

**REPORT ON
LOWER SAUCON TOWNSHIP
BETHLEHEM, PA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

LOWER SAUCON TOWNSHIP
Financial Statements - Modified Cash Basis
For the Year Ended December 31, 2017

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FINANCIAL SECTION



June 15, 2018

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, 2017, 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, 2017, 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 June 15, 2018, 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,

Hutchinson, Gillahan & Freeh, P.C.

June 15, 2018

LOWER SAUCON TOWNSHIP
Bethlehem, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2017

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, 2017. 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 \$1,663,100 including special and extraordinary items.

In 2015, the Township refinanced their entire debt and additionally financed storm water mitigation projects on Fire Lane and Black River Road. A general obligation note was issued in the amount of \$4,750,000 with a \$1,881,218 current outstanding balance as of December 31, 2017.

In the prior year, the Township issued General Obligation Note – Series of 2015 in order to finance the purchase of firefighting equipment for the Township. The General Obligation Note was issued in the amount of \$265,030 with a \$103,278 current outstanding balance as of December 31, 2017.

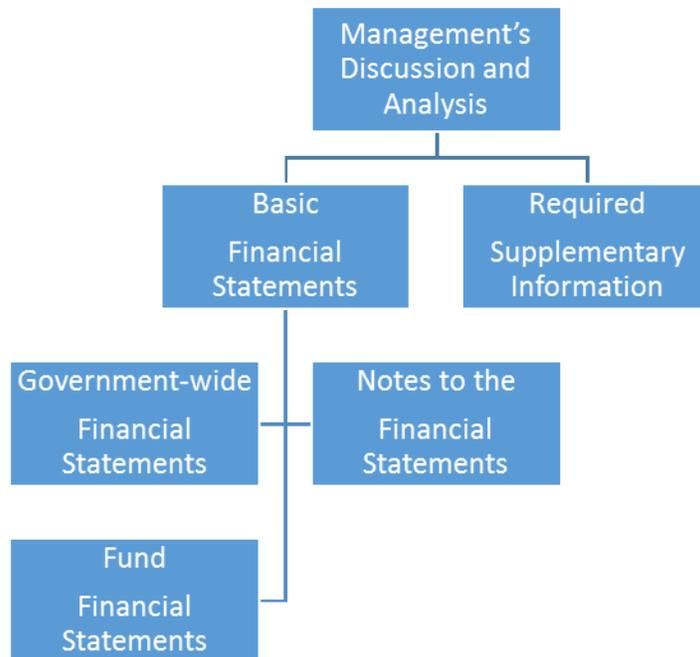
LOWER SAUCON TOWNSHIP
Management's Discussion and Analysis (MD&A)

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 13, 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 \$16,456,389 at December 31, 2017.

Table A-1
Year Ended December 31, 2017 and 2016
Net Position

	2017			2016		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Current and Other Assets	<u>\$ 16,476,712</u>	<u>\$ -</u>	<u>\$ 16,476,712</u>	<u>\$ 14,798,014</u>	<u>\$ -</u>	<u>\$ 14,798,014</u>
Current and Other Liabilities	<u>\$ 20,323</u>	<u>\$ -</u>	<u>\$ 20,323</u>	<u>\$ 4,725</u>	<u>\$ -</u>	<u>\$ 4,725</u>
Net Position						
Capital Projects	\$ 1,860,742	\$ -	\$ 1,860,742	\$ 1,794,256	\$ -	\$ 1,794,256
Unrestricted	14,595,647	-	14,595,647	12,999,033	-	12,999,033
Total Net Position	<u>\$ 16,456,389</u>	<u>\$ -</u>	<u>\$ 16,456,389</u>	<u>\$ 14,793,289</u>	<u>\$ -</u>	<u>\$ 14,793,289</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 14. 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, 2017 and 2016
Change in Net Position

	2017			2016		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 2,341,568	\$ -	\$ 2,341,568	\$ 1,627,587	\$ -	\$ 1,627,587
Operating Grants and Contributions	417,122	-	417,122	504,264	-	504,264
Capital Grants and Contributions	632,849	-	632,849	553,154	-	553,154
<i>General Revenues</i>						
Property Taxes	2,431,555	-	2,431,555	2,403,943	-	2,403,943
Other Taxes	4,305,533	-	4,305,533	4,176,422	-	4,176,422
Investment Earnings	23,654	-	23,654	22,310	-	22,310
Other Revenue	75,779	-	75,779	86,257	-	86,257
Loan Proceeds	-	-	-	-	-	-
Total Revenue	10,228,060	-	10,228,060	9,373,937	-	9,373,937
Expenses						
<i>Governmental Activities</i>						
General Government	1,246,983	-	1,246,983	1,118,700	-	1,118,700
Public Safety	2,411,902	-	2,411,902	2,601,664	-	2,601,664
Health and Human Services	4,723	-	4,723	3,358	-	3,358
Public Works	1,248,082	-	1,248,082	1,165,634	-	1,165,634
Culture and Recreation	291,392	-	291,392	578,359	-	578,359
Insurance	254,676	-	254,676	257,143	-	257,143
Employee Benefits	1,530,501	-	1,530,501	1,440,432	-	1,440,432
Debt Service Payments	1,576,701	-	1,576,701	608,840	-	608,840
Other Expenses	-	-	-	-	-	-
Total Expenses	8,564,960	-	8,564,960	7,774,130	-	7,774,130
Increase in Net Position	\$ 1,663,100	\$ -	\$ 1,663,100	\$ 1,599,807	\$ -	\$ 1,599,807

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

DEBT ADMINISTRATION

As of January 1, 2017, the Township had a total outstanding debt of \$3,475,959. The Township paid principal of \$1,491,463 resulting in ending outstanding debt as of December 31, 2017, of \$1,984,496.

