

FINANCIAL STATEMENTS

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LOWER NAZARETH TOWNSHIP

DECEMBER 31, 2018

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LOWER NAZARETH TOWNSHIP  
FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Township Supervisors  
Lower Nazareth Township, Pennsylvania

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lower Nazareth Township, Pennsylvania, as of and for the year ended December 31, 2018, 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 cash basis of accounting described in Note 1; this includes determining that the 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 fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 auditors' judgement, 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 Township'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 Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lower Nazareth Township, Pennsylvania, as of December 31, 2018, and the respective changes in cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

### Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### Other Matters

#### Supplementary Information

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise Lower Nazareth Township, Pennsylvania's basic financial statements. The budgetary comparison information on page 35 and the historical pension plan information on page 36 and 37, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2019, on our consideration of Lower Nazareth Township, Pennsylvania's internal control over financial reporting and 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 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 Nazareth Township, Pennsylvania's internal control over financial reporting and compliance.

*Trance, Anderson, Basile and Cappi N.*

Emmaus, Pennsylvania  
July 17, 2019

LOWER NAZARETH TOWNSHIP  
STATEMENT OF NET POSITION - CASH BASIS  
DECEMBER 31, 2018

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 7,468,448	\$ 429,161	\$ 7,897,609
Due from other funds	2,331		2,331
Other assets	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>7,470,779</u>	<u>429,161</u>	<u>7,899,940</u>
Capital assets:			
Buildings, land & improvements	4,679,671	0	4,679,671
Vehicles	3,643,526	0	3,643,526
Machinery & equipment	1,476,024	0	1,476,024
Collection equipment, net	<u>0</u>	<u>10,287</u>	<u>10,287</u>
Total Capital Assets	<u>9,799,221</u>	<u>10,287</u>	<u>9,809,508</u>
Total Assets	<u>17,270,000</u>	<u>439,448</u>	<u>17,709,448</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Other liabilities	104,357	0	104,357
Current portion of long-term debt	<u>81,066</u>	<u>0</u>	<u>81,066</u>
Total Current Liabilities	<u>185,423</u>	<u>0</u>	<u>185,423</u>
Noncurrent Liabilities:			
Long-term debt, net of current portion	<u>154,248</u>	<u>0</u>	<u>154,248</u>
Total Noncurrent Liabilities	<u>154,248</u>	<u>0</u>	<u>154,248</u>
Total Liabilities	<u>339,671</u>	<u>0</u>	<u>339,671</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	9,563,907	10,287	9,574,194
Restricted	5,998,000	0	5,998,000
Unrestricted	<u>1,368,422</u>	<u>429,161</u>	<u>1,797,583</u>
Total Net Position	<u>\$16,930,329</u> =====	<u>\$ 439,448</u> =====	<u>\$17,369,777</u> =====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
General government	\$ 897,227	\$ 26,066	\$ 2,200	\$ 0
Public safety	1,894,454	73,487	65,141	0
Public works	1,447,326	27,825	279,714	0
Culture and recreation	210,482	158,010	0	0
Insurance, employee benefits and miscellaneous	652,868	0	65,581	0
Interest on debt	<u>6,944</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Governmental Activities	<u>\$ 5,109,301</u>	<u>\$ 285,388</u>	<u>\$ 412,636</u>	<u>\$ 0</u>
<u>Business-type Activities</u>				
Refuse/Recycling Collection	\$ 34,830	\$ 1,372	\$ 225,377	\$ 0
Sewer Department	<u>1,622</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Business-type Activities	<u>\$ 36,452</u>	<u>\$ 1,372</u>	<u>\$ 225,377</u>	<u>\$ 0</u>
Total	<u>\$ 5,145,753</u>	<u>\$ 286,760</u>	<u>\$ 638,013</u>	<u>\$ 0</u>
	=====	=====	=====	=====

Property taxes, levied for general purposes  
Other taxes levied for general purposes  
Grants, subsidies and contributions not  
restricted to specific programs  
Licenses and permits  
Fines and forfeits  
Investment earnings  
Miscellaneous income  
Net loss on disposal of assets

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

The accompanying notes are an integral part of the financial statements.



LOWER NAZARETH TOWNSHIP  
STATEMENT OF ACTIVITIES - CASH BASIS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Net (Expense) Revenue and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (868,961)	\$ 0	\$ (868,961)
(1,755,826)	0	(1,755,826)
(1,139,787)	0	(1,139,787)
(52,472)	0	(52,472)
(587,287)	0	(587,287)
<u>(6,944)</u>	<u>0</u>	<u>(6,944)</u>
<u>\$ (4,411,277)</u>	<u>\$ 0</u>	<u>\$ (4,411,277)</u>
\$ 0	\$ 191,919	\$ 191,919
<u>0</u>	<u>(1,622)</u>	<u>(1,622)</u>
<u>\$ 0</u>	<u>\$ 190,297</u>	<u>\$ 190,297</u>
<u>\$ (4,411,277)</u>	<u>\$ 190,297</u>	<u>\$ (4,220,980)</u>
1,789,437	0	1,789,437
2,354,444	0	2,354,444
0	0	0
95,782	0	95,782
52,716	0	52,716
168,198	55,579	223,777
147,739	0	147,739
<u>(72,908)</u>	<u>0</u>	<u>(72,908)</u>
<u>\$ 4,535,408</u>	<u>\$ 55,579</u>	<u>\$ 4,590,987</u>
124,131	245,876	370,007
<u>\$ 16,806,198</u>	<u>\$ 193,572</u>	<u>\$ 16,999,770</u>
<u>\$ 16,930,329</u>	<u>\$ 439,448</u>	<u>\$ 17,369,777</u>
=====	=====	=====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018

