of \$87,748 for the purpose of modifying the Township buildings to be energy efficient. The Note was approved and purchased by the Pennsylvania Commonwealth Financing Authority as a 10 year loan at a fixed rate of 1%. The Township is to submit invoices associated with this energy project to the Authority for reimbursement and drawdown of loan funds. As of December 31, 2012, no invoices have been paid or submitted to the Authority. As a result, the liability related to this Note is \$0 at December 31, 2012.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Combined Long-Term Debt

The combined general long-term debt obligations for subsequent years are:

PRINCIPAL REQUIREMENTS				
PRIMARY GOVERNMENT				
FISCAL YEAR	G.O.N. SERIES 2001	G.O.N. SERIES 2005	G.O.N. SERIES 2006	TOTAL PAYMENTS
2013	\$ 249,922	\$ 310,760	\$ 133,858	\$ 694,540
2014	258,664	322,256	138,752	719,672
2015	267,712	334,437	143,955	746,104
2016	275,360	346,927	149,271	771,558
2017	-	360,192	154,951	515,143
2018 to 2020	-	751,523	498,621	1,250,144
TOTAL	1,051,658	2,426,095	1,219,408	4,697,161
LESS PAYABLE WITHIN ONE YEAR	249,922	310,760	133,858	694,540
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 801,736	\$ 2,115,335	\$ 1,085,550	\$ 4,002,621

PRINCIPAL AND INTEREST REQUIREMENTS				
PRIMARY GOVERNMENT				
FISCAL YEAR	G.O.N. SERIES 2001	G.O.N. SERIES 2005	G.O.N. SERIES 2006	TOTAL PAYMENTS
2013	\$ 286,768	\$ 402,215	\$ 179,460	\$ 868,443
2014	286,768	402,215	179,460	868,443
2015	286,768	402,215	179,460	868,443
2016	285,052	402,215	179,460	866,727
2017	-	402,215	179,460	581,675
2018 to 2020	-	794,208	536,422	1,330,630
TOTAL	\$ 1,145,356	\$ 2,805,283	\$ 1,433,722	\$ 5,384,361

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Note 7 - Pension Plans

General

The Township maintains two pension plans, the Non-Uniformed Pension Plan, which covers substantially all full-time and permanently part-time non-police employees of the Township and the Police Pension Plan for full time police employees, The plans are members of the statewide Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system. PMRS was created by the Pennsylvania General Assembly to administer pension plans on a contract basis. PMRS is trustee of the pension plans. PMRS maintains separate records for each plan and issues separate financial statements for each plan which can be obtained from the Township at 3700 Old Philadelphia Pike, Bethlehem, PA 18015. PMRS also issues a publicly available Comprehensive Financial Report (CAFR) that may be obtained by writing to PMRS, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968. The Authority under which the benefit provisions have been established, or may be amended, remains with the Council members of Lower Saucon Township.

Non-Uniformed Pension Plan

Plan Description

The Lower Saucon Township Non-Uniformed Pension Plan is an agent multiple-employer defined benefit pension plan controlled by the provisions of Ordinance 79-7, 86-3, 93-2, 96-13, 99-11, 2002-08 and 2003-05 adopted pursuant to Act 69 of the Commonwealth of Pennsylvania. Act 205, the Municipal Pension Plan Funding Standard and Recovery Act, provides the authority for the Township to establish and amend the plan.

All full-time salaried non-police employees are eligible to participate in the plan. Benefits vested after five years of service. Normal retirement is at age 65 with five years of vesting service. Early retirement is available after 10 years of service.

Upon normal retirement, employees should receive a benefit of 1.75% of their average compensation multiplied by all years of service. Average compensation is calculated as the average of compensation pay over the final 36 months of employment. For employees eligible for early retirement, the benefit will equal to the benefit accrued at the date of termination reduced actuarially. If a member continues employment after his normal retirement date, he will be eligible to receive a monthly pension payable at his late retirement date equal to the benefit accrued at the date of actual retirement. There is no social security offset. The plan also provides certain death and disability benefits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the plans are prepared on the accrual basis of accounting. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and expenses are recognized when due and payable in accordance with the terms of the plan. Benefit payments are paid from the current income of the plan. Pension consultant, actuarial fees and trustee fees are paid by the Township's General Fund.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Method Used to Value Investments

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statements 25, 27 and 50 of the Government Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR and the separate plan statements issued by PMRS.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2009. As of January 1, 2010, department leads are required to contribute 1% of their salary to the plan; other members are not required to contribute any of their compensation to the plan.

