

POCONO TOWNSHIP
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018

POCONO TOWNSHIP
FOR THE YEAR ENDED DECEMBER 31, 2018
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Commissioners
Pocono Township
Tannersville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Pocono Township as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pocono Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Pocono Township's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting described in Note 1. This includes determining that the modified accrual 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.

Auditor's 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 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 opinions.

Opinions

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

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34745 Burbage Road, Frankford, DE 19945

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420 Chinquapin Round Road, Suite 2-i, Annapolis, MD 21401
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To the Members of the Board of Commissioners
Pocono Township
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Adoption of Governmental Accounting Standards Board Pronouncements

In 2018 the Township adopted the provisions of Governmental Accounting Standards Board's Statement GASB Statement No. 82, *Pension Issues-an amendment of GASB Statement No. 67, No. 68, and No. 73*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to these matters.

Other Matters

Supplementary Information

Management's Discussion and Analysis (MD&A) on pages 4 through 12, budgetary comparison information on page 40 and pension and OPEB plan information on pages 41 through 45 are presented to supplement 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019, on our consideration of the Pocono 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 solely 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 effectiveness of the Pocono Township's 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 the Pocono Township's internal control over financial reporting and compliance.



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To the Members of the Board of Commissioners
Pocono Township
Page 3

Basis of Accounting

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

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
September 6, 2019

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

The discussion and analysis of Pocono Township's financial performance provides an overall review of the Township's financial activities for the fiscal year ended December 31, 2018. The intent of this discussion and analysis is to look at the Township's financial performance. Readers should also review the notes to the basic financial statements and financial statements themselves to enhance their understanding of the Township's financial performance. Pocono Township is a First-Class Township of Monroe County, Pennsylvania.

FINANCIAL HIGHLIGHTS 2018

- For year ending 2018, the township's total net position was \$10,921,250. This figure is comprised of all the assets from both governmental and business-like activities minus liabilities.
- The township's property tax rate for calendar year 2018 remained at 16.1 mils with revenue of \$3,062,157. The township collected 95.1% as of December 31, 2018.
- The township's total net position decreased by \$264,478. The decrease is due to the cash payment of the sewer revenue note during refunding. Furthermore, for this year, there was an increase in operating grants and contributions that helped offset general expenditures.
- The township's general fund balance at the end of 2018 was \$3,323,370, an increase of \$1,129,716 from 2017. The increase in part is due to the reduction of expenditures and an increase in revenues.

Using the Modified Accrual Basis of Accounting Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pocono Township as a financial whole and entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position - Modified Accrual Basis, Statement of Activities - Modified Accrual Basis, and the fund financial statements provide information for the reader to ascertain how services were financed in the short-term as well as what resources remain for future spending. The fund financial statements also present the Township's most significant funds in their own columns with all other non-major funds summarized into one column. In the case of Pocono Township, the General Fund, the Sewer Design and Construction Fund, and the Capital Reserve Operating Fund are reported as major funds.

In the Statement of Net Position - Modified Accrual Basis, and the Statement of Net Activities - Modified Accrual Basis, the Township reports the financial information relating to governmental and business-type activities. Governmental activities include the Township's operations including general government, public works, public safety, and recreation. Business-type activities include the user fees and expenses for the Township's portion of the sewer system.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve as an introduction and overview of the basic financial statements of the Township of Pocono. The Township's basic financial statements are comprised of: *Government-wide financial statements*, which provide short-term information about the Township's overall financial condition.

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

- Fund *financial statements*, which provide a more detailed look at major individual portions, or funds, of the Township.
- *Notes to the financial statements*, which explain some of the information contained in the financial statements and provide more detailed data.
- *Other supplementary information*, which further explains and supports the information in the financial statements.

Government-wide financial statements. The government-wide financial statements report information about the Township using accounting methods like those used by a private-sector business. The two statements presented are:

- The statement of net position, which includes the Township's assets and liabilities, except for fiduciary and agency funds, with the difference between the two reported as net position. Over time, increases or decreases in net position are an indicator of whether the Township's financial position is improving or deteriorating.
- The statement of activities presents revenues and expenses and their effect on the change in the Township's net position during the current year. These changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The government-wide financial statements of the Township are reflected in two distinct categories:

- *Governmental activities* are primarily supported by taxes and state and federal grants. The governmental activities include the Township's basic services such as general government, public safety, public works, and parks.

A second category which is used by some entities is *business-type activities*. Business-type activities are supported by user fees and charges, which are intended to recover all or a significant portion of their costs. The Township operates a waste water system which falls into this category.

Fund Financial Statements. The fund financial statements provide detailed information about the Township's funds. Funds are accounting devices for groupings of activities that enable the Township to maintain control over resources that have been segregated for restricted purposes or objectives. Some funds are required by state law. Other funds are established to control and manage resources designated for a specific purpose. All the funds of Pocono Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the Township. The government-wide statements focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the calendar year.

- Governmental funds are useful in evaluating the Township's short-term financing requirements to help the readers of the financial statements better understand the relationships and differences between the long-term view of the government-wide financial statements from the short-term view of the fund financial statements, reconciliations are presented between the fund financial statements and the government-wide statements.
- The Township maintains four (4) individual governmental funds. Financial information is presented separately for the general fund, the sewer design and construction fund, the capital reserve operating fund, and the liquid fuels fund.

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds. The fiduciary funds are funds for which the Township is the trustee or fiduciary. The Township is the trustee, or fiduciary, for the police employees' pension plan and the developers' escrow accounts. It is also responsible for other assets that are collected and held for others until the funds are allocated to the organizations, government agencies or private parties to which they belong. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These fiduciary activities are reported in a separate statement of fiduciary net position and changes in fiduciary net position. They are not reflected in the government-wide financial statements because the assets are not available to support the Township's operations.

Defining the Classifications of Expenditures

General governmental activities - include the activities of the Board of Commissioners, financial administration, legal counsel, insurance, and physical plant.

Public Safety activities - include police protection, code enforcement, fire protection, and planning.

Public works activities - include general services, servicing of streets and storm sewers, and snow and ice removal, along with sewer system design and construction

Cultural and recreation activities - include parks operations and maintenance.

Other activities - include employer payroll taxes, employee benefits and general insurance expense.

Principal and interest include the transactions associated with the payment of interest and other charges relating to the debt of the Township.

Wastewater collection and treatment includes operation and maintenance of sewer lines within the Township, and the Township's share of operation expenses for the regional sewer plant.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents additional information in three separate sections: required supplementary information, other supplementary information and statistical information.

- ***Required supplementary information.*** Certain information regarding pension plan funding progress for the Township and OPEB liability information, as well as budgeted and actual revenues and expenditures for the Township's general fund is presented in this section. This required supplementary information can be found immediately following the notes to the financial statements.

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

TOWNSHIP-WIDE FINANCIAL ANALYSIS

Net Position

As stated previously, the township's net position decreased by \$264,478 or 2% from the previous year.