Table A-3
Outstanding Debt

	2017	2016
General Obligation Note – Series 2015	\$ 103,278	\$ 156,413
General Obligation Note – Series 2014	1,881,218	3,319,546

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 2017 and 2016

	2017			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 7,329,490	\$ 7,329,490	\$ 9,024,796	\$ 1,695,306
Expenditures	7,623,728	7,699,183	8,009,798	(310,615)
Net Change in Fund Balance	(294,238)	(369,693)	1,014,998	1,384,691
Fund Balance – January 1, 2017	294,238	369,693	6,072,372	5,702,679
Fund Balance – December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,087,370</u>	<u>\$ 7,087,370</u>

	2016			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 6,760,582	\$ 6,760,582	\$ 7,504,930	\$ 744,348
Expenditures	7,226,130	7,378,795	6,746,429	632,366
Net Change in Fund Balance	(465,548)	(618,213)	758,501	1,376,714
Fund Balance – January 1, 2016	465,548	618,213	5,313,871	4,695,658
Fund Balance – December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,072,372</u>	<u>\$ 6,072,372</u>

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

Economic Factors and Next Year's Budgets and Rates

FINANCIAL HIGHLIGHTS

Township General Fund receipts were \$1,015,709 more than expended in 2017. This was primarily due to an increase in anticipated Host Fees in the amount of \$867,603. In addition, the Township received \$204,000.00 more in the enabling tax and \$21,685 more than anticipated in dividend returns for the self-funded medical insurance, Workman's Compensation, and general liability insurance plans.

In 2017 the Township received additional funding from the Northampton County Gaming Revenue and Economic Redevelopment Authority. As of December 2017, the PA State Legislator still had not passed regulations addressing the court filing submitted by the Sands Casino stating unfair taxation. We anticipate a decision to be made in 2018.

The owners of the landfill have completed the first year of their estimated five years of operational life. Through policy change, Council has appropriated funding to lower future debt obligations, and appropriated \$1,000,000 to their operational reserve fund to offset the future loss of funding from Bethlehem Landfill operations when they close.

Township Council appointed a representative of the Matrix Consulting Group to be the interim Chief until an appointed subcommittee reviewed and interviewed the applicants for the position of Chief of Police. The review is in the final stages and appointment of a new Chief will be made in early 2018.

Management is also finalizing contract negotiations with the Lower Saucon Township Police Association.

Council also approved several building improvements. Upgrades were made to the buildings fire suppression sprinkler system and new exterior doors were installed on the Seidersville Hall building, increasing energy efficiency. Management is also reviewing the Township's building security system, computer server replacements, and reviewing maintenance and service contracts for possible future savings.

Lower Saucon Township Council also approved Pension Plan assumption changes that adjust the calculations to current market expectations. This projected move will save the Township from sharp pension corrections due to a volatile market climate.

In 2017 the Township received \$581,616 more than expensed in Special Tax revenue (Open Space, State Liquid Fuel and Fire Tax Appropriation). We received \$96,400 more in Earned Income Tax and \$10,598 more in State Liquid Fuel funding.

Township Council spent \$337,637 in replacing two Public Works vehicles between State and Capital Funding. Repaving projects were minimal due to time constraints. Because of this the Township has in excess of \$1,324,000 in State Funding to be carried into 2018. Public Works will be focusing on road projects in the future.

Open Space Funding has in excess of \$6,038,000. In 2016 the residents of Lower Saucon Township passed a referendum to continue another 5 years to the .25 additional Earned Income Tax for the purchase of Open Space which became effective in 2017. The ordinance also provided for the payment of \$867,861.00 to debt which is attributed to the purchase of property in accordance to Act 115. The tax amount reported has allowed the Township to pay down the entire amount permitted by Ordinance against our debt issuance in 2017. The residents also approved utilizing 25% of new money received annually to pay for the maintenance of properties purchased with this funding. An additional \$100,000

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

was appropriated in the 2017 budget towards payment of the principal. It is projected that the Township debt obligation will be paid in 2019. No acquisitions were made in 2017.

Council approved a fire apparatus study to be conducted by DCED to appraise the current vehicles and determine a depreciation and replacement schedule and, also, to ensure that the vehicle types are needed at the various fire station locations. As of December of 2017 the study has not been completed.

In 2017 the Township spent \$354,816 out of the Capital plan, with \$28,860 going to upgrade the audio visual system in Council chambers, \$75,055 to replace the roof on Seidersville Hall, \$38,275 on a Police cruiser, \$137,637 for the Public Works trucks as mentioned previously, and \$56,093 for construction at Steel City Park. Management is seeking grants and funding appropriations to continue upgrading the municipal buildings and the Township's infrastructure.

The Township spent an additional \$16,196 in 2017 for engineering fees related to the storm water management project for Fire Lane and Black River Road. This project is in review with the Township's staff. Other options were implemented to mitigate the storm water. If these efforts prove effective, Council can repay the remaining funds back on the debt.

Through the Northampton County Open Space program Lower Saucon Township's appropriated funding amount was \$180,899. County Council approved the following scope of work to be completed in 2018 with the funds; roof replacement on the pavilion and replace the exercise stations at Town Hall Park, add a swing set to the tot lot at Southeastern Park, replace the existing fencing at the Polk Valley Park dog park and address some of the issued identified in the Management Plan for the Woodland Hills Preserve.

Council is taking steps to address the potential closing of the Bethlehem Landfill site. During the 2018 budget deliberations Management requested Council to approve a .5 mill increase. Although funding at this time would cover required expenses, Council chose to address the loss of Landfill Host Fees prior to the closure. First and foremost, Council recognized that a .25 mill for fire equipment was not going to be sufficient to aid the volunteer fire companies, therefore Council increased it to .50 mill, generating \$220,000 annually for the future purchases of fire vehicles for the volunteer fire companies. Once the study is completed and reviewed; a depreciation table can be created to streamline funding needs for the next 20 years.

An additional .25 mill was approved for the general fund, addressing the passage of the police contract and the increased expense of revising the assumption rates of the two pension plans. The tax increase in part addressed the additional expenses and alleviated some of the potential shortfalls in revenue projected.

Funding transfers to the Capital Plan can be made during the budget process if funding is available and can also be made when the CAFR is presented to Council in March of every year. If actual revenue exceeds actual expenses in the year prior, Council can direct staff to move the funding to their operational reserve fund, their capital fund or debt principal payment as long as the beginning minimum balance and unrestricted fund balance amounts are met in accordance with Township policies.