The Plans may also be 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 requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2012:

Active Plan Members	21
Inactive Plan Members	1
Retirees and beneficiaries currently receiving benefits	1
Terminated plan members entitled to benefits but not yet receiving them	3
TOTAL	<u>26</u>

Annual Pension Cost and Net Pension Obligation

The Township's annual pension cost and net pension obligation for the year are:

Annual Pension Costs per MMO	\$ 86,983
Contributions made	86,983

Three-Year Trend Information

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2010	\$ 93,110	100%	-
12/31/2011	91,646	100%	-
12/31/2012	86,983	100%	-

The required annual contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2011 included (a) 7.0% rate of return, and (b) projected salary increases of 4.0% which includes an inflation component for moderate cost of living increases. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the trustee. The unfunded accrued liability (AAL) is being amortized on the level dollar

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

method on a closed basis over 15-20 years. The remaining amortization periods at December 31, 2012 were 7-15 years.

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 90.6% funded. The actuarial accrued liability for benefits was \$1,410,742 and the actuarial value of the assets was \$1,278,431, resulting in an unfunded actuarial accrued liability (UAAL) of \$132,311. The covered payroll (annual payroll of active employees covered by the plan) was \$970,417 and the ratio of the UAAL to the covered payroll was 13.6%.

As a result of the plan being 85.2% funded at January 1, 2009, the plan is considered to be in minimal distress. As a result of this designation, the Township has chosen to utilize a valuation method for valuing assets that produce a result that is between 70% and 130% of fair value for the valuations dated January 1, 2011. However, this did not affect the January 1, 2011 valuation as the actuarial value is only 100.2% of market value at January 1, 2011.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial valuation of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Changes in Net Assets

REVENUES

State Aid	\$	75,098	
Employee Contributions		3,468	
Employer Contributions		24,296	
Investment Income Net of Investment Fees		22,979	
Realized Gains on Investment Sales		5,810	
Unrealized Loss on Investments		<u>77,026</u>	
TOTAL REVENUE			\$ 208,677

EXPENDITURES

Pension Payments		46,469	
Administrative Fees		<u>11,867</u>	
TOTAL EXPENDITURES			<u>58,336</u>

Change in Net Assets		150,341
Net Assets January 1, 2012		<u>1,224,350</u>
Net Assets December 31, 2012	\$	<u>1,374,691</u>

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

POLICE PENSION PLAN

Plan Description

The Lower Saucon Township Police Pension Plan is an agent multiple-employer defined benefit pension plan controlled by the provisions of Ordinance 79-7 and 79-8, adopted pursuant to Act 62 of the Commonwealth of Pennsylvania. Act 600, the Police Pension Act, provides the authority for the Township to establish and amend the plan.

All full-time police employees are eligible to participate in the plan. Benefits vested after 12 years of service. Retirement age is 50 with at least 25 years of credited service. Retirement is mandatory at age 65. Early retirement is available after 20 years of service.

Upon normal retirement, employees should receive a benefit of 50% of their average compensation plus a service increment of \$100 per month for each completed year of service in excess of 25 years to a maximum service increment of \$500 per month. Average compensation is calculated as the total compensation paid and earned over the final 36 months of employment. If a member retires after 20 years of service and prior to his normal retirement date, he will be eligible to receive his accrued pension reduced actuarially. If a member continues to work beyond his normal retirement date, he will be eligible, if a member continues employment after his retirement date; he is eligible to receive his accrued pension payable at his retirement date. There is no social security offset. The plan also provides certain death and disability benefits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the plans are prepared on the accrual basis of accounting. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and expenses are recognized when due and payable in accordance with the terms of the plan. Benefit payments are paid from the current income of the plan. Pension consultant, actuarial fees and trustee fees are paid by the Township's General Fund.