	<u>General</u>	<u>Liquid Fuels</u>	<u>Host Fee</u>	<u>Traffic Impact</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$1,129,013	\$ 80,500	\$ 169,157	\$2,276,676	\$3,813,102	\$ 0	\$7,468,448
Due from other funds	2,250				81		2,331
Other assets							<u>0</u>
<b>Total Assets</b>	<u>\$1,131,263</u>	<u>\$ 80,500</u>	<u>\$ 169,157</u>	<u>\$2,276,676</u>	<u>\$3,813,183</u>	<u>\$ 0</u>	<u>\$7,470,779</u>

LIABILITIES AND FUND BALANCES

<b>LIABILITIES:</b>							
Other liabilities	\$ 104,357						\$ 104,357
<b>Total Liabilities</b>	<u>104,357</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>104,357</u>

FUND BALANCES:

<u>Restricted for:</u>							
Public works		80,500					80,500
<u>Committed to:</u>							
Public safety			57,418		67,690		125,108
Public works			111,739	2,276,676	764,311		3,152,726
Capital sewer projects					431,529		431,529
Capital equipment					428,432		428,432
Open space preservation					1,779,705		1,779,705
<u>Unassigned</u>	<u>1,026,906</u>				<u>341,516</u>		<u>1,368,422</u>
<b>Total Fund Balances</b>	<u>1,026,906</u>	<u>80,500</u>	<u>169,157</u>	<u>2,276,676</u>	<u>3,813,183</u>	<u>0</u>	<u>7,366,422</u>

**Total Liabilities and Fund Balances**

	<u>\$1,131,263</u>	<u>\$ 80,500</u>	<u>\$ 169,157</u>	<u>\$2,276,676</u>	<u>\$3,813,183</u>	<u>\$ 0</u>	<u>\$7,470,779</u>
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The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF ASSETS, LIABILITIES AND FUND  
BALANCES TO THE STATEMENT OF NET POSITION - CASH BASIS  
AS OF DECEMBER 31, 2018

Total Fund Balances - Governmental Funds	\$	7,366,422
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$9,799,221.		9,799,221
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of loans payable of \$235,314.		<u>(235,314)</u>
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Total Net Position - Governmental Activities	\$	16,930,329
		=====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Liquid Fuels	Host Fee	Traffic Impact	Capital Projects	Debt Service	Total Governmental Funds
REVENUES							
Taxes	\$4,143,881	\$	\$	\$	\$	\$	\$4,143,881
Licenses and permits	95,782						95,782
Fines and forfeits	52,716						52,716
Interest and rents	130,839	6,116	2,549	4,386	24,308		168,198
Intergovernmental revenues	137,203	275,433					412,636
Charges for service	121,250		19,023		145,115		285,388
Miscellaneous revenues	17,606			137,425			155,031
Total Revenues	<u>4,699,277</u>	<u>281,549</u>	<u>21,572</u>	<u>141,811</u>	<u>169,423</u>	<u>0</u>	<u>5,313,632</u>
EXPENDITURES							
Current							
General government	657,408				239,819		897,227
Public safety	1,884,604				9,850		1,894,454
Public works	1,003,630	421,548			22,148		1,447,326
Culture and recreation	154,785				55,697		210,482
Insurance, benefits and misc.	652,868					93,134	652,868
Debt service - principal retirement						6,944	6,944
Debt service - interest & fiscal charges						93,134	93,134
Capital outlay	11,300				250,719		262,019
Total Expenditures	<u>4,364,595</u>	<u>421,548</u>	<u>0</u>	<u>0</u>	<u>578,233</u>	<u>100,078</u>	<u>5,464,454</u>
Excess (deficiency) of revenues over (under) expenditures	334,682	(139,999)	21,572	141,811	(408,810)	(100,078)	(150,822)
OTHER FINANCING SOURCES (USES)							
Proceeds of general long-term debt						127,450	127,450
Operating transfers in					968,637	100,078	1,068,715
Operating transfers out	(841,187)				(100,078)	(127,450)	(1,068,715)
Net change in fund balances	(506,505)	(139,999)	21,572	141,811	459,749	0	(23,372)
Fund Balances, January 1	1,533,411	220,499	147,585	2,134,865	3,353,434	0	7,389,794
Fund Balances, December 31	\$1,026,906	\$ 80,500	\$ 169,157	\$2,276,676	\$3,813,183	\$ 0	\$7,366,422