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, Leslie Huhn, 3700 Old Philadelphia Pike, Bethlehem, PA 18015, phone (610) 865-3291, email: manager@lowersaucontownship.org.

BASIC FINANCIAL STATEMENTS

LOWER SAUCON TOWNSHIP
Statement of Net Position – Modified Cash Basis
As of December 31, 2017

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 15,276,712	\$ -	\$ 15,276,712	\$ 3,815,377
Investments	1,200,000	-	1,200,000	328,173
Internal Balances	-	-	-	-
Other Receivables	-	-	-	-
TOTAL CURRENT ASSETS	16,476,712	-	16,476,712	4,143,550
NON-CURRENT ASSETS:				
Restricted Cash and Cash Equivalents	-	-	-	11,471
TOTAL NON-CURRENT ASSETS	-	-	-	11,471
TOTAL ASSETS	\$ 16,476,712	\$ -	\$ 16,476,712	\$ 4,155,021
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
LIABILITIES				
CURRENT LIABILITIES:				
Internal Balances	\$ -	\$ -	\$ -	-
Other Payables	20,323	-	20,323	-
Due to Developers	-	-	-	11,645
TOTAL CURRENT LIABILITIES	20,323	-	20,323	11,645
TOTAL LIABILITIES	20,323	-	20,323	11,645
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Reserved for Capital Projects	1,860,742	-	1,860,742	-
Unrestricted	14,595,647	-	14,595,647	4,143,376
TOTAL NET POSITION	\$ 16,456,389	\$ -	\$ 16,456,389	\$ 4,143,376

(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, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 1,246,983	\$ 116,497	\$ -	\$ -	\$ (1,130,486)	\$ -	\$ (1,130,486)	
Public Safety	2,411,902	198,996	187,709	18,736	(2,006,461)	-	(2,006,461)	
Health and Human Services	4,723	-	-	-	(4,723)	-	(4,723)	
Public Works	1,248,082	1,909,704	-	486,342	1,147,964	-	1,147,964	
Culture and Recreation	291,392	19,686	-	127,771	(143,935)	-	(143,935)	
Miscellaneous	-	-	-	-	-	-	-	
Insurance	254,676	-	-	-	(254,676)	-	(254,676)	
Employee Benefits	1,530,501	96,685	229,413	-	(1,204,403)	-	(1,204,403)	
Debt Service	1,576,701	-	-	-	(1,576,701)	-	(1,576,701)	
TOTAL GOVERNMENTAL ACTIVITIES	8,564,960	2,341,568	417,122	632,849	(5,173,421)	-	(5,173,421)	
BUSINESS-TYPE ACTIVITIES:								
No Activities	-	-	-	-	-	-	-	
TOTAL PRIMARY GOVERNMENT	\$ 8,564,960	\$ 2,341,568	\$ 417,122	\$ 632,849	\$ (5,173,421)	\$ -	\$ (5,173,421)	
COMPONENT UNITS:								
Lower Saucon Authority	\$ 1,772,431	\$ 1,880,996	\$ -	\$ -				\$ 108,565
GENERAL REVENUES:								
Property Taxes Levied for General Purposes, Net					\$ 2,431,555	\$ -	\$ 2,431,555	\$ -
Other Taxes for General Purposes					4,305,533	-	4,305,533	-
Grants, Subsidies, & Contributions Not Restricted					12,560	-	12,560	-
Investment Earnings					23,654	-	23,654	22,140
Miscellaneous Income					4,542	-	4,542	10,905
Sale of Fixed Assets					58,677	-	58,677	10,600
Loan Proceeds					-	-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					6,836,521	-	6,836,521	43,645
CHANGE IN NET POSITION					1,663,100	-	1,663,100	152,210
NET POSITION - BEGINNING					14,793,289	-	14,793,289	3,991,166
NET POSITION - ENDING					\$ 16,456,389	\$ -	\$ 16,456,389	\$ 4,143,376

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, 2017

	<u>GENERAL</u>	<u>SPECIAL TAX FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 6,588,050	\$ 6,808,277	\$ 1,880,385	\$ 15,276,712
Investments	500,000	700,000	-	1,200,000
Due from Other Funds	-	-	-	-
Other Receivables	-	-	-	-
TOTAL ASSETS	<u>\$ 7,088,050</u>	<u>\$ 7,508,277</u>	<u>\$ 1,880,385</u>	<u>\$ 16,476,712</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-	-
Other Payables	680	-	19,643	20,323
TOTAL LIABILITIES	<u>680</u>	<u>-</u>	<u>19,643</u>	<u>20,323</u>
FUND BALANCES:				
- Nonspendable	-	-	-	-
- Restricted	-	7,508,277	-	7,508,277
- Committed	-	-	-	-
- Assigned	-	-	1,860,742	1,860,742
- Unassigned	7,087,370	-	-	7,087,370
TOTAL FUND BALANCES	<u>7,087,370</u>	<u>7,508,277</u>	<u>1,860,742</u>	<u>16,456,389</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,088,050</u>	<u>\$ 7,508,277</u>	<u>\$ 1,880,385</u>	<u>\$ 16,476,712</u>

Reconciliation to Statement of Net Assets:

Amounts recorded for governmental activities in the statement of net assets are the same as the amounts recorded in all governmental funds, since both financial 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 Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
All Governmental Funds
For the Year Ended December 31, 2017