Method Used to Value Investments

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statements 25, 27 and 50 of the Government Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR and the separate plan statements issued by PMRS.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2011. In accordance with the plan's governing resolution, officers are required to contribute 2.0% of their compensation to the plan. The police chief contributes 1% of his compensation to the plan.

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

The Plans may also be 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 requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2012:

Active Plan Members	14
Retirees and beneficiaries currently receiving benefits	6
Terminated plan members entitled to benefits but not yet receiving them	0
TOTAL	20

Annual Pension Cost and Net Pension Obligation

The Township's annual pension cost and net pension obligation for the year are:

Annual Pension Costs per MMO	\$ 256,470
Contributions made	256,470

Three-Year Trend Information for the Police Pension Plan

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2010	\$ 177,635	100%	-
12/31/2011	183,105	100%	-
12/31/2012	256,470	100%	-

The required annual contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2011 included (a) 7.0% rate of return, and (b) projected salary increases of 4.0% which does not include an inflation component for moderate cost of living increases. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the trustee. The unfunded accrued liability (AAL) is being amortized on the level dollar method on a closed basis over 17 years. The remaining amortization periods at December 31, 2012 were 8-15 years.

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 82.0% funded. The actuarial accrued liability for benefits was \$5,035,073 and the actuarial value of the assets was \$4,127,761, resulting in an unfunded actuarial accrued liability (UAAL) of \$907,312. The covered payroll (annual payroll of active employees covered by the plan) was \$1,011,579 and the ratio of the UAAL to the covered payroll was 89.7%.

As a result of the plan being 86.1% funded at 1/1/09, the plan is considered to be in minimal distress. As a result of this designation, the Township has chosen to utilize a valuation method for valuing assets that produces a result that is between 70% and 130% of fair value for the valuations dated January 1, 2011. However, this has no effect on the 1/1/11 valuation as the actuarial value is 99.7% of the market value at January 1, 2011.

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012**

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial valuation of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<u>REVENUES</u>		
State Aid	\$	107,283
Employer Contributions		183,468
Employee Contributions		20,782
Investment Income Net of Investment Fees		74,420
Miscellaneous Income		-
Realized Gains on Investment Sales		19,343
Unrealized Loss on Investments		<u>251,179</u>
TOTAL REVENUE	\$	656,475
<u>EXPENDITURES</u>		
Pension Payments		203,546
Administrative Fees		<u>32,411</u>
TOTAL EXPENDITURES		<u>235,957</u>
Change in Net Assets		420,518
Net Assets January 1, 2012		<u>3,997,837</u>
Net Assets December 31, 2012	\$	<u>4,418,355</u>

Note 8 - Deferred Compensation Plan

The Township has adopted the Deferred Compensation Plan for voluntary participation of eligible municipal employees. The plan is in accordance with Internal Revenue Code Section 457 and permits the employees to defer a portion of their current salary until future years. The deferred amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, are solely the property and rights of the participants. Participants' rights created under the plan are equivalent and in an amount equal to the fair market value of the deferred account maintained with respect to each participant.

Note 9 - Insurance

The Township is subject to risk of loss from employee act, property damage, personal injury, auto accidents, theft, etc. The Township covers those risks through the purchase of commercial insurance. The Township's workmen's compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance company. Any settlements received by the Township or its employees did not exceed insurance coverage in any of the last three years.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Note 10 - Short-Term Debt

Interfund Receivables, Payables, and Transfers

The following schedule represents the interfund receivables and payables at December 31, 2012.

	Interfund Receivables	Interfund Payables
General Fund	\$ 10,000	\$ -
Agency (Developer Escrow) Fund	-	10,000
TOTAL	\$ 10,000	\$ 10,000

The following schedule represents the interfund transfers in and out during the 2012 year.