Statements of Net Position
December 31, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Reporting Entity	
	2018	2017	2018	2017	2018	2017
ASSETS						
Cash and cash equivalents	\$ 4,149,615	\$ 9,200,533	\$ 1,217,971	\$ 1,535,138	\$ 5,367,586	\$ 10,735,671
Investments	4,551,860	-	50,000	-	4,601,860	-
Taxes receivable	61,188	80,034	-	-	61,188	80,034
Accounts and other receivables	81,209	79,576	862,049	365,835	943,258	445,411
Prepaid expenses	92,797	115,821	109,176	84,015	201,973	199,836
TOTAL ASSETS	<u>\$ 8,936,669</u>	<u>\$ 9,475,964</u>	<u>\$ 2,239,196</u>	<u>\$ 1,984,988</u>	<u>\$ 11,175,865</u>	<u>\$ 11,460,952</u>
LIABILITIES AND NET POSITION						
LIABILITIES						
Accounts payable	\$ 105,986	\$ 145,905	\$ 28,497	\$ 20,048	\$ 134,483	\$ 165,953
Accrued salaries, benefits and related taxes	120,132	109,271	-	-	120,132	109,271
TOTAL LIABILITIES	<u>226,118</u>	<u>255,176</u>	<u>28,497</u>	<u>20,048</u>	<u>254,615</u>	<u>275,224</u>
NET POSITION						
Restricted	\$ 2,392,647	\$ 2,872,199	\$ -	\$ -	\$ 2,392,647	\$ 2,872,199
Unrestricted	6,317,904	6,348,589	2,210,699	1,964,940	8,528,603	8,313,529
TOTAL NET POSITION	<u>\$ 8,710,551</u>	<u>\$ 9,220,788</u>	<u>\$ 2,210,699</u>	<u>\$ 1,964,940</u>	<u>\$ 10,921,250</u>	<u>\$ 11,185,728</u>

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

Changes in Net Position

For the years ended December 31, 2018 and 2017, net position of the primary government changes as follows:

Statements of Changes in Net Position
Years Ended December 31, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Reporting Entity	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues						
Charges for services	\$ 585,149	\$ 614,821	\$ 5,171,409	\$ 5,504,883	\$ 5,756,558	\$ 6,119,704
Operating grants and contributions	473,997	1,709,008	-	-	473,997	1,709,008
Capital grants and contributions	126,304	18,000	-	-	126,304	18,000
General Revenues						
Taxes	5,481,894	5,464,212	-	-	5,481,894	5,464,212
Assessments, permits, and related fees	-	-	-	-	-	-
Cable television franchise fees	201,763	198,824	-	-	201,763	198,824
Investment earnings	77,660	61,722	31,001	6,987	108,661	68,709
Grants, subsidies and contributions	324,274	316,445	-	-	324,274	316,445
Proceeds from sale of assets	51,503	22,300	-	-	51,503	22,300
Proceeds from capital lease proceeds	248,000	-	-	-	248,000	-
Proceeds from bond refinancing	-	-	4,593,000	-	4,593,000	-
Transfers	-	1,381,940	-	(1,381,940)	-	-
Miscellaneous	278,010	172,722	-	-	278,010	172,722
TOTAL REVENUES	\$ 7,848,554	\$ 9,959,994	\$ 9,795,410	\$ 4,129,930	\$ 17,643,964	\$ 14,089,924
EXPENDITURES						
General government	\$ 1,226,407	\$ 1,330,582	\$ -	\$ -	\$ 1,226,407	\$ 1,330,582
Public safety	3,761,936	3,367,196	-	-	3,761,936	3,367,196
Highways and streets	2,793,405	1,529,020	-	-	2,793,405	1,529,020
Health and sanitation	443,645	545,564	-	-	443,645	545,564
Sewer operations	-	-	9,549,651	5,569,764	9,549,651	5,569,764
Culture and recreation	133,398	172,815	-	-	133,398	172,815
Debt service	-	-	-	-	-	-
TOTAL EXPENDITURES	\$ 8,358,791	\$ 6,945,177	\$ 9,549,651	\$ 5,569,764	\$ 17,908,442	\$ 12,514,941
CHANGE IN NET POSITION	\$ (510,237)	\$ 3,014,817	\$ 245,759	\$(1,439,834)	\$ (264,478)	\$ 1,574,983

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POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

Governmental Activities

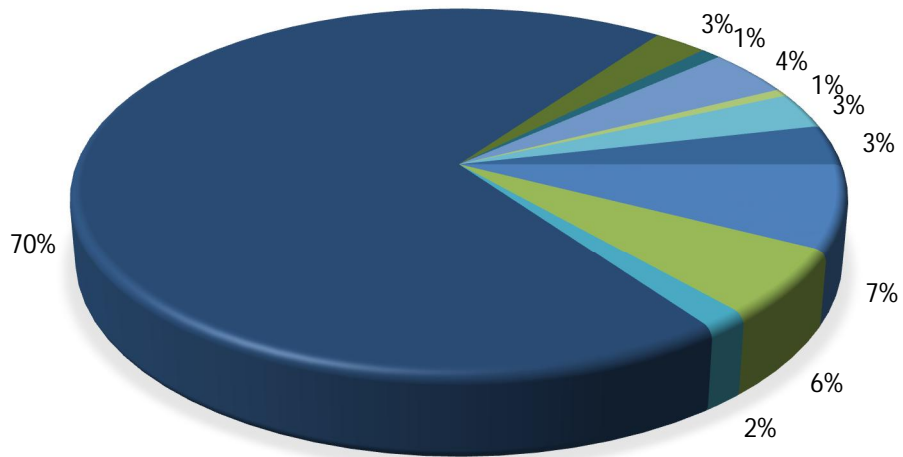
To aid in understanding the statement of activities- modified accrual beginning on page 14, some additional explanation is given. The format is significantly different from a typical statement of revenues, expenses and changes in fund balance. Expenses are listed in the first column, with revenues from the program reported to the right. The result is a net (expense)/revenue. This type of format highlights the cost of services provided by the township to the taxpayers. It also identifies how much each governmental activity draws from the general revenues or if it is self-financing through fees, grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Long-Term Debt

During 2018, the Township repaid a total of \$3,071,783 of its long-term sewer construction debt. During 2018 the Township refinanced Sewer Revenue Note Series A of 2014 by incurring debt of \$4,593,000 and making a cash payment of \$2,000,000 towards the 2014 A Note. At December 31, 2018, the Township had \$16,924,015 in long-term debt compared to \$19,995,798 at December 31, 2017. This represents a decrease of 18.2%.

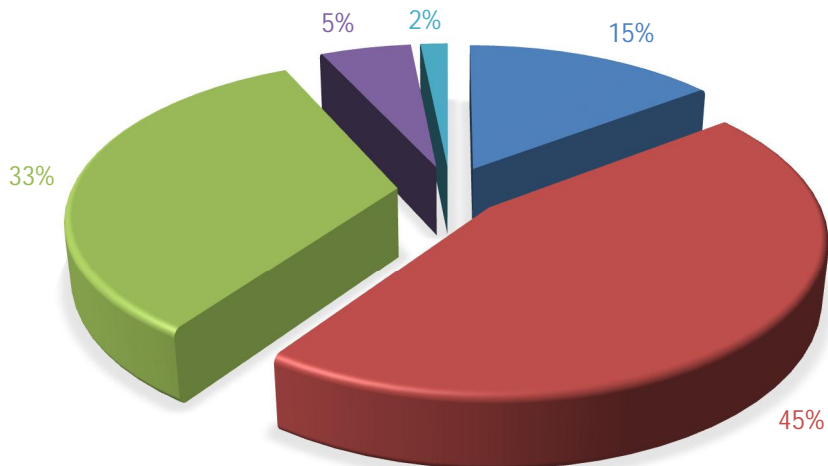
POCONO TOWNSHIP
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 YEAR ENDED DECEMBER 31, 2018

2018 REVENUE SOURCES
 GENERAL & CAPITAL FUNDS



- Charges for Services
- Taxes
- Grants, subsidies & contributions
- Miscellaneous
- Operating grants & contributions
- Cable franchise fees
- Proceeds from sale of assets
- Capital grants & contributions
- Investment earnings
- Proceeds from capital leases

2018 EXPENDITURE
 GENERAL & CAPITAL FUNDS



- General Government
- Public Safety
- Highways & streets
- Health & sanitation
- Culture & recreation

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

ECONOMIC OUTLOOK & KEY FACTORS OF 2019 BUDGET

Pocono Township anticipates continuing to provide the same or an increased level of services to ensure public safety and maintain the current infrastructure. The Township continues to pursue various grant opportunities and explore possible cost savings that we believe will not adversely affect residents, employees or the community. The county wide reassessment, done by the Monroe County Commissioners, which now assesses properties at 100% market value instead of the former 25%, will cause a change in the millage rate charged to the taxpayers.