<u>REVENUES</u>	<u>GENERAL</u>	<u>SPECIAL TAX FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Taxes	\$ 5,236,045	\$ 1,378,228	\$ -	\$ 6,614,273
Licenses and Permits	121,812	-	-	121,812
Fines and Forfeits	63,350	-	-	63,350
Intergovernmental	437,956	486,342	127,771	1,052,069
Charges for Services	2,170,723	-	3,310	2,174,033
Investment Earnings	10,107	10,781	2,766	23,654
Miscellaneous	20,257	3,250	-	23,507
TOTAL REVENUES	8,060,250	1,878,601	133,847	10,072,698
<u>EXPENDITURES</u>				
CURRENT:				
General Government	1,119,653	21,506	103,915	1,245,074
Public Safety	2,373,627	-	38,275	2,411,902
Health and Human Services	4,723	-	-	4,723
Public Works	695,568	398,681	153,833	1,248,082
Culture and Recreation	232,600	-	58,792	291,392
Miscellaneous	-	-	-	-
Insurance	254,676	-	-	254,676
Employee Benefits	1,530,501	-	-	1,530,501
DEBT SERVICE:				
Principal	1,438,328	53,135	-	1,491,463
Interest	81,236	4,002	-	85,238
TOTAL EXPENDITURES	7,730,912	477,324	354,815	8,563,051
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	329,338	1,401,277	(220,968)	1,509,647
<u>OTHER FINANCING SOURCES (USES)</u>				
Refund of Prior Year Outflows	96,685	-	-	96,685
Refund of Prior Year Inflows	(1,909)	-	-	(1,909)
Sale of Fixed Assets	-	48,200	10,477	58,677
Loan Proceeds	-	-	-	-
Interfund Transfers In	867,861	-	276,977	1,144,838
Interfund Transfers Out	(276,977)	(867,861)	-	(1,144,838)
TOTAL OTHER FINANCING SOURCES	685,660	(819,661)	287,454	153,453
NET CHANGE IN FUND BALANCES	1,014,998	581,616	66,486	1,663,100
FUND BALANCES - BEGINNING	6,072,372	6,926,661	1,794,256	14,793,289
FUND BALANCES - ENDING	\$ 7,087,370	\$ 7,508,277	\$ 1,860,742	\$ 16,456,389

Reconciliation to Statement of Net Assets:

Amounts recorded for governmental activities in the statement of net assets are the same as the amounts recorded in all governmental funds, since both financial 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 Position – Modified Cash Basis
Agency Funds
As of December 31, 2017

	AGENCY FUND
ASSETS	
Cash and Cash Equivalents	\$ 232,732
Investments	-
Due from Other Funds	-
Other Receivables	-
TOTAL ASSETS	\$ 232,732
 LIABILITIES	
Due to Other Funds	\$ -
Due to Developers	232,732
Pension Fund Liability	-
Accrued Investment Expense	-
TOTAL LIABILITIES	232,732
 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, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH	BUDGET TO	ACTUAL
	ORIGINAL	FINAL	(BUDGETARY BASIS)	FINAL BUDGET POSITIVE (NEGATIVE)	MODIFIED CASH DIFFERENCE	AMOUNTS MODIFIED CASH BASIS
RESOURCES (INFLOWS):						
Taxes	\$ 4,983,200	\$ 4,983,200	\$ 5,236,045	\$ 252,845	\$ -	\$ 5,236,045
Licenses and Permits	117,378	117,378	121,812	4,434	-	121,812
Fines and Forfeits	72,590	72,590	63,350	(9,240)	-	63,350
Intergovernmental	409,595	409,595	437,956	28,361	-	437,956
Charges for Services	1,314,527	1,314,527	2,170,723	856,196	-	2,170,723
Miscellaneous	9,200	9,200	20,257	11,057	-	20,257
Interest Received	7,500	7,500	10,107	2,607	-	10,107
Refund of Prior Year Outflows	75,000	75,000	96,685	21,685	-	96,685
Sale of Fixed Assets	500	500	-	(500)	-	-
Transfers from Other Funds	340,000	340,000	867,861	527,861	-	867,861
TOTAL RESOURCES	7,329,490	7,329,490	9,024,796	1,695,306	-	9,024,796
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government:						
Legal	187,200	187,200	158,469	28,731	-	158,469
Mayor, Legislative, Borough Manager	478,621	486,666	300,126	186,540	-	300,126
Finance and Accounting	223,777	224,219	178,613	45,606	-	178,613
Data Processing	33,753	47,703	29,051	18,652	-	29,051
Engineering	157,500	157,500	135,684	21,816	-	135,684
Buildings and Plant	377,381	382,381	317,710	64,671	-	317,710
Public Safety:						
Police	2,727,497	2,761,329	1,832,537	928,792	-	1,832,537
Fire	347,771	357,771	346,705	11,066	-	346,705
Inspections	255,500	255,500	189,665	65,835	-	189,665
Other	5,300	5,300	4,720	580	-	4,720
Health and Human Services:						
Dog Control	6,000	6,000	4,723	1,277	-	4,723
Public Works:						
Public Works Administration	69,607	69,607	52,326	17,281	-	52,326
Sanitation and Recycling	57,100	57,100	25,160	31,940	-	25,160
Street Maintenance and Lighting	1,109,508	1,109,508	618,082	491,426	-	618,082
Culture and Recreation:						
Parks	174,093	174,093	138,983	35,110	-	138,983
Library	93,617	93,617	93,617	-	-	93,617
Non-Departmental:						
Miscellaneous	20,000	20,000	-	20,000	-	-
Debt Service	651,703	651,703	1,519,564	(867,861)	-	1,519,564
Insurance	263,800	267,986	254,676	13,310	-	254,676
Employee Benefits	142,000	142,000	1,530,501	(1,388,501)	-	1,530,501
Contingencies	-	-	-	-	-	-
Refund of Prior Year Inflows	2,000	2,000	1,909	91	-	1,909
Transfer to Other Funds	240,000	240,000	276,977	(36,977)	-	276,977
TOTAL CHARGES TO APPROPRIATIONS	7,623,728	7,699,183	8,009,798	(310,615)	-	8,009,798
Excess (Deficiency) of Inflows Over Outflows	(294,238)	(369,693)	1,014,998	1,384,691	-	1,014,998
FUND BALANCE - JANUARY 1, 2017	294,238	369,693	6,072,372	5,702,679	-	6,072,372
FUND BALANCE - DECEMBER 31, 2017	\$ -	\$ -	\$ 7,087,370	\$ 7,087,370	\$ -	\$ 7,087,370

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

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017

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, 2017

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 Fund

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major equipment and facilities. The Township has one Capital Project Fund consisting of the Capital Fund.