Interfund Transfers

	Transfer In	Transfer Out
General Fund	\$ 50,000	\$ 205,000
Capital Project (Capital) Fund	200,000	-
Capital Project (Polk Valley Park) Fund	-	50,000
Capital Projects (Land Acquisition and Parks) Fund	5,000	-
TOTAL	\$ 255,000	\$ 255,000

Note 11 – Fund Balance

Detailed information about aggregated fund balances:

Assigned Fund Balances

Capital Fund	\$ 1,467,329
Polk Valley Park Fund	106,620
Land Acquisition and Parks Fund	37,225
TOTAL CAPITAL PROJECTS FUNDS	\$ 1,611,174

Restricted Fund Balances

The restricted fund balance represents contributions that are externally restricted for specific purposes;

State Liquid Fuels Fund	\$ 887,380
TOTAL	\$ 887,380

Note 12 – Joint Venture – “Saucon Valley Compost Center”

In accordance with Ordinance 2007-11, Lower Saucon Township entered into an agreement with the Borough of Hellertown to establish the Saucon Valley Compost Center. All expenses attributed to this joint venture will be divided equally between the two municipalities. Each municipality contributes to this joint venture to finance the day to day operations of the Saucon Valley Compost Center. A separate bank account was opened in order to track the expenditures of this joint venture. Recordkeeping and reporting will be the responsibility of Lower Saucon Township. In the event of closure, any remaining balance will be distributed to the two municipalities evenly.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2012

Note 13 – Contingencies

There is a continuing issue regarding the closing of the landfill located in Lower Saucon Township. As of the report date, no Board decision has been reached. Any decision to close the landfill would negatively impact the Township's future net position.

Note 14 - Litigation

In accordance with the solicitor's legal letter to the auditors, there is no pending litigation that would materially affect the Township's financial position.

Note 15 – Subsequent Events

The subsequent events have been evaluated through July 22, 2013, which is the date of the financial statements were available to be issued.



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

July 22, 2013

Township Council
Lower Saucon Township
3700 Old Philadelphia Pike
Bethlehem, PA 18015

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lower Saucon Township, as of and for the year ended December 31, 2012, which collectively comprise the Lower Saucon Township's basic financial statements and have issued our report thereon dated July 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Lower Saucon Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lower Saucon Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lower Saucon Township's internal control over financial reporting.

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

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

TOWNSHIP COUNCIL

Compliance and Other Matters

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

We noted certain matters that we reported to management of Lower Saucon Township in a separate letter dated July 22, 2013.

This report is intended solely for the information and use of management, the Township Council, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Craig W. Gillehan # CPA

July 22, 2013

REQUIRED SUPPLEMENTAL INFORMATION

OTHER SUPPLEMENTAL INFORMATION

LOWER SAUCON TOWNSHIP
Combining Balance Sheet - Modified Cash Basis
All Capital Project Funds
For the Year Ended December 31, 2012

	CAPITAL PROJECT FUNDS				
	CAPITAL FUND	POLK VALLEY PARK FUND	LAND ACQUISITION AND PARKS FUND	TOTAL	
Cash and Cash Equivalents	\$ 1,171,749	\$ 106,620	\$ 37,225	\$ 1,315,594	
Investments	300,000	-	-	300,000	
Due from Other Funds	-	-	-	-	
TOTAL ASSETS	\$ 1,471,749	\$ 106,620	\$ 37,225	\$ 1,615,594	

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Other Payables	\$ 4,420	-	-	\$ 4,420	
TOTAL LIABILITIES	4,420	-	-	4,420	
FUND BALANCES:					
Assigned	1,467,329	106,620	37,225	1,611,174	
TOTAL FUND BALANCES	1,467,329	106,620	37,225	1,611,174	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,471,749	\$ 106,620	\$ 37,225	\$ 1,615,594	

LOWER SAUCON TOWNSHIP
Combining Statement of Revenues, Expenditures and Changes in Fund Balance --
Modified Cash Basis
All Capital Project Funds
For the Year Ended December 31, 2012