- Revenues from Real Estate and Income taxes are being collected as anticipated and budgeted.
- In 2019 the employee complement remained constant.
- The Public Works contract was settled in 2019 for a five-year period – January 1, 2018 through December 31, 2022. Additional personnel and rising costs of insurance have led to an increase in employee costs.
- In 2019, Capital reserve funds have purchased two (2) police vehicles, and three (3) public works vehicles (1 single axle-10 ton dump truck, 1 ton and a half dump truck and 1 pickup truck with plow).
- In 2018 the township began leasing the public works vehicles and have continued that practice into 2019. The lease is a five-year lease with a \$1 buyout at the end. This will enable the township to utilize the capital reserve funds to a greater extent.
- The well at Mountain View Park was found to contain bacteria in late 2018. In mid-2019, the plans were approved by DEP for the replacement of a new well. Work on this project should be complete by late fall 2019.
- The Board of Commissioners continue to work on ways to expand the park and recreation opportunities to the residents and visitors. A vision for TLC Park is being worked on and it is hopeful that grant money can be found to make this vision a reality over the next several years.
- Due to the aging infrastructure of the municipal complex, unanticipated repairs and expenses have been incurred.
- The Amusement Tax Ordinance was passed, effective October 1, 2018 which is anticipated to provide additional unrestricted revenue. The amusement tax has been delayed with implementation beginning January 1, 2020.
- The sewer operation fund continues to reimburse the general fund for services provided by township personnel as well as for the insurance costs of covering the system.
- The Board of Commissioners are continually exploring options for additional revenue for the township as the demand for services rise to Pocono Township residents, businesses and visitors.

POCONO TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of Pocono Township's finances. Questions concerning any information provided in this report or requests for additional information may be addressed through a Right to Know request to the Pocono Township Board of Commissioners, 112 Township Drive Tannersville, PA 18372.

POCONO TOWNSHIP
STATEMENT OF NET POSITION-MODIFIED ACCRUAL BASIS
DECEMBER 31, 2018

	Governmental Activities	Business-Type Activities	Total Reporting Entity
ASSETS			
Cash and cash equivalents	\$ 2,288,156	\$ 1,217,971	\$ 3,506,127
Restricted cash and cash equivalents	1,861,459	-	1,861,459
Investments	4,551,860	50,000	4,601,860
Taxes receivable	61,188	-	61,188
Accounts and other receivables	81,209	862,049	943,258
Prepaid expenses	92,797	109,176	201,973
TOTAL ASSETS	\$ 8,936,669	\$ 2,239,196	\$ 11,175,865
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ 105,986	\$ 28,497	\$ 134,483
Accrued salaries, benefits and related taxes	120,132	-	120,132
TOTAL LIABILITIES	226,118	28,497	254,615
NET POSITION			
Restricted	\$ 2,392,647	\$ -	\$ 2,392,647
Unrestricted	6,317,904	2,210,699	8,528,603
TOTAL NET POSITION	8,710,551	2,210,699	10,921,250
TOTAL LIABILITIES AND NET POSITION	\$ 8,936,669	\$ 2,239,196	\$ 11,175,865

See accompanying notes to the basic financial statements.

POCONO TOWNSHIP
STATEMENT OF ACTIVITIES-MODIFIED ACCRUAL BASIS
YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,226,407	\$ 9,458	\$ -	\$ -	\$ (1,216,949)	\$ -	\$ (1,216,949)
Public safety	3,761,936	533,669	-	-	(3,228,267)	-	(3,228,267)
Highways and streets	2,793,405	12,321	473,997	-	(2,307,087)	-	(2,307,087)
Health and sanitation	443,645	12,895	-	126,304	(304,446)	-	(304,446)
Culture and recreation	133,398	16,806	-	-	(116,592)	-	(116,592)
TOTAL GOVERNMENTAL ACTIVITIES	8,358,791	585,149	473,997	126,304	(7,173,341)	-	(7,173,341)
BUSINESS-TYPE ACTIVITIES							
Sewer operations	9,549,651	5,171,409	-	-	-	(4,378,242)	(4,378,242)
TOTAL REPORTING ENTITY	\$ 17,908,442	\$ 5,756,558	\$ 473,997	\$ 126,304	\$ (7,173,341)	\$ (4,378,242)	\$ (11,551,583)
GENERAL REVENUES							
Taxes							
Property taxes					3,062,157	-	3,062,157
Earned income tax					1,628,972	-	1,628,972
Local services, realty transfer and other taxes					790,765	-	790,765
Cable television and franchise fees					201,763	-	201,763
Investment earnings					77,660	31,001	108,661
Grants, subsidies and contributions					324,274	-	324,274
Proceeds from sale of assets					51,503	-	51,503
Proceeds from capital lease proceeds					248,000	-	248,000
Proceeds from bond refinancing					-	4,593,000	4,593,000
Transfers					-	-	-
Miscellaneous					278,010	-	278,010
TOTAL GENERAL REVENUES					6,663,104	4,624,001	11,287,105
CHANGE IN NET POSITION					(510,237)	245,759	(264,478)
NET POSITION AT BEGINNING OF YEAR					9,220,788	1,964,940	11,185,728
NET POSITION AT END OF YEAR					\$ 8,710,551	\$ 2,210,699	\$ 10,921,250

See accompanying notes to the financial statements.

POCONO TOWNSHIP
BALANCE SHEET-MODIFIED ACCRUAL BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Sewer Design and Construction Fund	Capital Reserve Operating Fund	Nonmajor Liquid Fuels Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,270,060	\$ 14,096	\$ 4,000	\$ -	\$ 2,288,156
Restricted cash and cash equivalents	-	388,663	1,468,812	3,984	1,861,459
Investments	1,026,138	2,000,000	1,525,722		4,551,860
Taxes receivable	61,188	-	-	-	61,188
Accounts and other receivables	81,209	-	-	-	81,209
Prepaid expenses	92,797	-	-	-	92,797
TOTAL ASSETS	\$ 3,531,392	\$ 2,402,759	\$ 2,998,534	\$ 3,984	\$ 8,936,669
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 87,890	\$ 14,096	\$ 4,000	\$ -	\$ 105,986
Accrued salaries, benefits and related taxes	120,132	-	-	-	120,132
TOTAL LIABILITIES	\$ 208,022	\$ 14,096	\$ 4,000	\$ -	226,118
FUND BALANCES					
Restricted					
Sewer design and construction	-	2,388,663	-	-	2,388,663
Highways and streets	-	-	-	3,984	3,984
Unassigned	3,323,370	-	2,994,534	-	6,317,904
TOTAL FUND BALANCES	3,323,370	2,388,663	2,994,534	3,984	8,710,551
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,531,392	\$ 2,402,759	\$ 2,998,534	\$ 3,984	\$ 8,936,669

See accompanying notes to the basic financial statements.

POCONO TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-MODIFIED ACCRUAL BASIS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Sewer Design and Construction Fund	Capital Reserve Operating Fund	Nonmajor Liquid Fuels Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 5,481,894	\$ -	\$ -	\$ -	\$ 5,481,894
Licenses, permits and fees	201,763	-	-	-	201,763
Fines and forfeits	88,813	-	-	-	88,813
Interest	28,520	3,077	44,773	1,290	77,660
Intergovernmental	324,274	-	126,304	473,997	924,575
Charges for services	496,336	-	-	-	496,336
Refunds of prior year expenses	264,767	-	-	-	264,767
Other revenues	13,243	-	-	-	13,243
TOTAL REVENUES	6,899,610	3,077	171,077	475,287	7,549,051
EXPENDITURES					
General government	1,220,534	-	-	-	1,220,534
Public safety and protective inspection	3,391,978	-	369,958	-	3,761,936
Public works, highways and streets	1,059,251	-	1,205,743	474,000	2,738,994
Health and sanitation	23,717	419,928	-	-	443,645
Culture and recreation	90,044	-	43,354	-	133,398
Debt Service	-	-	54,411	-	54,411
Refunds of prior year revenues	947	-	-	-	947
Miscellaneous	4,926	-	-	-	4,926
TOTAL EXPENDITURES	5,791,397	419,928	1,673,466	474,000	8,358,791
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,108,213	(416,851)	(1,502,389)	1,287	(809,740)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	30,000	-	30,000
Transfers out	(30,000)	-	-	-	(30,000)
Proceeds from capital lease	-	-	248,000	-	248,000
Proceeds from sale of surplus assets	51,503	-	-	-	51,503
TOTAL OTHER FINANCING SOURCES (USES)	21,503	-	278,000	-	299,503
NET CHANGE IN FUND BALANCES	1,129,716	(416,851)	(1,224,389)	1,287	(510,237)
FUND BALANCE - BEGINNING	2,193,654	2,805,514	4,218,923	2,697	9,220,788
FUND BALANCE - ENDING	\$ 3,323,370	\$ 2,388,663	\$ 2,994,534	\$ 3,984	\$ 8,710,551

See accompanying notes to the basic financial statements.