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances - Governmental Funds       \$       (23,372)

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

Governmental funds report capital outlays as  
expenditures. However, in the statement of  
activities, the cost of those expenditures is  
not reported but treated as a capital asset  
on the statement of net position. The capital  
outlay for the current year is \$262,019. 262,019

In the statement of activities, the gain/loss on  
the disposal of assets is reported, whereas in the  
governmental funds, the proceeds from the sale  
increase financial resources. The change in net  
position differs from the change in fund balance by  
the cost of the disposed assets of \$(80,200), net  
of related accumulated depreciation of \$0. (80,200)

Issuance of long-term debt (e.g. notes) provides  
current financial resources to governmental funds,  
while the repayment of the principal of long-term  
debt consumes the current financial resources of  
governmental funds. However, neither transaction  
has an effect on net position. Repayment of loan  
principal is an expenditure in the governmental  
funds, but the repayment reduces long-term  
liabilities in the statement of net position.  
The effect of these transactions in the statement  
are shown below:

Issuance of loan proceeds	\$ (127,450)	
Repayment of loan principal	93,134	(34,316)

Change in Net Position of Governmental Activities	\$       124,131 =====
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The accompanying notes are an integral part of the financial  
statements.

LOWERN NAZARETH TOWNSHIP  
STATEMENT OF NET POSITION - CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2018

	<u>Enterprise Funds</u>		
	Refuse/Recycling Collection <u>Fund</u>	Sewer Department <u>Fund</u>	Total Proprietary <u>Funds</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 208,596	\$ 220,565	\$ 429,161
Total Current Assets	<u>208,596</u>	<u>220,565</u>	<u>429,161</u>
<u>Noncurrent Assets:</u>			
Collection equipment, net of accumulated depreciation	<u>10,287</u>	<u>0</u>	<u>10,287</u>
Total Assets	\$ 218,883 =====	\$ 220,565 =====	\$ 439,448 =====
 <u>LIABILITIES</u>			
None	\$ 0	\$ 0	\$ 0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
 <u>NET POSITION</u>			
Net investment in capital assets	10,287	0	10,287
Unrestricted	<u>208,596</u>	<u>220,565</u>	<u>429,161</u>
Total Net Position	\$ 218,883 =====	\$ 220,565 =====	\$ 439,448 =====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Enterprise Funds</u>		
	<u>Refuse/Recycling Collection Fund</u>	<u>Sewer Department Fund</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,372	\$ 0	\$ 1,372
Rentals	<u>0</u>	<u>54,170</u>	<u>54,170</u>
Total Operating Revenues	<u>1,372</u>	<u>54,170</u>	<u>55,542</u>
<b>OPERATING EXPENSES</b>			
Contractual services	21,615	1,622	23,237
Supplies	200	0	200
Materials	0	0	0
Depreciation	<u>13,015</u>	<u>0</u>	<u>13,015</u>
Total Operating Expenses	<u>34,830</u>	<u>1,622</u>	<u>36,452</u>
Operating Income (Loss)	<u>(33,458)</u>	<u>52,548</u>	<u>19,090</u>
<b>NONOPERATING REVENUES</b>			
Intergovernmental revenue	225,377	0	225,377
Interest income	<u>813</u>	<u>596</u>	<u>1,409</u>
Total Nonoperating Revenue	<u>226,190</u>	<u>596</u>	<u>226,786</u>
Net Income (Loss) Before Operating Transfers	192,732	53,144	245,876
Operating transfers	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Position	192,732	53,144	245,876
Net Position - Beginning of Year	<u>26,151</u>	<u>167,421</u>	<u>193,572</u>
Net Position - End of Year	<u>\$ 218,883</u> =====	<u>\$ 220,565</u> =====	<u>\$ 439,448</u> =====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF CASH FLOWS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Enterprise Funds</u>		
	Refuse/Recycling Collection <u>Fund</u>	Sewer Department <u>Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (33,458)	\$ 52,548	\$ 19,090
Item not requiring cash			
Depreciation	<u>13,015</u>	<u>0</u>	<u>13,015</u>
Subtotal	(20,443)	52,548	32,105
Net Cash Flows From Operating Activities	<u>(20,443)</u>	<u>52,548</u>	<u>32,105</u>
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES</b>			
Intergovernmental revenue	<u>225,377</u>	<u>0</u>	<u>225,377</u>
Net Cash Flows From Noncapital Activities	<u>225,377</u>	<u>0</u>	<u>225,377</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital purchases	<u>0</u>	<u>0</u>	<u>0</u>
Net Cash Flows From Financing Activities	<u>0</u>	<u>0</u>	<u>0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>813</u>	<u>596</u>	<u>1,409</u>
Net Cash Flows From Investing Activities	<u>813</u>	<u>596</u>	<u>1,409</u>
Net Increase (decrease) in Cash and Cash Equivalents	205,747	53,144	258,891
Cash and Cash Equivalents, January 1	<u>2,849</u>	<u>167,421</u>	<u>170,270</u>
Cash and Cash Equivalents, December 31	\$ 208,596 =====	\$ 220,565 =====	\$ 429,161 =====

The accompanying notes are an integral part of the financial statements.