Special Revenue Fund

The Township has one major special revenue fund consisting of the Special Tax 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. The Township has one Agency Fund consisting of the Developers Escrow Fund.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017

- 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 / Special Assessments

The total taxable assessed real estate valuation for the year ended 2017 is \$450,052,900 at a rate of 5.14 mills that includes a .25 mill fire tax assessment. 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 lienied by January 1 of the following year.

The Township collects .25% of the Earned Income Tax Assessment for Open Space Preservation.

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, 2017

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, 2017.

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, 2017, \$16,212,378 of the Township's bank balance of \$16,962,378 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	16,212,378
TOTAL	<u>\$ 16,212,378</u>

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 16,212,378
Plus: Insured Amount	750,000
Deposits in Transit	-
Less: Outstanding Checks	<u>(257,745)</u>
Carrying Amount – Bank Balance	16,704,633
Plus: Petty Cash	300
Deposits in Pooled Investments Considered Cash Equivalents	4,511
Less: Certificates of Deposit considered Investment by the Township	<u>(1,200,000)</u>
Total Cash per Financial Statements	<u>\$ 15,509,444</u>

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017**

Restricted Cash

The cash balance includes \$232,732 held as developer's escrow funds. These funds are held by the Township to guarantee the completion of various construction projects by the developers.

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, 2017, \$3,531,543 of the Authority's bank balance of \$3,781,543 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	3,531,543
TOTAL	\$ 3,531,543

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 3,531,543
Plus: Insured Amount	250,000
Less: Outstanding Checks	(52,635)
Plus: Deposits in Transit	22
Carrying Amount – Bank Balance	3,728,930
Plus: Petty Cash	700
Pooled Cash Equivalent in Enterprise Funds	425,391
Less: Certificates of Deposit shown as investments	(328,173)
Total Cash per Financial Statements	\$ 3,826,848

Restricted Cash

Cash and Cash equivalents have been categorized on the financial statements as either unrestricted or restricted. The restricted cash balance includes \$11,471 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,

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

4. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
5. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
6. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
7. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
8. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
 - The investments of the company are the authorized investments listed above.
 - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.
10. Savings or demand deposits placed in accordance with the following conditions:
 - The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
 - The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, or the account of the public corporation or municipal authority.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

- The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
- On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

As of December 31, 2017, the Township had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
PA Local Government Investment Trust (Cash Equivalents)	-	\$ 4,511
Certificates of Deposit	5 – 19 Months	1,200,000
TOTAL		\$ 1,204,511

Fair Value Reporting

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs. All investments of the Township and its component unit are classified as Level 1 investments.

Interest Rate Risk

The Township has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Township's investments are in Certificates of Deposit at Embassy Bank as of December 31, 2017.

Credit Risk

The Township has an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2017, the Township's investment in the PA Local Government Investment Trust was rated AAA by Standard & Poors.

Concentration of Credit Risk

The Township places a limit on the amount the Township may invest in any one issuer. Of the Township's investment, 100% is in Certificates of Deposit at Embassy Bank as of December 31, 2017.

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	\$ 1,204,511
Less: Deposits in Investment Pool Considered Cash Equivalents	(4,511)
Total Investments per Financial Statements	\$ 1,200,000

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017**

Component Unit

As of December 31, 2017, the Authority had the following investments:

Investment

<i>Investments</i>	<i>Maturities</i>	<i>Fair Value</i>
PA Local Government Investment Trust		\$ 425,391
Certificates of Deposit	12-18 Months	328,173
TOTAL		\$ 753,564

Fair Value Reporting

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investments of the Authority are classified as Level 1 investments.

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 with the PA Local Government Investment Trust.

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	\$ 753,564
Less: Deposits in Investment Pool Considered Cash Equivalents	(425,391)
Total Investments per Financial Statements	\$ 328,173

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017**

Note 6 – Long-Term Debt Commitments

Long-term liability balances and activity for the year ended December 31, 2017, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
<i>General Obligation Debt:</i>					
<i>Bonds and Notes Payable:</i>					
General Fund	\$ 3,319,546	\$ -	\$ 1,438,328	\$ 1,881,218	\$ 497,199
Special Tax Fund	156,413	-	53,135	103,278	54,492
Total Governmental Activities	\$ 3,475,959	\$ -	\$ 1,491,463	\$ 1,984,496	\$ 551,691

Payments on bonds and notes were made by the General Fund and the Special Tax Fund.

Total interest paid during the year:

	Paid
Governmental Activities	
General Obligation Debt	\$ 85,238
Capital Leases	-
Short-Term Borrowings and Other Liabilities	-
TOTAL	\$ 85,238

Primary Government Debt

General Obligation Note – Series of 2014

On December 22, 2014, the Township issued a \$4,750,000 general obligation note purchased by Lafayette Ambassador Bank. The purpose of this Note is (1) to refinance the existing General Obligation Note – Series of 2001, (2) to refinance the existing General Obligation Notes – Series of 2005, (3) to refinance the existing General Obligation Note – Series of 2006, and (4) to finance storm water mitigation projects on Fire Lane and Black River Road. The effective interest rate is 2.78% for ten (10) years. The Note matures December 31, 2023. The current annual payment is \$551,702.44. Additional principal on the loan of \$967,861 was paid in 2017. The future debt service obligations are:

YEAR	PRINCIPAL	INTEREST
2018	\$ 497,199	\$ 54,503
2019	512,688	39,014
2020	527,072	24,630
2021	344,259	9,704
TOTAL OUTSTANDING	\$ 1,881,218	\$ 127,851

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017**

General Obligation Note – Series of 2015

On July 14, 2015, the Township issued a \$265,030 general obligation note purchased by Lafayette Ambassador Bank. The purpose of this note is to finance the purchase of firefighting equipment for the Township. The effective interest rate is 2.52% for five (5) years. The note matures August 1, 2019. The current annual payment is \$57,137.23. The future debt service obligations are:

YEAR	PRINCIPAL	INTEREST
2018	\$ 54,492	\$ 2,645
2019	48,786	1,492
TOTAL OUTSTANDING	\$ 103,278	\$ 4,137

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.

**LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017**

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, 2017. As of January 1, 2017, 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 as of January 1, 2017:

Active Plan Members	21
Inactive Plan Members	0
Retirees and beneficiaries currently receiving benefits	2
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	\$ 83,720
Contributions made	91,765

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

Three-Year Trend Information

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2015	\$ 86,546	100%	\$ -
12/31/2016	83,613	109.9%	-
12/31/2017	83,720	109.6%	-

The required annual contribution for the current year was determined as part of the January 1, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2015 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 method on a closed basis over 15-20 years. The remaining amortization periods as of January 1, 2015 were 4-12 years.

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 81.7% funded. This actuarial valuation reflects changes in two of the assumptions. The valuation interest rate has been lowered from 7.0% to 6.5% and the assumed rates of mortality have been changed from the RP-2000 table to the RP-2014 table with full projection using scale MP-2016. These changes in assumptions result in a lower funded percentage and increases annual contribution amounts. The actuarial accrued liability for benefits was \$2,652,299 and the actuarial value of the assets was \$2,166,451, resulting in an unfunded actuarial accrued liability (UAAL) of \$485,848. The covered payroll (annual payroll of active employees covered by the plan) was \$982,381 and the ratio of the UAAL to the covered payroll was 49.5%.

As a result of the plan being 81.7% funded at January 1, 2017, the plan is considered to be minimally distressed.

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.

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

Changes in Net Assets

<u>REVENUES</u>	
State Aid	\$ 91,765
Employee Contributions	3,706
Employer Contributions	18,438
Investment Income Net of Investment Fees	28,003
Realized Gains on Investment Sales	65,362
Unrealized Gain on Investments	<u>173,795</u>
TOTAL REVENUE	\$ 381,069
<u>EXPENDITURES</u>	
Pension Payments	39,876
Lump Sum Payments	35,219
Administrative Fees	<u>17,747</u>
TOTAL EXPENDITURES	<u>92,842</u>
 Change in Net Assets	 288,227
Net Assets January 1, 2017	<u>2,051,544</u>
Net Assets December 31, 2017	<u>\$ 2,339,771</u>

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

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017. In accordance with the plan's governing resolution, officers are required to contribute 2.5% of their compensation to the plan. The police chief contributes 1% of his 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 January 1, 2017:

Active Plan Members	14
Retirees and beneficiaries currently receiving benefits	7
Terminated plan members entitled to benefits but not yet receiving them	0
TOTAL	21

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	\$ 290,414
Contributions made	290,414

Three-Year Trend Information for the Police Pension Plan

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2015	\$ 278,821	100%	\$ -
12/31/2016	289,892	100%	-
12/31/2017	290,414	100%	-

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

The required annual contribution for the current year was determined as part of the January 1, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2015 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 as of January 1, 2015 were 6-13 years.

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 83.4% funded. This actuarial valuation reflects changes in two of the assumptions. The valuation interest rate has been lowered from 7.0% to 6.5% and the assumed rates of mortality have been changed from the RP-2000 table to the RP-2014 table, with full projection using scale MP-2016. These changes in assumptions result in a lower funded percentage and increases the annual contribution amounts. The actuarial accrued liability for benefits was \$7,596,733 and the actuarial value of the assets was \$6,337,126, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,259,607. The covered payroll (annual payroll of active employees covered by the plan) was \$1,261,463 and the ratio of the UAAL to the covered payroll was 99.9%.

As a result of the plan being 83.4% funded at January 1, 2017, the plan is considered to be minimally distressed.

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	\$ 137,648
Employer Contributions	201,859
Employee Contributions	30,933
Investment Income Net of Investment Fees	82,491
Realized Gains on Investment Sales	192,572
Unrealized Gain on Investments	511,660
TOTAL REVENUE	\$ 1,157,163
<u>EXPENDITURES</u>	
Pension Payments	262,598
Administrative Fees	47,017
TOTAL EXPENDITURES	309,615
 Change in Net Assets	 847,548
Net Assets January 1, 2017	5,997,088
Net Assets December 31, 2017	\$ 6,844,636

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

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.

Note 10 - Short-Term Debt

Interfund Receivables and Payables

There were no interfund receivables or payables that existed on December 31, 2017.

Interfund Transfers

The following interfund transfers were made during the fiscal year ended December 31, 2017:

	INTERFUND TRANSFERS IN	INTERFUND TRANSFERS OUT
General Fund	\$ 867,861	\$ 276,977
Capital (Capital Project) Fund	276,977	-
Special Tax Fund	-	867,861
TOTAL	\$ 1,144,838	\$ 1,144,838

Note 11 – Fund Balance

Detailed information about aggregated fund balances:

Assigned Fund Balances

The assigned fund balance represents amounts intended to be used by government for specific purposes.

Capital Fund	\$ 1,860,742
TOTAL CAPITAL PROJECTS FUND	\$ 1,860,742

LOWER SAUCON TOWNSHIP
Notes To Financial Statements
Year Ended December 31, 2017

Restricted Fund Balances

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

Special Tax Fund	\$ 7,508,277
TOTAL	\$ 7,508,277

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.

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 June 15, 2018, which is the date of the financial statements were available to be issued.



June 15, 2018

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, 2017, which collectively comprise the Lower Saucon Township's basic financial statements and have issued our report thereon dated June 15, 2018. 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 June 15, 2018.

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,

Hutchinson, Gillahan & Freeh, P.C.