POCONO TOWNSHIP
STATEMENT OF NET POSITION-MODIFIED ACCRUAL BASIS
PROPRIETARY FUND
DECEMBER 31, 2018

	Sewer Operating Fund
ASSETS	
Cash and cash equivalents	\$ 1,217,971
Investments	50,000
Accounts receivable	862,049
Prepaid expenses	109,176
TOTAL ASSETS	\$ 2,239,196
 LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	\$ 28,497
 NET POSITION	
Unrestricted	2,210,699
TOTAL LIABILITIES AND NET POSITION	\$ 2,239,196

See accompanying notes to the basic financial statements.

POCONO TOWNSHIP
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION-MODIFIED ACCRUAL BASIS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018

	Sewer Operating Fund
OPERATING REVENUES	
Sewage usage fees	\$ 3,729,658
Connection fees	<u>1,441,751</u>
TOTAL OPERATING REVENUES	<u>5,171,409</u>
OPERATING EXPENSES	
Sewer treatment operations	<u>1,545,433</u>
OPERATING INCOME	3,625,976
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	31,001
Debt service interest	(319,290)
Debt service principal	(7,664,783)
Refund of prior year revenues	(20,145)
Proceeds from bond refinancing	<u>4,593,000</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(3,380,217)</u>
CHANGE IN NET POSITION	245,759
NET POSITION AT BEGINNING OF YEAR	<u>1,964,940</u>
NET POSITION AT END OF YEAR	<u><u>\$ 2,210,699</u></u>

See accompanying notes to the basic financial statements.

POCONO TOWNSHIP
STATEMENT OF CASH FLOWS-MODIFIED ACCRUAL BASIS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018

	<u>Sewer Operating Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,675,195
Payments to suppliers and vendors	<u>(1,562,145)</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>3,113,050</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund transfers	-
Refund of prior year revenues	<u>(20,145)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(20,145)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from bond refunding	4,593,000
Debt service principal	(7,664,783)
Debt service interest	<u>(319,290)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,391,073)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	31,001
Investment purchase	<u>(50,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(317,167)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,535,138</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,217,971</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 3,625,976
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in	
Accounts receivable	(496,214)
Prepaid expenses	(25,161)
Accounts payable	<u>8,449</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 3,113,050</u></u>

See accompanying notes to basic financial statements.

POCONO TOWNSHIP
STATEMENT OF FIDUCIARY NET POSITION-MODIFIED ACCRUAL BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2018

	Police Pension Fund	Escrow Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 106,178	\$ 523,048	\$ 629,226
Investments at fair value	5,556,961	-	5,556,961
TOTAL ASSETS	<u>\$ 5,663,139</u>	<u>\$ 523,048</u>	<u>\$ 6,186,187</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Escrow funds	\$ -	\$ 523,048	\$ 523,048
NET POSITION			
Held in trust for pension benefits	5,663,139	-	5,663,139
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,663,139</u>	<u>\$ 523,048</u>	<u>\$ 6,186,187</u>

See accompanying notes to basic financial statements.

POCONO TOWNSHIP
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION-MODIFIED ACCRUAL BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Police Pension Fund
ADDITIONS	
Contributions	
General municipal pension state aid	\$ 200,000
Employees	70,116
TOTAL CONTRIBUTIONS	270,116
Investment income	
Net decrease in fair value of assets	(460,021)
Interest, dividend and capital gain income	145,937
TOTAL INVESTMENT INCOME	(314,084)
Investment expenses	(29,325)
INVESTMENT INCOME, NET	(343,409)
TOTAL ADDITIONS	(73,293)
DEDUCTIONS	
Reimbursement to general fund	13,970
Benefits	152,931
TOTAL DEDUCTIONS	166,901
CHANGE IN NET POSITION	(240,194)
NET POSITION AT BEGINNING OF YEAR	5,903,333
NET POSITION AT END OF YEAR	\$ 5,663,139

See accompanying notes to basic financial statements.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Government

Pocono Township is a First Class Township of Monroe County, Pennsylvania. Pocono Township's citizens elected in November of 2013 to change the Township from a second class township to a first class township beginning January 1, 2014. Subsequently the Commissioners of Monroe County, Pennsylvania appointed five commissioners to Pocono Township's Board with terms beginning on January 1, 2014. Upon expiration of the initial terms, commissioners will be elected by the Township's citizens. The Township's services provided include public safety, maintenance of its highways, roads and streets, planning and zoning, parks and recreation, and general governmental administrative services.

Basis of Accounting

The Government-wide, governmental-type funds', business-type funds, and fiduciary fund's financial statements are presented using the modified accrual basis of accounting, which is an other comprehensive basis of accounting (OCBOA) as applied to governmental units. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Township considers taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment has matured and will be payable shortly after year-end.

The basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

As a result of the use of the modified accrual basis of accounting, certain assets (including capital assets) and their related revenues, and certain liabilities (including long-term debt, pensions, and OPEB) and their related expenditures that would be recognized under accounting principles generally accepted in the United States of America are not recorded in these financial statements.

If the Township had utilized the basis of accounting recognized as generally accepted in the United States of America, the government-wide financials would be presented on the accrual basis of accounting.

The following is a summary of the more significant policies of the Township.

Reporting Entity

The Board of Commissioners ("the Board") is the basic level of government which has financial accountability and control over all activities related to municipal functions in the Township. The Board receives funding from local, state and federal sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary accountability for fiscal matters.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township follows the criteria promulgated by GASB for purposes of determining the scope of its reporting entity as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, including whether:

- The organization is legally separate (can sue and be sued in their own name);
- The Township holds the corporate powers of the organization; The Township appoints a voting majority of the organization's board;
- The Township is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on the Township;
- There is fiscal dependency by the organization on the Township.

Based on these criteria, the Township is not considered to have any component units.

Basis of Presentation

The Government-wide Financial Statements report information on all the non-fiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by mainly general purpose taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Expenses reported on the statement of activities are allocated to functions based on the budget classifications.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of personal and contractual services and supplies. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Financial Statements – The accounts of the Township are organized on the basis of funds or account groups, each of which is considered a separate entity. Thus, the operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise it assets, liabilities, fund balance, revenues and expenditures. An emphasis is placed on a major fund within the governmental category. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures of that individual fund are at least ten percent (10%) of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenses of the individual fund are at least five percent (5%) of the corresponding total for all funds combined.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds – Governmental Funds are those funds through which most governmental functions of the Township are financed. The acquisition, use and balance of the Township’s expendable financial resources are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following are the Township’s Governmental Funds:

Major funds:

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Sewer Design and Construction Fund – Accounts for specific revenues and expenditures relating to establishing sewer service along Route 611 in Pocono Township and for the Township’s share of the regional sewer project.

Capital Reserve Operating Fund – Represents funds that the Township has moved into this separate capital projects fund to provide funding for future capital improvements.

Nonmajor Funds:

State Liquid Fuels Fund – This fund is used to account for funding from the Pennsylvania Municipal Liquid Fuels Program which funds a range of projects to support municipalities’ construction, reconstruction, maintenance and repair of public roads or streets.