LOWER NAZARETH TOWNSHIP  
STATEMENT OF NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
DECEMBER 31, 2018

	Employee Pension <u>Trust</u>	<u>Escrow</u>	Total Fiduciary <u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 104,704	\$ 569,220	\$ 673,924
Investments, at fair value	2,191,400		2,191,400
Accrued income	<u>6,651</u>	<u>          </u>	<u>6,651</u>
Total Assets	<u>2,302,755</u>	<u>569,220</u>	<u>2,871,975</u>
 <u>LIABILITIES</u>			
Due to other funds		2,331	2,331
Refundable escrow deposits	<u>          </u>	<u>566,889</u>	<u>566,889</u>
Total Liabilities	<u>0</u>	<u>569,220</u>	<u>569,220</u>
 <u>NET POSITION</u>			
Restricted for pension benefits	\$2,302,755	\$ 0	\$2,302,755
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF CHANGES IN NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
YEAR ENDED DECEMBER 31, 2018

	<u>Employee Pension Trust</u>
<u>ADDITIONS:</u>	
Contributions,	
Employer	\$ 115,000
Other	<u>0</u>
Total Contributions	<u>115,000</u>
Investment income,	
Net (depreciation) in fair value of investments	(257,211)
Interest and dividends	<u>99,655</u>
	(157,556)
Less: investment expenses	<u>(17,751)</u>
Net Investment (Loss)	<u>(175,307)</u>
Total Additions	<u>(60,307)</u>
<u>DEDUCTIONS:</u>	
Benefits	79,133
Administrative expenses	<u>0</u>
Total Deductions	<u>79,133</u>
Change in net position	(139,440)
Net position restricted for pension benefits, Beginning of year	<u>2,442,195</u>
End of year	\$2,302,755 =====

The accompanying notes are an integral part of the financial statements.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and accompanying financial statements of Lower Nazareth Township (the Township) conform to the cash basis of accounting as applicable to governmental units. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Principles Determining Scope of Reporting Entity

The Board of Supervisors, a five member group, is the level of government responsible for providing a full range of municipal services including those mandated by statute or ordinance. These include public safety, highways and streets, culture and recreation, public improvements, planning and zoning, and general administrative services. The Township receives funding from local and state government sources and must comply with the concomitant requirements of these funding source entities.

In evaluating how to define the Township, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth by GASB Statement 14, as amended. The criteria for including a potential component unit within the financial reporting entity is the significance of the potential component unit's operational or financial relationship with the Township. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the Township.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Township as a whole excluding fiduciary activities such as employee pension plans and developer escrow funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined in item b. below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the cash basis of accounting is used as appropriate:

a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus (Continued)

focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide and fund financial statements, governmental and business-like activities are presented using the cash basis of accounting. This basis of accounting recognizes assets, liabilities, net position/fund equity, revenues and expenditures when they result from cash transactions. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Financial Statement Presentation

The Township reports the following governmental fund types:

The General Fund is the general operating fund of the Township. Substantially all tax revenues, federal and state aid (except revenues and aid restricted for use in the Special Revenue Fund) 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.

The State Liquid Fuels Highway Aid Fund (Liquid Fuels Fund), Host Fee Fund, and Traffic Impact Fund are the Township's special revenue funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources other than expendable trusts, or major capital projects that are legally restricted to expenditures for specific purposes.

The Capital Reserve Funds, Open Space Fund, Highway Reconstruction & Rehabilitation Fund, Fiscal Stability Fund, Palmer Sewer Fund and Capital Sewer Signals Fund are the Township's capital projects funds. Capital project funds account for resources used to construct or acquire fixed assets and capital improvements. Resources of the capital project funds are derived principally from, user fees, budget transfers and investment earnings.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

The Debt Service Fund accounts for the accumulation of resources for, and payment of, interest and principal on long-term obligations.

The Township reports the following enterprise fund types:

The Refuse/Recycling Collection Fund and Sewer Department Fund are the Enterprise Funds. Enterprise Funds account for the provisions of trash collections and sewer services to some residents of the Township. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, financing and related debt service, and billings and collections.

The Township also reports the following fund types:

The Employee Pension Trust is used to account for fiduciary resources legally held in trust for the receipt, investment, and distribution of retirement benefits.

The Escrow Fund is established to administer resources received and held by the Township in a custodial capacity for others. This Fund accounts for the deposits of developer escrows which is custodial in nature (assets equal liabilities) and does not involve measurement or results of operation.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or other regulations of other governments.