	CAPITAL PROJECT FUNDS				TOTAL
	CAPITAL FUND	POLK VALLEY PARK FUND	LAND ACQUISITION AND PARKS FUND	57 \$	
REVENUES	\$	3,067 \$	391 \$	57 \$	3,515
Investment Earnings		12,189	-	-	12,189
Developers Fees		27,459	-	-	27,459
Casino Impact Fees		42,296	-	-	42,296
Alternative Fuels Incentive Grant		-	2	-	2
Miscellaneous		-	-	-	-
TOTAL REVENUES		85,011	393	57	85,461
EXPENDITURES					
Public Safety		109,656	-	-	109,656
Public Works		215,536	-	-	215,536
Culture and Recreation		-	37,673	10,500	48,173
Community Development		-	-	-	-
TOTAL EXPENDITURES		325,192	37,673	10,500	373,365
(DEFICIENCY) OF REVENUES OVER EXPENDITURES		(240,181)	(37,280)	(10,443)	(287,904)
OTHER FINANCING SOURCES (USES)					
Sale of Fixed Assets		-	-	-	-
Transfers In		200,000	-	5,000	205,000
Transfers Out		-	(50,000)	-	(50,000)
TOTAL OTHER FINANCING SOURCES (USES)		200,000	(50,000)	5,000	155,000
NET CHANGE IN FUND BALANCE		(40,181)	(87,280)	(5,443)	(132,904)
FUND BALANCES - BEGINNING		1,507,510	193,900	42,668	1,744,078
FUND BALANCES - ENDING	\$	1,467,329 \$	106,620 \$	37,225 \$	1,611,174

INDIVIDUAL FUND STATEMENTS

LOWER SAUCON TOWNSHIP
General Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

REVENUES RECEIVED

TAXES:

Real Estate Taxes - Current	\$	1,744,398	
Real Estate Taxes - Prior		32,769	
Real Estate Taxes - Current Interims		2,889	
Real Estate Taxes - Prior Interims		1,997	
Real Estate Taxes - Delinquent		52,586	
Real Estate Transfer Taxes		332,796	
Earned Income Taxes - Current		1,799,975	
Earned Income Taxes - Prior		1,460,474	
Emergency Municipal Service Tax - Current		33,467	
Emergency Municipal Service Tax - Prior		12,163	
		\$	5,473,514

LICENSES AND PERMITS:

Franchise Fee Cable	90,619	
Junkyard Licenses	1,250	
Road Encroachment Permits	2,120	
Moving Permits	150	
	\$	94,139

FINES AND FORFEITS:

Motor Vehicle Violations	64,459	
Fines	20,869	
Ordinance Violations	6,351	
Crimes Code Violations	15,288	
Parking Tickets	1,700	
	\$	108,667

INTERGOVERNMENTAL:

State Grants	217,227	
Local Government Unit Shared Payments	6,000	
Beverage Licenses	1,550	
Federal Grants	86,293	
Public Utility Realty Tax	6,935	
Pension State Aid	182,382	
Allotment - Fireman's Relief	94,202	
	\$	594,589

CHARGES FOR SERVICES:

Zoning Permits	5,900	
Subdivision Fees	475	
Tax Collection Services	13,140	
Duplicate Tax Bill Fees	875	
Police Services	14,724	
Accident Report Requests	2,625	
Incident Report Fees	521	
Administrative Income	2,910	
Security Alarm Fees	1,455	
Building Permits	13,950	
Sanitation Permits	15,680	
State UCC Fees	552	
Highway and Street Charges	18,162	
Health Insurance Charges	107,410	
Landfill Host Fees	1,958,510	
Recreation Fees	10,950	
BRE Sales	7,315	
	\$	2,175,154

INVESTMENT EARNINGS:

Interest Income		16,925
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MISCELLANEOUS:

Miscellaneous	13,576	
Donations	18,905	
	\$	32,481

TOTAL REVENUE RECEIVED	\$	8,495,469
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LOWER SAUCON TOWNSHIP
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

EXPENDITURES PAID

GENERAL GOVERNMENT

LEGAL:

Solicitor \$ 191,273

MAYOR, LEGISLATIVE, TOWNSHIP MANAGER:

Salary 218,051

Payroll Taxes 16,223

General Expense 8,630

Grant Expenditures 17,043

Other Expense 4,363

Advertising, Printing and Postage 10,147

FINANCE AND ACCOUNTING:

Salary 77,390

Payroll Taxes 5,920

Payroll Services 4,187

Auditing 16,000

Bank Services 1,213

Office Materials/Supplies 10,321

Tax Collection Services 545

Real Estate Tax Prep/Mailing 8,191

General Expense 172

Contracted Services 49,872

DATA PROCESSING:

Salary 3,000

Payroll Taxes 230

Website Operation/Maintenance 3,013

Office Equipment Maintenance 4,852

Equipment - Capital 9,366

Software Licenses 9,810

ENGINEER:

Engineering Services 144,227

Consulting Services 19,619

Sewage Enforcement Officer 56,216

BUILDINGS AND PLANT:

Salary 6,042

Building Materials/Supplies 3,307

Heating Oil/Diesel Fuel 50,470

Gasoline 100,087

Oils/Lubricants 1,773

Communication Expense 33,856

Utilities 61,617

Maintenance/Repairs 201,522

Equipment Rental 12,622

\$ 1,361,170

LOWER SAUCON TOWNSHIP
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

PUBLIC SAFETY

POLICE:

Salary of Policemen	\$	1,133,131
Overtime		86,820
Salary of Clerical		79,067
Payroll Taxes		99,415
Uniforms		12,465
Firearms Ammunition		6,364
Advertising/Printing		642
Investigation Expense		1,779
Communication Equipment		2,648
Equipment Maintenance		15,042
General Expenses		5,297
Vehicle Maintenance and Repairs		26,968
Equipment - Capital		7,208
Equipment - Non-Capital		5,663
Training		8,264

FIRE:

Contribution to Fire Co.	322,921
Fireman's Relief	94,202
Contribution to Dewey Ambulance	15,000
Hydrant/Water Service	22,417
Equipment - Capital	-
General Expenses	10,370

INSPECTIONS:

Zoning and Administration	68,297
Salary of Clerical	42,392
Payroll Taxes	8,315
Consulting Services	72,594
Advertising/Printing	2,330
Township Newsletter	4,863
Seminars	125
Vehicle Maintenance and Repairs	266
General Expenses	10,026

OTHER PUBLIC SAFETY:

Crossing Guards	3,962	\$	2,168,853
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PUBLIC WORKS

PUBLIC WORKS ADMINISTRATION:

Salary	61,316
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SANITATION:

Recycling Collection and Disposal	18,439
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STREET MAINTENANCE AND LIGHTING:

Salaries - Highways and Streets	393,087
Overtime	23,375
Payroll Taxes	37,464
Road Materials	62,354
Materials/Supplies	2,782
Traffic Sign Maintenance	23,708
Vehicle Maintenance	11,045
Equipment Rental	2,366
General Expenses	6,367
Equipment - Non-Capital	1,386
	643,689

LOWER SAUCON TOWNSHIP
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

CULTURE AND RECREATION

PARKS AND POOL:

Maintenance/Repairs	\$	11,515	
General Expenses		2,978	
Contracted Services		77,989	
Joint Recreation Contribution		23,046	
Senior Program		16,187	
Pool Pass Reimbursement		10,050	
Engineering Services		53,216	
Construction and Improvements		44,403	
Equipment		34,955	

LIBRARY:

Contribution	183,467	\$	457,806
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CONSERVATION OF NATURAL RESOURCES

Open Space Purchases	384,821		
Supplies	-		
Dues and Subscriptions	208		385,029

DEBT SERVICE

Debt Principal Payments	668,068		
Debt Interest Payments	200,376		868,444

INSURANCE

Business Insurance	61,491		
Vehicle Insurance	27,466		
Workmen's Compensation	172,809		261,766

EMPLOYEE BENEFITS

Dental Insurance	21,800		
Hospitalization Insurance	709,541		
Group Term Life Insurance	7,733		
Unemployment Compensation	14,748		
Other Benefits	17,856		
Income Protection	16,182		
Pension Administration Fees	55,742		
Minimum Pension Oblig - Nonuniform	86,983		
Minimum Pension Oblig - Police	256,470		1,187,055

TOTAL EXPENDITURES PAID

7,333,812

**EXCESS OF REVENUES RECEIVED OVER
EXPENDITURES PAID**

1,161,657

**OTHER FINANCING SOURCES RECEIVED AND
OTHER FINANCING USES PAID**

Refund of Prior Year Expenditures	\$	117,817	
Refund of Prior Year Revenue		(15,380)	
Interfund Transfers In		50,000	
Interfund Transfers Out		(205,000)	(52,563)

NET CHANGE IN FUND BALANCES

\$ 1,109,094

FUND BALANCE - JANUARY 1, 2012

6,477,009

FUND BALANCE - DECEMBER 31, 2012

\$ 7,586,103

LOWER SAUCON TOWNSHIP
State Liquid Fuels Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