Proprietary Funds – Proprietary Funds are used to account for business-type operations conducted by the Township. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund’s principal ongoing operations. The principal operating revenues of the Sewer Operating Fund are charges to customers for sales and services. Operating expenses of the Sewer Fund include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Sewer Operating Fund – Accounts for the revenues and expenditures relating to operating and maintaining sewer service along Route 611 in Pocono Township and for the Township’s share of the regional sewer project’s operating expenses.

Fiduciary Funds – The Fiduciary Funds are used to account for assets held by the Township as trustee for and on behalf of individuals or organizations who have designated the Township as trustee of the assets. The Fiduciary Funds consist of the Townships pension plans with its uniformed and non-uniformed employees and escrow funds which it is holding on behalf of others. The Township excludes these activities from the government-wide financial statements because those assets cannot be used to finance operations.

Police Pension Fund – Accounts for the contributions by the Township and its police department’s employees to the Township’s police pension plan and related investment transactions. Benefit payments and plan administrative expenses are paid from this fund.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Escrow Fund – Accounts for funds held by the Township which belong to other parties which have been deposited by the Township for various purposes including payment of professional fees required for development projects and other such purposes.

Measurement Focus

The Government-wide financial statements utilize the “economic resources” measurement focus, within the limitations of the modified accrual basis of accounting.

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

Budgets and Budgetary Accounting

The Township annually adopts its general operating budget in accordance with the Commonwealth of Pennsylvania First Class Township Code of May 27, 1949 (P.L. 1955, No. 569 as amended). The budget is advertised as required and filed with the Pennsylvania Department of Community and Economic Development as prescribed by the Department.

Under GASB Statement No. 34, budgetary comparison information is required to be presented for the General Fund.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with an original maturity of three months or less, and that have no withdrawal restrictions, are considered cash equivalents.

Investments

The pension plan deposits and investments are currently governed by Title 20 of the Pennsylvania Consolidated Statutes, Chapter 73, entitled to the Probate, Estates, and Fiduciaries Code, Section 7302, Fiduciaries Investments, act of June 30, 1972. This act allows the trustees of the plan to invest in securities which a prudent person of discretion and intelligence, who is seeking a reasonable income and preservation of capital, would buy.

This discretionary authority, known as the “Prudent Person Rule”, permits the selection of a variety of investments, allowing for diversity in the degree of risk and liquidity. Finally, there were no deposit or investment transactions during the year that were in violation of this state statute or the policy of the plan. The Township has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 72, *Fair Value Measurement and Application*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt

The Township's long-term debt arising from modified accrual basis transactions to be repaid from governmental resources are not reported as liabilities in the government-wide statements. Long-term debt arising from the modified accrual basis transactions of governmental funds are not reported as liabilities in the fund financial statements or the government-wide financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

Real Property Taxes

The Township levies real property taxes on January 1 of each year based upon the assessed valuation as of January 1, as determined by the County of Monroe. Property taxes are due upon receipt with a discount of 2% allowed through April 30, face amount due from May 1 through June 30 and a penalty of 10% levied for all payments received after June 30. All unpaid real property taxes are lienied with the Monroe County Tax Claim on January 1 following the year levied.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted on the government-wide statements 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 regulations of other governments.

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

Fund Balance and GASB Statement No. 54

The Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Township's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (the Board of Commissioners). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Assigned Fund Balance – Amounts the Township intends to use for a specific purpose. Intent can be expressed by the Board of Commissioners or by an official or body to which the Board of Commissioners delegates the authority. The Commissioners have not delegated that authority as of December 31, 2018.
- Unassigned Fund Balance – Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Commissioners establishes (and modifies or rescinds) fund balance commitments and assignments by passage of a resolution. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

The Township will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Transactions Between Funds

Short-term amounts owed between funds, if any, are classified as interfund receivables/payables. Legally authorized transfers are treated as operating transfers and are included in the results of operations of the funds.

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.

Cash

The Township's cash and cash investments consist of deposits with financial institutions.

NOTE 2 CASH AND CASH INVESTMENTS

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. Pocono Township's investments recorded in governmental and business-type activities are certificates of deposits held at financial institutions. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The Township does not have a deposit policy for custodial credit risk. As of December 31, 2018, \$9,702,348 of the Township's bank balance of \$10,752,348 was exposed to custodial credit risk.

Investments

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

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 CASH AND CASH INVESTMENTS (Continued)

Credit Risk – State statutes authorize the Township to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer’s Investment Pool.

The Township has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Township places no limit on the amount the Township may invest in any one issuer.

Fair Value Measurement – The Pension Plans categorize 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 those that lack significant observable inputs. At December 31, 2018, all of the Plan’s investments are in publicly traded mutual funds and are categorized as Level 1 investments.

NOTE 3 REAL ESTATE TAXES

Based upon taxable assessed valuation provided by the County (\$192,636,550 in 2018), the Township bills and collects its own property taxes through an elected tax collector. The Township’s tax rate for all purposes for 2018 was 16.10 mills (\$16.10 per \$1,000 of assessed valuations).

Pocono Township participated in Tax Increment Financing Projects (“TIF’s”). The TIF’s are administered by the Monroe County Industrial Development Authority. The first TIF project (Sanofi) consists of four parcels located in Pocono Township totaling 276.37 acres. The Tax Increment Project was developed in accordance with the “Pennsylvania Tax Increment Financing Act of 1990”, as amended, for a term of twenty (20) years commencing June 1, 2005, and a maximum borrowing amount not to exceed \$3,500,000.

The second TIF project (Camelback) consists of 25 acres located in Pocono Township. The Tax Increment Project was developed in accordance with the “Pennsylvania Tax Increment Financing Act of 1990”, as amended, for a term of twenty (20) years commencing December 31, 2013, and a maximum borrowing amount not to exceed \$15,000,000.

As a TIF participant, the Township contributes 100% of the additional or new real estate taxes generated from all new building construction within the TIF districts. All tax revenue generated on the assessed valuation of the TIF base (prior to new construction) will remain with the Township. The allocation of real estate taxes to the TIF district is based upon the millage rate for Pocono Township at the time of the TIF approvals, which was 6.215 mills for the Sanofi project and 17.35 mills for the Camelback project. Any millage rate increases above these rates are not included as part of the TIF project. Real estate tax revenues derived from millage exceeding these rates remains with Pocono Township. The amount remitted to the TIF program by the Township was \$163,125 for the year ended December 31, 2018.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 LONG-TERM DEBT

PENNVEST Note Payable – Issued on May 4, 2011, to finance the construction of the Township’s sewer facilities. The loan is for \$8,300,000 with interest payments due monthly. The interest rate for the first five years is 1% and will increase to 1.51% for the remaining life of the loan. The loan is scheduled to mature on April 1, 2034. The outstanding balance as of December 31, 2018 was \$6,508,015.

Guaranteed Sewer Revenue Note, Series A of 2014 – Issued on May 4, 2011, to refund the principal balance of the \$7,500,000 original principal amount Guaranteed Sewer Revenue Bond, Series A of 2010, dated December 30, 2010, and pay related expenses. The loan is for \$7,677,334 with interest payments due semi-annually. The interest rate from the initial date through December 1, 2019, is 1.72%, and then shall be continuously variable to equal 67% of the “Wall Street Journal Prime Rate” not to exceed at any time an effective annual rate of 4.50% for the remaining life of the loan. The loan was scheduled to mature on April 1, 2034. The Township made a cash payment of \$2,000,000 and the remaining balance of \$4,534,969 was refinanced during 2018 by the General Sewer Revenue Note Series 2018.