Fund Balance Reporting

Fund balance is divided into five classifications based primarily on the extent to which the Township is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criteria includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Fund Balance Reporting (Continued)

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the Township to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable purposes stipulated in the legislation.

Legal enforceability means that the Township can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the formal action of the Township Supervisors. Those committed amounts cannot be used for any other purpose unless the Township Supervisors remove or change the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Township Supervisors separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Township for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Township Supervisors.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Fund Balance Reporting (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Board of Supervisors, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. 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, insurance and employee benefits.

Per the Second Class Township Code, the budget must be advertised and available for public inspection at least twenty days prior to adoption.

2) Public hearings are conducted to obtain taxpayer comment.

3) By December 31, the budget is legally enacted for all governmental funds through passage of an resolution. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.



LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

4) Each month the administration prepares a detailed budget report. The report cites the past month and year-to-date activity, as well as encumbrances and unencumbered balances by account.

5) All modifications, transfers and amendments must be approved by the Board of Supervisors.

6) Formal budgetary integration is employed as a management control device during the year for the General Fund.

7) The legally required and adopted budgets of the Township are for the General Fund and the Liquid Fuels Fund.

8) Budgets for the General Fund and the Liquid Fuels Fund are adopted on a cash basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes.

9) The Board of Supervisors may authorize supplemental appropriations during the year. No supplemental appropriations were made during fiscal 2018. The Board of Supervisor must approve all over expenditures of appropriations or transfers of appropriated amounts.

Cash and Investments

Statutes allow the Township to invest in obligations of the U.S. Treasury, U.S. Agencies, obligations of the Commonwealth of Pennsylvania, savings accounts or time deposits of institutions insured by the Federal Deposit Insurance Corporation (FDIC) and deposits in excess of FDIC amounts if collateralized by the depository.

Investments are stated at market. See Note 2 for additional disclosures about investments.

Property Taxes Receivable

As a result of using the cash basis method of accounting, \$47,597 of property taxes receivable as of December 31, 2018, have not been included as revenues.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable (Continued)

The property tax calendar for the fiscal year is as follows:

January 1	-	Levy Date
April 1	-	Billing Date
April 1 - May 31	-	2% Discount Period
June 1 - July 31	-	Face Payment Period
August 1 - December 31	-	10% Penalty Period
January 1	-	Lien Date

Refuse and Recycling Equipment in Service

The refuse and recycling equipment are stated substantially at cost, net of accumulated depreciation. Depreciation is provided using the straight line method over the estimated useful life of the equipment ranging from 7 to 20 years.

Public Employee Retirement Systems

The Township participates in a public employee retirement system. The system, single employer public retirement system, is a defined benefit pension plan which covers all Township personnel employed on a full-time basis.

Transfers and Interfund Balances

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers.

Other outstanding balances between funds are reported as "due to/from other funds".

Statement of Cash Flows

For purposes of the statement of cash flows, the Township considers time deposits and highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Total Columns on Combined Statements

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor is such data comparable to a consolidation.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and the Liquid Fuels Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. There are no encumbrances as of December 31, 2018.

Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. The Township adopted GASB Statement No. 68 for its December 31, 2015 financial statements. The adoption of this Statement affected disclosures and supplementary information only, as the Township reports on the cash basis of accounting.

NOTE 2 Deposits and Investments

The Township's current investment policy is to place as much of the available funds into interest bearing accounts as is feasible. Current cash requirements are kept in bank demand deposits.

**DEPOSITS:**

As of December 31, 2018, the carrying amount of the Township's deposits is \$8,466,829 and the bank balance is \$8,506,286. Of the bank balance, \$500,865, is covered by federal depository insurance (FDIC).

The Township requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation, \$8,005,421 at December 31, 2018, are collateralized using the pooled asset method to 100% of value as required by Pennsylvania Law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name, not in the Township's name, and are considered uncollateralized for credit risk purposes.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 2 Deposits and Investments (Continued)

**INVESTMENTS:**

Authorized types of investments for Township funds are as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

Investments made by the Township as of December 31, 2018, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the Township or its agent in the Township's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Township's name.

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Fair Value/</u> <u>Carrying</u> <u>Amount</u>	<u>Market</u>
Blended Income	\$	\$	\$ 687,530	\$ 687,530	\$ 687,530
Equities	_____	_____	1,503,870	1,503,870	1,503,870
Total	\$ -0-	\$ -0-	\$2,191,400	\$2,191,400	\$2,191,400
	=====	=====	=====	=====	=====

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 3      Capital Assets

The following is a summary of the changes in the capital asset activity for the year ended December 31, 2018:

	Balance December 31, <u>2017</u>		Increases <u>(Decreases)</u>	Balance December 31, <u>2018</u>
<u>Governmental Activities:</u>				
Township buildings, land and improvements,	\$4,679,671	\$	-0-	\$ -0-
Vehicles	3,509,902		181,624	(48,000)
Machinery and equipment	<u>1,427,829</u>		<u>80,395</u>	<u>(32,200)</u>
Governmental activities capital assets	\$9,617,402	\$	262,019	\$(80,200)
	=====		=====	=====

No depreciation has been provided for the governmental activities capital assets.