June 15, 2018

REQUIRED SUPPLEMENTAL INFORMATION

**LOWER SAUCON TOWNSHIP
Pension Funds
Required Supplemental Information
December 31, 2017**

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUATION OF ASSETS	ACTUARIAL ACCRUED LIABILITY ENTRY AGE PENSION	UNFUNDED AAL	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
NON-UNIFORMED PENSION PLAN						
1-1-2007	\$ 955,413	\$ 1,106,200	\$ 150,787	86.4%	\$ 802,364	18.8%
1-1-2009	971,143	1,139,351	168,208	85.2%	921,512	18.3%
1-1-2011	1,258,815	1,410,742	151,927	89.2%	970,417	15.7%
1-1-2013	1,422,701	1,466,945	44,244	97.0%	903,029	4.9%
1-1-2015	1,803,562	1,808,925	5,363	99.7%	982,041	0.5%
1-1-2017	2,166,451	2,652,299	485,848	81.7%	982,381	49.5%
POLICE PENSION PLAN						
1-1-2007	\$ 3,455,999	\$ 3,615,017	\$ 159,018	95.6%	\$ 933,343	17.0%
1-1-2009	3,738,283	4,341,068	602,785	86.1%	950,288	63.4%
1-1-2011	4,127,761	5,035,073	907,312	82.0%	1,011,579	89.7%
1-1-2013	4,556,557	5,323,791	767,234	85.6%	1,085,736	70.7%
1-1-2015	5,422,624	5,991,490	568,866	90.5%	1,249,966	45.5%
1-1-2017	6,337,126	7,596,733	1,259,607	83.4%	1,261,463	99.9%

SCHEDULES OF EMPLOYER CONTRIBUTIONS

NON-UNIFORMED PENSION PLAN				POLICE PENSION PLAN		
YEAR ENDED DECEMBER 31,	ANNUAL REQUIRED CONTRIBUTION	CONTRIBUTIONS FROM EMPLOYER	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	CONTRIBUTIONS FROM EMPLOYER	PERCENTAGE CONTRIBUTED
2008	\$ 96,307	\$ 96,307	100.0%	\$ 159,486	\$ 159,486	100.0%
2009	95,115	95,115	100.0%	162,193	162,193	100.0%
2010	93,110	93,110	100.0%	177,635	177,635	100.0%
2011	91,646	91,646	100.0%	183,105	183,105	100.0%
2012	86,983	86,983	100.0%	256,470	256,470	100.0%
2013	82,475	82,475	100.0%	258,715	258,715	100.0%
2014	88,962	88,962	100.0%	272,162	272,162	100.0%
2015	86,546	86,546	100.0%	278,821	278,821	100.0%
2016	83,613	91,868	109.9%	289,892	289,892	100.0%
2017	83,720	91,765	109.6%	290,414	290,414	100.0%

I N D I V I D U A L F U N D S T A T E M E N T S

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, 2017

REVENUES RECEIVED

TAXES:

Real Estate Taxes - Current	\$ 2,225,153	
Real Estate Taxes - Prior	25,850	
Real Estate Taxes - Current Interims	3,746	
Real Estate Taxes - Prior Interims	827	
Real Estate Taxes - Delinquent	64,151	
Real Estate Transfer Taxes	316,604	
Earned Income Taxes - Current	1,834,387	
Earned Income Taxes - Prior	715,312	
Emergency Municipal Service Tax - Current	38,476	
Emergency Municipal Service Tax - Prior	11,539	\$ 5,236,045

LICENSES AND PERMITS:

Franchise Fee Cable	116,162	
Junkyard Licenses	1,250	
Road Encroachment Permits	3,820	
Moving Permits	580	121,812

FINES AND FORFEITS:

Motor Vehicle Violations	39,032	
Fines	13,658	
Ordinance Violations	4,108	
Crimes Code Violations	5,902	
Parking Tickets	650	63,350

INTERGOVERNMENTAL:

State Grants	66,430	
Public Safety Grants	12,636	
Beverage Licenses	1,850	
Federal Grants	35,976	
Public Utility Realty Tax	6,653	
Pension State Aid	229,413	
Allotment - Fireman's Relief	84,998	437,956

CHARGES FOR SERVICES:

Subdivision Fees/Zoning Permits	13,911	
Tax Collection Services	6,085	
Duplicate Tax Bill Fees	300	
Police Services	36,243	
Accident Report Requests	3,950	
Weed Clearing and Removal	24,500	
Administrative Income	3,625	
Security Alarm Fees	1,240	
Building Permits	14,939	
Sanitation Permits	28,840	
State UCC Fees	512	
Highway and Street Charges	3,702	
Health Insurance Charges	142,624	
Compost Sales	2,670	
Landfill Host Fees	1,867,603	
Recreation Fees	8,750	
BRE Sales	11,229	2,170,723

INVESTMENT EARNINGS:

Interest Income		10,107
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MISCELLANEOUS:

Miscellaneous	4,542	
Donations	15,715	20,257

TOTAL REVENUE RECEIVED	\$	8,060,250
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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, 2017

EXPENDITURES PAID

GENERAL GOVERNMENT

LEGAL:

Solicitor \$ 158,469

MAYOR, LEGISLATIVE, TOWNSHIP MANAGER:

Salary 224,179
 Payroll Taxes 17,846
 General Expense 10,902
 Grant Expenditures 19,270
 Other Expense 10,130
 Newsletter Expense 8,751
 Advertising, Printing and Postage 9,048

FINANCE AND ACCOUNTING:

Salary 107,670
 Payroll Taxes 8,664
 Payroll Services 3,585
 Auditing 13,500
 Bank Services 1,746
 Office Materials/Supplies 8,326
 Tax Collection Services 572
 Real Estate Tax Prep/Mailing 8,585
 General Expense 20,599
 Contracted Services 5,366

DATA PROCESSING:

Salary 1,458
 Payroll Taxes 111
 Website Operation/Maintenance 17,550
 Office Equipment Maintenance 787
 Equipment - Capital 2,617
 Software Licenses 6,528

ENGINEER:

Engineering Services 84,960
 Sewage Enforcement Officer 50,724

BUILDINGS AND PLANT:

Salary 11,115
 Payroll Taxes 1,045
 Building Materials/Supplies 3,979
 Heating Oil/Diesel Fuel 49,932
 Gasoline 62,251
 Oils/Lubricants 2,026
 Communication Expense 36,784
 Utilities 58,581
 Maintenance/Repairs 44,595
 Equipment - Capital 33,334
 Equipment Rental 14,068 \$ 1,119,653

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, 2017

PUBLIC SAFETY

POLICE:

Salary of Policemen	\$ 1,349,085
Overtime	102,695
Salary of Clerical	75,782
Payroll Taxes	121,325
Uniforms	8,035
Firearms Ammunition	14,211
Advertising/Printing	209
Investigation Expense	1,700
Communication Equipment	1,026
Contracted Services	49,461
Equipment Maintenance	7,784
General Expenses	10,686
Vehicle Maintenance and Repairs	26,991
Equipment - Capital	43,489
Equipment - Non-Capital	3,466
K-9 Expenses	4,135
Training	12,457