Guaranteed Sewer Revenue Note, Series B of 2014 – Issued on November 19, 2014, to refund the principal balance of the \$4,500,000 original principal amount Guaranteed Sewer Revenue Bond, Series B of 2010, dated December 30, 2010, and pay related expenses. The loan is for \$4,351,000 with interest payments due semi-annually. The interest rate from the initial date through December 1, 2019, is 1.85%, and then shall be continuously variable to equal 66% of the “Wall Street Journal Prime Rate” not to exceed at any time an effective annual rate of 4.50% for the remaining life of the loan. The loan is scheduled to mature on April 1, 2034. The outstanding balance as of December 31, 2018 was \$3,967,000.

Guaranteed Sewer Revenue Note, Series of 2015 – During 2015, the Township borrowed \$4,350,000 from Univest Bank. The Guaranteed Sewer Revenue Note, Series of 2015, was issued for the purpose of the current refunding of the Township’s General Obligation Note, Series of 2010, and financing the costs and expenses of issuing the Note. The note will carry interest at an annual rate of 2.5% for the first ten years of the 20-year term, following which it will adjust every five years to a rate equal to 60% of the Purchaser’s then current Prime Rate, subject to a maximum rate of 4.75% per annum. The outstanding balance at December 31, 2018 was \$1,856,000.

2018 Debt Issuance

Guaranteed Sewer Revenue Note Series 2018 – Issued on December 6, 2018, to refund the principal balance of the \$4,534,969 principal amount Guaranteed Sewer Revenue Note, Series A of 2014, and pay related expenses. The loan is for \$4,593,000 with Peoples Security Bank, with interest payments due semi-annually. The interest rate from the initial date through December 1, 2025, is 3.490%, and then shall be continuously variable to equal 65% of the “Wall Street Journal Prime Rate” not to exceed at any time an effective annual rate of 4.50% for the remaining life of the loan. The loan is scheduled to mature on June 1, 2036. The outstanding balance as of December 31, 2018 was \$4,593,000.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 LONG-TERM DEBT (Continued)

Summary of Borrowing Obligations

The annual requirements to amortize all outstanding debt as of December 31, 2018 are as follows:

Year	Principal	Interest	Total
2019	\$ 1,131,326	\$ 417,907	\$ 1,549,232
2020	1,107,034	399,516	1,506,550
2021	1,133,105	368,681	1,501,786
2022	1,138,364	426,403	1,564,767
2023	1,116,412	389,438	1,505,850
2024-2028	5,871,955	1,485,247	7,357,202
2029-2033	4,878,394	521,827	5,400,221
2034-2035	741,956	85,118	827,074
Total	<u>\$17,118,545</u>	<u>\$4,094,137</u>	<u>\$21,212,682</u>

During 2018 the Township leased two public works vehicles totaling \$248,000. The leases are due in equal payments every December, maturing in 2022.

The following is a summary of long-term debt transactions of the Township for the year ended December 31, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-Type Activities					
PennVest Loan	\$ 6,898,798	\$ -	\$ 390,783	\$ 6,508,015	\$ 384,956
General Sewer Revenue Bond Series A 2014	6,919,000	-	6,919,000	-	-
General Sewer Revenue Bond Series B 2014	4,158,000	-	191,000	3,967,000	195,000
General Sewer Revenue Note Series 2015	2,020,000	-	164,000	1,856,000	161,000
General Sewer Revenue Note Series 2018	-	4,593,000	-	4,593,000	345,000
Total Business-Type Activities	<u>\$19,995,798</u>	<u>\$ 4,593,000</u>	<u>\$ 7,664,783</u>	<u>\$ 16,924,015</u>	<u>\$ 1,085,956</u>
Governmental Activities					
Capital Leases	\$ -	\$ 248,000	\$ 53,470	\$ 194,530	\$ 45,370

NOTE 5 INTERFUND BALANCES AND TRANSFERS

There were no interfund receivable and payable balances as of December 31, 2018.

Interfund transfers are executed as a result of certain funds funding the expenditures or expenses of other funds. The amounts transferred for the year ended December 31, 2018 are as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ 30,000
Capital Reserve Fund	30,000	-
	<u>\$ 30,000</u>	<u>\$ 30,000</u>

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN

Plan Description

Plan Administration – The Pocono Township Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 145 adopted pursuant to Act 600. The plan is governed by the Pocono Township which may amend plan provisions, and which is responsible for the management of plan assets. The Pocono Township has delegated the authority to manage certain plan assets to US Bank.

The plan provides retirement benefits as well as death and disability benefits under Pennsylvania Act 600. All benefits vest after 12 years of credited service. Officers are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last 60 months of employment. Married officers will receive joint and 50% survivor annuity. Normal retirement is age 55 with at least 25 years of service.

If a member dies in service, a benefit will be paid per Act 30 equal to 100% of salary. The widow of a participant who has attained eligibility for retirement, or a participant who retired on pension, shall receive during the spouse's lifetime, fifty percent (50%) of pension the participant was receiving or would have been receiving had they been retired at the time of their death. If no such widow survives, or if the spouse survives and subsequently dies or remarries, then the children under the age of eighteen (18) (or who are attending college and have not yet attained age twenty-three(23)) shall be entitled to the same benefit described above. The widow of a participant who is killed-in-service shall receive, during the spouse's lifetime, a monthly benefit equal to one hundred percent (100%) of the average monthly compensation of the participant. If no such widow survives, or if the spouse survives and subsequently dies or remarries, then the children under the age of 18 (18) (or who are attending college and have not yet attained age twenty-three (23)) shall be entitled to the same benefit described above. In the event of a permanent service-related injury, the benefit shall be equal to 50% of the average monthly compensation of the participant. The benefit would be payable as if the date of disability had been their normal retirement date. This benefit is reduced by any benefits or payments received by such participant under the Social Security Administration for the same injury. Covered employees are required to contribute 5% of their compensation to the plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. If employment is terminated for reasons other than death or retirement, the employee is entitled to a refund of member contributions plus interest at a rate of 3 percent on contributions made from date of employment to December 31, 1978 and not less than 5 percent on contributions made after December 31, 1978.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. The benefit provisions of the Township's Police Pension Plan are established by Township ordinances.

Plan Membership – At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>21</u>
	<u>30</u>

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN (Continued)

Summary of Significant Accounting Policies

The plan's policy is to prepare its financial statements on the modified accrual basis 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. The pension plan's assets are valued at fair market value.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings. On-behalf payments of fringe benefits and salaries for the Township's employees were recognized as revenues and expenditures during the year.

Contributions

Contributions – Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to 5% of the participant's pay.

In 2018, the MMO obligation for the plan was \$184,360. For the year 2018 contributions of \$200,000 were made by the Township and the Commonwealth.

Investments

Investment Policy – The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. The investment policy of the Plan is to maximize the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investments in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	
Large cap	38%
Medium cap	0%
Small cap	2%
International equity	21%
Fixed income	37%
Cash	2%
	<u>100%</u>

POCONO TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN (Continued)

At December 31, 2018 the plan had the following investments:

	<u>Fair Market Value</u>
Fixed Income	\$ 2,090,746
U.S. Equities	3,572,393
Total Investments	\$ 5,663,139

Concentrations – The plan did not hold investments in any one organization that represent 5% or more of the plan’s fiduciary net position.

Net Pension Liability of the Township

Note: The net pension liability information is presented for disclosure purposes only. In accordance with the modified accrual basis of accounting, the net pension liability is not reported in these financial statements.

The components of the net pension liability of the Township at December 31, 2018, were as follows:

Total pension liability	\$ 6,314,351
Plan fiduciary net position	5,663,139
Net Pension Liability	\$ 651,212
Plan fiduciary net position as a percentage of total pension liability	89.7%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	5%
Investment rate of return	6.75%
Inflation	2.25%

Mortality rates were based on the RP-2000 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 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 asset 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.