The following is a summary of proprietary fund type property, plant, and equipment at December 31, 2018.

	Balance December 31, <u>2017</u>		Increases <u>(Decreases)</u>	Balance December 31, <u>2018</u>
<u>Enterprise Funds:</u>				
Refuse/Recycling Collection equipment	\$ 175,784	\$	-0-	\$ -0-
Less: accumulated depreciation	<u>152,482</u>		<u>13,015</u>	<u>-0-</u>
Net capital assets	\$ 23,302	\$	\$(13,015)	\$ -0-
	=====		=====	=====

Depreciation charged to operations for the Refuse/Recycling Collection Fund was \$13,015 for the year ended December 31, 2018.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 4 Long-Term Debt

The following is a summary of the general obligation installment loans payable for the year ended December 31, 2018:

General Obligation Loans	Payable <u>January 1,</u>	<u>Issued</u>	<u>Retired</u>	Payable <u>December 31,</u>
Installment Loan	\$ 29,124	\$ -0-	\$ 14,395	\$ 14,729
Installment Loan	40,800	-0-	19,900	20,900
Installment Loan	131,074	-0-	31,503	99,571
Installment Loan	-0-	51,950	11,117	40,833
Installment Loan	-0-	75,500	16,219	59,281
Total	<u>\$ 200,998</u>	<u>\$127,450</u>	<u>\$ 93,134</u>	<u>\$ 235,314</u>
	=====	=====	=====	=====

The following is a summary of the details of the general obligation installment loans payable for the year ended December 31, 2018.

Installment Loan Payable

The Township has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$15,068, including principal and interest at 2.31% over 5 years, and a residual payment of \$1. The principal outstanding at December 31, 2018, is \$14,729.

Installment Loan Payable

The Township has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$10,840, including principal and interest at 2.48% over 5 years, and a residual payment of \$1. The principal outstanding at December 31, 2018, is \$20,900.

Installment Loan Payable

The Township has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$34,951, including principal and interest at 2.63% over 5 years, and a residual payment of \$1. The principal outstanding at December 31, 2018, is \$99,571.

Installment Loan Payable

The Township has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$11,138, including principal and interest at 3.58% over 5 years, and a residual payment of \$1. The principal outstanding at December 31, 2018, is \$40,833.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 4 Long-Term Debt (Continued)

Installment Loan Payable

The Township has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$16,243, including principal and interest at 3.77% over 5 years, and a residual payment of \$1. The principal outstanding at December 31, 2018, is \$59,281.

The annual debt service requirements to maturity for governmental-type installment loans including interest are as follows, as of December 31, 2018:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 81,066	\$ 7,174	\$ 88,240
2020	68,319	4,854	73,173
2021	59,521	2,812	62,333
2022	26,406	976	27,382
2023	<u>2</u>	<u>0</u>	<u>2</u>
	\$235,314	\$ 15,816	\$251,130
	=====	=====	=====

NOTE 5 Defined Benefit Pension Plan

Plan Description

The Pension Plan for the Employees of Lower Nazareth Township is a single-employer defined benefit plan that covers all full-time non-uniformed employees of the Township. The retirement benefit is based on the participant's compensation averaged on a monthly basis over highest thirty-six consecutive months of compensation. The normal retirement date is age 62. Participants become 100% vested upon the completion of ten years of service in the Plan. The Plan also provides early retirement, death and disability benefits. The authority under which the benefit provisions have been established, or may be amended, remains with the Board of Supervisors of Lower Nazareth Township. The Plan does not issue a stand-alone financial report.

Funding Policy

Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. The most recent actuarial valuation was performed January 1, 2017. In accordance with the plan's governing document, employees are not required to contribute to the plan. The plan may also be eligible to receive an allocation of state aid from the General

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 5      Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through earnings and/or contributions.

**Annual Pension Cost and Net Pension Obligation**

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

Annual required contribution	\$ 92,813
Interest on net pension obligation	-0-
Adjustment to annual required contribution	-0-
Annual pension costs	92,813
Contributions made	115,000
Increase (decrease) in net pension obligation	(22,187)
Net pension obligation beginning of year	-0-
Net pension obligation end of year	\$ -0-
	=====

**Annual Pension Cost and Net Pension Obligation**

The annual required contribution for the current year was determined as part of the January 1, 2017, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, and (b) projected salary increases of 5.00% per year. Both (a) and (b) include an inflation component for moderate cost-of-living increases. The assumptions did not include postretirement benefit increases. The actuarial value of assets for the plan was determined using market value as determined by the trustee. The unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on an open basis.



LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 5      Defined Benefit Pension Plan (Continued)

**Employees Covered by the Plan**

As of January 1, 2018, (the most recent date available), the following employees were covered by the benefit terms:

Active employees	14
Retirees and beneficiaries	
currently receiving benefits	2
Terminated employees entitled	
to benefits but not yet	0
receiving them	<u>        </u>
Total	<u>16</u>
	===

Summary of Significant Accounting Policies

The plan's policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Investments**

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At December 31, 2018, the plan had the following investments in any one organization representing five percent or more of the Plan assets (other than investments issued or guaranteed by the U. S. Government) as follows:

Ivy International Core Equity Fund	139,167
Oakmark International-Inst Fund	138,962

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

Note 5 Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the Township's net pension liability is \$367,421. The total pension liability of \$2,670,176 was determined as part of an actuarial valuation at January 1, 2017. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2018.

**Changes in Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period.

	Total Pension Liability <u>(a)</u>	<u>Increase/(Decrease)</u> Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2017	\$2,475,578	\$2,442,195	\$ 33,383
Changes for the year:			
Service cost	84,679		84,679
Interest	189,052		189,052
Differences between expected and actual experience			0
Contributions		115,000	(115,000)
Net investment income		(175,307)	175,307
Benefit payments	<u>(79,133)</u>	<u>(79,133)</u>	<u>0</u>
Net Changes	194,598	(139,440)	334,038
Balance at 12/31/2018	<u>\$2,670,176</u>	<u>\$2,302,755</u>	<u>\$ 367,421</u>

For the year ended December 31, 2018, the actuarial determined pension expense is \$182,896. However, the Township recognizes pension expense on the cash basis which totaled \$115,000. At December 31, 2018, the Township has deferred outflows of resources for \$355,674 and deferred inflows of resources for \$0 related to the pension plan.

Actuarially determined deferred outflows of resources related to the pension plan are as follows:

Year Ended December 31, 2019	\$ 91,517
2020	60,429
2021	52,753
2022	79,524
2023	7,992
Thereafter	63,459

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

Note 5 Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the January 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method - Entry Age Normal  
Investment return - 7.50% per annum  
Salary increases - 5% compounded annually  
RP-2000 Mortality Table Projected to 2017 using Scale AA

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 2.25%) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity:		
Large Cap	31%	6.44%
Mid Cap	14%	7.22%
Small Cap	0%	7.22%
International Equity	18%	7.26%
Fixed Income	32%	3.62%
Emerging Markets	0%	10.68%
Cash	5%	0.75%

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board.

The plan's investment policy establishes that the portfolio may be invested in the above asset classes and with the target allocation for each class.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

Note 5 Defined Benefit Pension Plan (Continued)

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Net Pension Liability Sensitivity**

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
Net Pension Liability	\$ 691,440	\$ 367,421	\$ 92,123

Note 6 Compensated Absences and Benefits

Accumulated unpaid vacation and sick pay benefits accrue based on length of service and employment. There was no material unused accrued vacation or sick pay benefits as of December 31, 2018. Also, in accordance with the provisions of Governmental Accounting Standards Board, no liability is recorded for the non-vested accumulated rights to receive vacation and sick pay benefits.

The Township does not provide other postemployment benefits required to be disclosed in accordance with GASB.

LOWER NAZARETH TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2018

NOTE 7      Litigation

Various claims and lawsuits are pending against the Township. Defenses are being conducted by counsel for the Township or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the Township's financial position.

NOTE 8      Contingencies

The Township participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2018, have not yet been conducted. Accordingly, the Township's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Township expects such amounts, if any, to be immaterial.

NOTE 9      Deficit Fund Balances

No funds of the Township have a deficit fund balance or net position deficit at December 31, 2018.

The General Fund's: General Government, Public Works, Culture and Recreation, and Insurance, Benefits, and Miscellaneous budget categories had expenditures in excess of appropriations for the year ended December 31, 2018.

Note 10     Risk Management

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverages for the current year or the three prior years.

Note 11     Subsequent Events

Subsequent events have been evaluated through July 17, 2019, which was the date financial statements were available to be issued.

LOWER NAZARETH TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - CASH BASIS  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,265,050	\$ 3,265,050	\$ 4,143,881	\$ 878,831
Licenses and permits	85,000	85,000	95,782	10,782
Fines and forfeits	35,000	35,000	52,716	17,716
Interest and rents	100,800	100,800	130,839	30,039
Intergovernmental revenues	125,800	125,800	137,203	11,403
Charges for service	82,340	82,340	121,250	38,910
Miscellaneous revenues	15,050	15,050	17,606	2,556
Total revenues	<u>3,709,040</u>	<u>3,709,040</u>	<u>4,699,277</u>	<u>990,237</u>
<b>EXPENDITURES</b>				
Current				
General government	621,100	621,100	657,408	(36,308)
Public safety	1,969,250	1,969,250	1,884,604	84,646
Public works	866,350	866,350	1,003,630	(137,280)
Culture and recreation	146,900	146,900	154,785	(7,885)
Insurance, benefits & misc.	629,600	629,600	652,868	(23,268)
Capital outlay	62,000	62,000	11,300	50,700
Total expenditures	<u>4,295,200</u>	<u>4,295,200</u>	<u>4,364,595</u>	<u>(69,395)</u>
Excess (deficiency) of revenues over (under) expenditures	(586,160)	(586,160)	334,682	920,842
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	0	0	0	0
Operating transfers out	0	0	(841,187)	(841,187)
Net change in fund balances	(586,160)	(586,160)	(506,505)	79,655
Fund Balances, January 1	<u>586,160</u>	<u>586,160</u>	<u>1,533,411</u>	<u>947,251</u>
Fund Balances, December 31	\$ 0	\$ 0	\$ 1,026,906	\$ 1,026,906