FUND BALANCE - JANUARY 1, 2012		\$	815,232
<u>REVENUES RECEIVED</u>			
Intergovernmental:			
Motor Vehicle Fuel Taxes	\$	354,470	
Investment Income:			
Interest Earnings		2,207	
Miscellaneous:			
Miscellaneous Income		3,258	
Other Financing Sources:			
Sale of Fixed Assets		43,000	
			402,935
TOTAL FUNDS AVAILABLE			1,218,167
<u>EXPENDITURES PAID</u>			
General Government:			
Administration		60	
Public Works:			
Traffic Sign		3,773	
Vehicle M/R		12,511	
Equipment		51,596	
Snow Removal Materials		32,487	
Roads/Street/Signs/Markings		2,313	
Street Lighting		32,180	
Equipment Maintenance		492	
Road Materials/Supplies		1,011	
Road Project		194,364	
Miscellaneous:			
Contingencies		-	330,787
FUND BALANCE - DECEMBER 31, 2012		\$	<u>887,380</u>

LOWER SAUCON TOWNSHIP
Capital Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

FUND BALANCE - JANUARY 1, 2012		\$ 1,507,510
 <u>REVENUES RECEIVED</u>		
Investment Earnings	\$ 3,067	
General Government:		
Developer Fees	12,189	
Intergovernmental:		
Casino Impact Fees	27,459	
Alternative Fuels Incentive Grant	42,296	
Other Financing Sources:		
Transfer from Other Funds	200,000	285,011
TOTAL FUNDS AVAILABLE	1,792,521	1,792,521
 <u>EXPENDITURES AND OTHER FINANCING USES PAID</u>		
Public Safety:		
Capital Purchases	109,656	
Public Works:		
Capital Purchases	195,920	
Seidersville Hall	19,616	
Other Financing Uses:		
Transfer to Other Funds	-	325,192
FUND BALANCE - DECEMBER 31, 2012	\$ 1,467,329	\$ 1,467,329

LOWER SAUCON TOWNSHIP
Polk Valley Park Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2012

FUND BALANCE - JANUARY 1, 2012	\$	193,900
 <u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
Investment Earnings	\$	391
Miscellaneous		2
Other Financing Sources:		
Transfer from Other Funds	-	<u>393</u>
TOTAL FUNDS AVAILABLE		194,293
 <u>EXPENDITURES PAID</u>		
Culture and Recreation:		
Engineering Fees	7,139	
Bank Fees	-	
Construction	29,615	
Maintenance and Repairs	919	
Other Financing Uses:		
Transfer to Steel City Park Fund	<u>50,000</u>	<u>87,673</u>
 FUND BALANCE - DECEMBER 31, 2012	 \$	 <u>106,620</u>

Land Acquisition and Parks Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balances -
Modified Cash Basis
For the Year Ended December 31, 2012

FUND BALANCE - JANUARY 1, 2012	\$	42,668
 <u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
Investment Earnings	\$	57
Other Financing Sources:		
Transfer from General Fund	<u>5,000</u>	<u>5,057</u>
TOTAL FUNDS AVAILABLE		47,725
 <u>EXPENDITURES PAID</u>		
Culture and Recreation:		
Engineering Fees	9,540	
Construction	278	
Equipment	682	
Other Financing Uses:		
Transfer to Other Funds	<u>-</u>	<u>10,500</u>
 FUND BALANCE - DECEMBER 31, 2012	 \$	 <u>37,225</u>

LOWER SAUCON TOWNSHIP
Developers Escrow Fund
Statement of Additions Received and Deductions Paid
Modified Cash Basis
For the Year Ended December 31, 2012

DUE TO DEVELOPERS/GENERAL FUND - JANUARY 1, 2012	\$	235,172
 ADDITIONS RECEIVED:		
Receipts from Developers	166,824	
Interest Earnings	-	166,824
 DEDUCTIONS PAID:		
Legal	42,366	
Consulting Fees	13,959	
Engineering	54,648	
Township Expenses	2,664	
Applicant Refunds	22,097	
Miscellaneous	-	
TOTAL DEDUCTIONS PAID		135,734
 DUE TO DEVELOPERS/GENERAL FUND - DECEMBER 31, 2012		
	\$	<u>266,262</u>