POCONO TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN (Continued)

Best estimates of real rates of return for each major asset class that could possibly be included in the plan's target asset allocation as of December 31, 2018 (see Investment Policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	
Large cap	6.58%
Medium cap	7.39%
Small cap	7.39%
International equity	7.34%
Fixed income	2.84%
Emerging markets	10.68%
Cash	0.50%

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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 contribution 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.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2017	\$ 5,848,310	\$ 5,903,333	\$ (55,023)
Changes for the year			
Service cost	214,869	-	214,869
Interest	404,103	-	404,103
Contributions	-	-	-
Employer	-	-	-
State aid	-	200,000	(200,000)
Member	-	70,116	(70,116)
Net investment income	-	(343,409)	343,409
Benefit payments	(152,931)	(152,931)	-
Administrative expense	-	(13,970)	13,970
Net Changes	<u>466,041</u>	<u>(240,194)</u>	<u>706,235</u>
Balances at 12/31/2018	<u>\$ 6,314,351</u>	<u>\$ 5,663,139</u>	<u>\$ 651,212</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Township, calculated using the discount rate of 6.75%, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	<u>\$ 1,518,084</u>	<u>\$ 651,212</u>	<u>\$ (73,576)</u>

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -5.77%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 POLICE PENSION PLAN (Continued)

Deferred Outflows and Inflows of Resources

For the year ended December 31, 2018, the Township recognized a pension expense of \$272,898. At December 31, 2018, the Township reported deferred outflows of resources of deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (215,731)
Change in Assumptions	12,495	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	418,540	-
	\$ 431,035	\$ (215,731)

Amounts reported as deferred outflows of resources and deferred inflows of resources related pensions will be recognized in pension expense as follows:

Year Ended December 31:		
2019	\$	108,655
2020		47,922
2021		39,753
2022		123,794
2023		(24,604)
Thereafter		(80,216)

NOTE 7 NON-UNIFORMED EMPLOYEES' PENSION PLAN

The Township provided a defined contribution pension plan for eligible full-time non-uniformed employees of the Township. Members are permitted to contribute to the plan. The Township contributes on behalf of each member who was a participant on the last day of the plan year an amount equal to 9% of the member's compensation. Township contributions to the plan were \$45,197 during the year ended December 31, 2018.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS

Early Retirement Incentive – The Township maintains a postemployment benefit plan for its employees for coverage for medical insurance benefits to its qualified retirees and beneficiaries based on eligibility requirements set for each group of employees pursuant to the Government Accounting Standards Board Statement No. 75. The costs of retiree health care benefits are recognized as expenditures and a net other postemployment benefit liability based on an actuarial valuation dated January 1, 2018. For the year ended December 31, 2018, the Township's net OPEB obligation is \$1,738,907 and may continue to increase in each future year; however, in accordance with the modified accrual basis of accounting, the liability is not reported in these financial statements. The following are the Township's OPEB actuarial valuation results:

POCONO TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Active Participants	17
Retirees & Surviving Spouses	
Receiving OPEB Benefits	<u>0</u>
	<u>17</u>

Actuarial Cost Method – Actuarial costs can be developed using any one of six different methods. The results of the actuarial valuation are based on the Entry Age Normal Cost Method. This cost method estimates the total cost of all projected plan benefits based on the assumptions shown in this report and the participant data and claims/premium information supplies.

Discount Rate – The discount rate is based upon the funding method that the sponsor employs. Since the Township uses the pay-as-you-go method of funding, benefits are expected to be paid out of the general fund of the Township, therefore, a discount rate of 3.75% is utilized, which is the 20 year AA municipal bond rate.

Pre-Retirement Mortality – None assumed.

Post-Retirement Mortality – RP-2000 with Blue Collar Adjustment.

Retirement – Retirement is assumed to occur at normal retirement eligibility, which is a minimum of age 65, while early retirement eligibility is the first day of the month coincident with or next following the attainment of age 55.

Disability – None assumed. Disability Retirement date is the date a participant is determined to have a Total and Permanent Disability as defined by the Plan.

Participation – 100% of retirees who are eligible to participate are assumed to do so.

Marital Status – 80% of all future retirees are assumed to be married with only 50% of those spouses.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Township, as well as what the Township's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.75 percent) or 1 percentage point higher (4.75) than the current discount rate.

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB Liability	<u>\$1,921,066</u>	<u>\$ 1,738,907</u>	<u>\$1,572,371</u>

Healthcare Trend Rates are as follows:

Medical and prescription drug costs are assumed to increase by 7.5% during 2017 decreasing by 0.25% per year to an ultimate level of 5% per year. Dental costs are assumed to increase by 2% per year. Vision costs are assumed to increase by 1.5% per year.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB Liability	\$1,467,258	\$ 1,738,907	\$2,061,627

The following table shows the changes in Net OPEB liability recognized over 2018.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 1/1/2018	\$ 1,554,608	\$ -	\$ 1,554,608
Changes for the year			
Service cost	121,447	-	121,447
Interest	62,852	-	62,852
Net Changes	184,299	-	184,299
Balance at 12/31/2018	\$ 1,738,907	\$ -	\$ 1,738,907

NOTE 9 SECTION 457 DEFERRED COMPENSATION PLAN

The Township provides a Section 457 deferred compensation plan. The plan is governed by the Commissioners of Pocono Township. The Township's Commissioners may amend plan provisions and are responsible for the management of plan assets. All full-time employees are eligible for participation in the plan on the first day of the month following the completion of six (6) months of employment. Employee and employer contributions are one hundred percent (100%) vested. Pocono Township's police employees, through their collective bargaining agreement, are eligible for matching contributions equal to the lesser of eleven percent (11%) of deferrals or \$600 annually.

NOTE 10 ESCROW FUNDS AND LETTERS OF CREDIT

The Township holds escrow funds and letters of credit which will be released as the public improvements for which they are pledged are completed. The escrowed funds are reported as Fiduciary Funds; the letters of credit are not included in the accompanying financial statements.

POCONO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 11 COMMITMENTS AND CONTINGENCIES

Commitments

The Township entered into an intergovernmental cooperation agreement with Jackson Township under which the Pocono Jackson Joint Water Authority ("Authority") was established for the purpose of providing potable water to the residents of the Townships. Under the agreement, the Authority is the sole source of potable water for the Township. As a sponsoring member of the Authority, the Township may, from time to time, be required to provide funds to the Authority for capital projects or other needs.

Contingencies

Grant Program Involvement

In the normal course of operations, the Township participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The Township is a party to various legal proceedings that normally occur in the course of governmental operations. While the outcome of any proceedings cannot be predicted, due to the insurance coverage maintained by the Township and the Commonwealth's statute of relating to judgments, the Township feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Township.

NOTE 12 SUBSEQUENT EVENTS

Management has evaluated all events through September 6, 2019 noting no events needing disclosure.

SUPPLEMENTARY INFORMATION

POCONO TOWNSHIP
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
REVENUES				
Taxes	\$ 5,184,347	\$ 5,184,347	\$ 5,481,894	\$ 297,547
Licenses, permits and fees	200,000	200,000	201,763	1,763
Fines and forfeits	70,000	70,000	88,813	18,813
Interest earnings	28,000	28,000	28,520	520
Intergovernmental	318,141	318,141	324,274	6,133
Charges for services	636,700	636,700	496,336	(140,364)
Refunds of prior year's expenditures	180,000	180,000	264,767	84,767
Other revenues	300,500	300,500	13,243	(287,257)
TOTAL REVENUES	<u>6,917,688</u>	<u>6,917,688</u>	<u>6,899,610</u>	<u>(18,078)</u>
EXPENDITURES				
General government and administration	894,712	939,089	931,034	8,055
Public safety and protective inspection	3,398,728	3,420,361	3,391,978	28,383
Highways, roads and streets	1,184,729	1,132,988	1,059,251	73,737
Health and sanitation	17,500	24,230	23,717	513
Parks and recreations	144,652	103,355	90,044	13,311
Employee benefits and taxes	203,000	222,380	222,491	(111)
Insurance	145,800	146,718	67,009	79,709
Refunds of prior year's revenues	-	-	947	(947)
Miscellaneous	-	-	4,926	(4,926)
TOTAL EXPENDITURES	<u>5,989,121</u>	<u>5,989,121</u>	<u>5,791,397</u>	<u>197,724</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(44,322)	(44,322)	(30,000)	(14,322)
Transfers in	-	-	-	-
Proceeds from sale of surplus assets	10,000	10,000	51,503	41,503
TOTAL OTHER FINANCING SOURCES (USES)	<u>(34,322)</u>	<u>(34,322)</u>	<u>21,503</u>	<u>27,181</u>
NET CHANGE IN FUND BALANCE	<u>\$ 894,245</u>	<u>\$ 894,245</u>	<u>1,129,716</u>	<u>\$ 206,827</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>2,193,654</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 3,323,370</u>	