LOWER NAZARETH TOWNSHIP  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
DEFINED BENEFIT PENSION PLAN

DEFINED BENEFIT PENSION PLAN OF LOWER NAZARETH TOWNSHIP

Last 10 Fiscal Years\*

	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
<b><u>Total Pension Liability</u></b>				
Service cost	\$ 88,773	\$ 93,212	\$ 80,647	\$ 84,679
Interest	134,863	151,264	174,905	189,052
Differences between expected and actual experience	-	-	112,367	-
Changes of assumptions	-	-	7,036	-
Benefit payments, including refunds of member contributions	(9,402)	(9,402)	(62,788)	(79,133)
<b>Net change in total pension liability</b>	214,234	235,074	312,167	194,598
<b>Total pension liability - beginning</b>	1,714,103	1,928,337	2,163,411	2,475,578
<b>Total pension liability - ending</b>	<u>\$ 1,928,337</u>	<u>\$ 2,163,411</u>	<u>\$ 2,475,578</u>	<u>\$ 2,670,176</u>
<b><u>Plan Fiduciary Net Position</u></b>				
Contributions - employer	\$ 64,029	\$ 58,130	\$ 55,353	\$ 49,419
Contributions - State Aid	50,971	56,870	59,647	65,581
Net investment income	(18,544)	105,030	291,082	(175,307)
Benefit payments, including refunds of member contributions	(9,402)	(9,402)	(62,788)	(79,133)
<b>Net change in plan fiduciary net position</b>	87,054	210,628	343,294	(139,440)
<b>Plan fiduciary net position - beginning</b>	1,801,219	1,888,273	2,098,901	2,442,195
<b>Plan fiduciary net position - ending</b>	<u>\$ 1,888,273</u>	<u>\$ 2,098,901</u>	<u>\$ 2,442,195</u>	<u>\$ 2,302,755</u>
<b>Municipality's net position liability</b>	<u>\$ 40,064</u>	<u>\$ 64,510</u>	<u>\$ 33,383</u>	<u>\$ 367,421</u>
Covered-employee payroll	\$ 753,406	\$ 849,660	\$ 795,932	\$ 880,730
Net pension liability as a percentage of its covered-employee payroll	5.32%	7.59%	4.19%	41.72%
Plan fiduciary net position as a percentage of the total pension liability	97.92%	97.02%	98.65%	86.24%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

LOWER NAZARETH TOWNSHIP  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
DEFINED BENEFIT PENSION PLAN

Last 10 Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 27,351	\$ 96,189	\$ 102,558	\$ 97,344	\$ 98,255	\$ 92,742	\$ 98,351	\$ 97,312	\$ 90,950	\$ 92,813
Contributions in Relation to the Actuarially Determined Contribution	100,000	110,000	120,000	110,000	110,000	115,000	115,000	115,000	115,000	115,000
Contribution Deficiency (Excess)	\$ (72,649)	\$ (13,811)	\$ (17,442)	\$ (12,656)	\$ (11,745)	\$ (22,258)	\$ (16,649)	\$ (17,688)	\$ (24,050)	\$ (22,187)
Covered Employee Payroll	\$ 582,243	\$ 580,256	\$ 620,925	\$ 597,080	\$ 604,865	\$ 705,874	\$ 753,406	\$ 849,660	\$ 795,932	\$ 880,730
Contributions as a Percentage of Covered Employee Payroll	17.2%	19.0%	19.3%	18.4%	18.2%	16.3%	15.3%	13.5%	14.4%	13.1%

**Notes to schedules:**

Assumption Changes - In 2017, the mortality assumption was changed from the RP-2000 Table projected to 2015 using Scale AA to the RP-2000 Table projected to 2017 using Scale AA.



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INDEPENDENT AUDITORS' 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

To the Township Supervisors  
Lower Nazareth Township, Pennsylvania

We have audited, in accordance with the 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, the cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lower Nazareth Township, Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Lower Nazareth Township, Pennsylvania's, basic financial statements, and have issued our report thereon dated July 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lower Nazareth Township, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lower Nazareth Township, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Nazareth Township, Pennsylvania's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Nazareth Township, Pennsylvania'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.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Francis Anderson, Basile and Company, P.C.*

Emmaus, Pennsylvania  
July 17, 2019