FIRE:

Contribution to Fire Co.	210,000
Fireman's Relief	84,998
Contribution to Dewey Ambulance	15,000
Hydrant/Water Service	22,392
General Expenses	14,315

INSPECTIONS:

Zoning and Administration	77,030
Salary of Clerical	46,277
Payroll Taxes	9,599
Consulting Services	48,707
Advertising/Printing	5,250
Minor Equipment Purchase	1,186
Vehicle Maintenance and Repairs	135
General Expenses	1,481

OTHER PUBLIC SAFETY:

Crossing Guards	4,720	\$ 2,373,627
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HEALTH AND HUMAN SERVICES

Dog Control	4,723
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PUBLIC WORKS

PUBLIC WORKS ADMINISTRATION:

Salary	52,326
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SANITATION:

Recycling Collection and Disposal	25,160
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STREET MAINTENANCE AND LIGHTING:

Salaries - Highways and Streets	422,821	
Overtime	28,639	
Payroll Taxes	41,947	
Road Materials	55,681	
Materials/Supplies	16,133	
Traffic Sign Maintenance	13,530	
Vehicle Maintenance	24,279	
Contracted Services	3,243	
Equipment Rental	2,768	
General Expenses	4,509	
Equipment	4,532	695,568

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, 2017

CULTURE AND RECREATION

PARKS AND POOL:

Maintenance/Repairs	\$	13,316	
General Expenses		6,010	
Contracted Services		70,338	
Summer Youth Program		20,301	
Senior Program		7,962	
Pool Pass Reimbursement		8,220	
Equipment		12,836	

LIBRARY:

Contribution		<u>93,617</u>	\$ 232,600
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DEBT SERVICE

Debt Principal Payments	1,438,328		
Debt Interest Payments	<u>81,236</u>		1,519,564

INSURANCE

Business Insurance	71,374		
Vehicle Insurance	37,000		
Workmen's Compensation	<u>146,302</u>		254,676

EMPLOYEE BENEFITS

Hospitalization Insurance	1,072,924		
Pension Administration Fees	75,398		
Minimum Pension Oblig - Nonuniform	91,765		
Minimum Pension Oblig - Police	<u>290,414</u>		<u>1,530,501</u>

TOTAL EXPENDITURES PAID

7,730,912

**EXCESS OF REVENUES RECEIVED
OVER EXPENDITURES PAID**

329,338

OTHER FINANCING SOURCES RECEIVED AND

OTHER FINANCING USES PAID

Refund of Prior Year Expenditures	\$	96,685	
Refund of Prior Year Revenue		(1,909)	
Transfer from Other Funds		867,861	
Transfer to Other Funds		<u>(276,977)</u>	<u>\$ 685,660</u>

NET CHANGE IN FUND BALANCE

\$ 1,014,998

FUND BALANCE - JANUARY 1, 2017

6,072,372

FUND BALANCE - DECEMBER 31, 2017

\$ 7,087,370

LOWER SAUCON TOWNSHIP
Special Tax Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2017

FUND BALANCE - JANUARY 1, 2017 \$ 6,926,661

REVENUES RECEIVED

Taxes:

Fire Tax	\$	111,828
Earned Income Tax - Current Year		912,321
Earned Income Tax - Prior Year		354,079

Intergovernmental:

Motor Vehicle Fuel Taxes		486,342
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Investment Income:

Interest Earnings		10,781
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Miscellaneous:

Donations/Contributions		3,250
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Other Financing Sources:

Sale of Fixed Assets	48,200	1,926,801
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TOTAL FUNDS AVAILABLE 8,853,462

EXPENDITURES PAID

General Government:

Bank Fees	\$	48
Legal Fees		5,275
Engineering/Planning Fees		13,683
Appraisal Costs		2,500

Public Works:

Traffic Signal Maintenance & Repair		2,321
Vehicle Maintenance & Repair		15,113
Highway Major Equipment		200,000
Snow Removal		60,500
Street Sign & Marking		3,565
Street Lighting		37,076
Road Materials & Supplies		11,898
Penndot Road Projects		68,208

Debt Service:

Principal		53,135
Interest		4,002

Other Financing Uses:

Transfers to Other Funds	867,861	\$ 1,345,185
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FUND BALANCE - DECEMBER 31, 2017 **\$ 7,508,277**

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, 2017

FUND BALANCE - JANUARY 1, 2017		\$ 1,794,256
<u>REVENUES RECEIVED</u>		
Investment Earnings	\$ 2,766	
Developer Fees	3,310	
Intergovernmental:		
Grants	127,771	
Other Financing Sources:		
Sale of Fixed Assets	10,477	
Transfer from Other Funds	276,977	421,301
TOTAL FUNDS AVAILABLE		2,215,557
<u>EXPENDITURES PAID</u>		
General Government:		
Video Equipment	28,860	
Building Purchase/Improvement	75,055	
Public Safety:		
Vehicle Purchases	38,275	
Public Works:		
Vehicle Purchases	137,637	
Storm Water Improvements	16,196	
Road Improvements	-	
Culture and Recreation:		
Park Improvements	56,092	
Historical Building Improvements	2,700	354,815
FUND BALANCE - DECEMBER 31, 2017		\$ 1,860,742

Developers Escrow Fund
Statement of Additions Received and Deductions Paid
Modified Cash Basis
For the Year Ended December 31, 2017

DUE TO DEVELOPERS/GENERAL FUND - JANUARY 1, 2017		\$ 251,467
ADDITIONS RECEIVED:		
Receipts from Developers	\$ 93,246	
Interest Earnings	-	93,246
DEDUCTIONS PAID:		
Legal	10,533	
Consulting Fees	31,267	
Engineering	31,730	
Applicant Refunds	864	
Miscellaneous	37,587	
TOTAL DEDUCTIONS PAID		111,981
DUE TO DEVELOPERS/GENERAL FUND - DECEMBER 31, 2017		\$ 232,732