POCONO TOWNSHIP
SCHEDULE OF CHANGES IN THE NET POLICE PENSION PLAN-
LIABILITY AND RELATED RATIOS
DECEMBER 31, 2018

	2018	2017	2016	2015
TOTAL PENSION LIABILITY				
Service cost	\$ 214,869	\$ 204,637	\$ 194,547	\$ 185,283
Interest	404,103	372,288	356,283	325,413
Differences between expected and actual experience	-	(267,965)	-	-
Changes of assumptions	-	15,521	-	-
Benefit payments	(152,931)	(78,719)	(64,015)	(61,223)
NET CHANGE IN TOTAL PENSION LIABILITY	466,041	245,762	486,815	449,473
Total pension liability, beginning	5,848,310	5,602,548	5,115,733	4,666,260
TOTAL PENSION LIABILITY, ENDING (a)	\$ 6,314,351	\$ 5,848,310	\$ 5,602,548	\$ 5,115,733
PLAN FIDUCIARY NET POSITION				
Contributions				
Employer	\$ -	\$ -	\$ -	\$ -
State aid	200,000	182,373	145,320	150,578
Member	70,116	76,872	69,963	67,768
Net investment income (loss)	(343,409)	758,398	268,738	(4,077)
Benefit payments, including refunds of member contributions	(152,931)	(78,719)	(64,015)	(61,223)
Administrative expense	(13,970)	(2,228)	(850)	(6,255)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(240,194)	936,696	419,156	146,791
Plan fiduciary net position, beginning	5,903,333	4,966,637	4,547,481	4,400,690
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 5,663,139	\$ 5,903,333	\$ 4,966,637	\$ 4,547,481
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 651,212	\$ (55,023)	\$ 635,911	\$ 568,252
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	89.7%	100.9%	88.6%	88.9%
COVERED PAYROLL	\$ 1,541,333	\$ 1,381,567	\$ 1,137,720	\$ 1,101,102
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED- PAYROLL	42.2%	-4.0%	55.9%	51.6%

Note: Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available, in future years.

POCONO TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 184,360	\$ 168,584	\$ 145,320	\$ 150,578
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	200,000	168,584	159,109	150,578
CONTRIBUTION (EXCESS) DEFICIENCY	\$ (15,640)	\$ -	\$ (13,789)	\$ -
COVERED PAYROLL	\$ 1,541,333	\$ 1,381,567	\$ 1,137,720	\$ 1,101,102
CONTRIBUTION AS A PERCENTAGE OF COVERED-PAYROLL	13.0%	12.2%	14.0%	13.7%

NOTES TO SCHEDULE

Valuation date:

January 1, 2017

Actuarially determined contribution rates are calculated based on the plan's most recent available Act 205 actuarial valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14 years
Asset valuation method	Smoothing
Salary increases	5.0% annual increase
Investment rate of return	6.75%
Retirement age	55
Mortality	RP-2000
Cost of living adjustments	None

Note: Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available, in future years.

POCONO TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST 10 FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-5.77%</u>	<u>15.00%</u>	<u>5.81%</u>	<u>-0.09%</u>

Note: Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available, in future years.

POCONO TOWNSHIP
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS

	2018	2017
TOTAL OPEB LIABILITY		
Service cost	\$ 121,447	\$ 115,664
Interest	62,852	56,191
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments	-	-
NET CHANGE IN TOTAL OPEB LIABILITY	184,299	171,855
Total OPEB liability, beginning	1,554,608	1,382,753
TOTAL OPEB LIABILITY, ENDING (a)	\$ 1,738,907	\$ 1,554,608
PLAN FIDUCIARY NET POSITION		
Contributions		
Employer	\$ -	\$ -
State aid	-	-
Member	-	-
Net investment income (loss)	-	-
Benefit payments, including refunds of member contributions	-	-
Administrative expense	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	-	-
Plan fiduciary net position, beginning	-	-
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ -	\$ -
NET OPEB LIABILITY, ENDING (a)-(b)	\$ 1,738,907	\$ 1,554,608
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	0.0%	0.0%
COVERED PAYROLL	\$ 1,504,738	\$ 1,433,084
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	115.6%	108.5%

Note: Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available, in future years.

POCONO TOWNSHIP
POLICE EMPLOYEES AND RETIREES
FEATURES OF THE PLAN

Eligibility

Minimum age of 55 with 25 years of service.

Retirement Benefits

Medical, prescription drug, dental, and vision coverage same as when active.
Coverage ends when the retiree becomes eligible for Medicare.

Retiree Contributions

Retiree must have 50% of the premium.

Spousal Coverage

Yes, provided the spouse pays 100% of the premium.
Coverage ends for the spouse when the retiree becomes eligible for Medicare.

Dependent Child Coverage

None

Survivor Benefits

None

Permanent Disability

If it is a service-related disability, the officer will receive 100% Township paid coverage until normal retirement age.
At normal retirement age, the Township will pay 50% of the cost of coverage.
Coverage ends when the retiree becomes eligible for Medicare.

Life Insurance

None

Actuarial Assumptions

Economic Assumptions:

Valuation Date:	January 1, 2017
Investment return	N/A
Salary increases	5% compounded annually

Healthcare Cost Trend Rate:

Medical and prescription drug costs are assumed to increase by 7.5% during 2017 decreasing by 0.25% per year to an ultimate level of 5% per year.
Dental costs are assumed to increase by 2% per year.
Vision costs are assumed to increase by 1.5% per year.

Demographic Assumptions:

Pre-Retirement Mortality	None assumed
Post-Retirement Mortality	RP 2014 at 2006 Blue Collar Generational Tables using Scale MP-2017
Termination	None assumed
Disability	None assumed
Retirement Age	Normal retirement, age 55 with 25 years of service
Participation	100% of eligible retirees and spouses
Marital Status	90% of retirees are assumed to have a spouse participating in coverage. Female spouses are assumed to be 3 years younger than male spouses.



Zelenkofske Axlerod LLC

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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

Independent Auditor's Report

To the Members of the Board of Commissioners
Pocono Township
Tannersville, 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 financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Pocono Township, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pocono Township's basic financial statements, and have issued our report thereon dated September 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pocono Township'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 the Pocono Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pocono Township's internal control.

Our consideration of internal control over financial 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 over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. 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.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pocono Township's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
September 6, 2019

POCONO TOWNSHIP
SCHEDULE OF FINDINGS
DECEMBER 31, 2018

2018-001 – Basis of Accounting

- Condition:** The Township currently reports its entire financial statements on the modified accrual basis of accounting. Governmental Accounting Standards require that the Government-Wide and Proprietary Financial statements to be reported on the accrual basis of accounting rather than the modified accrual basis of accounting.
- Criteria:** Government Accounting Standards Board Statements dictate the accounting principles that governmental entities must follow in order to present their financial statements in accordance with Generally Accepted Accounting Principles.
- Cause:** The Township keeps all its financials records on the modified accrual basis of accounting and reports it financial statements in that manner.
- Effect:** The Township receives a Qualified Opinion in the audit of its Financial Statements. The Financial Statements do not report the entire assets and liabilities of the Township as generally accepted accounting principles require. For example, the financial statements do not report capital assets, compensated absences liability, long-term debt, pension and other post-employment benefit liabilities. The Township is not reporting its true financial position and results of activities in its financial statements.

Recommendation:

We recommend the Township consider presenting its financial statements on the correct basis of accounting on the future. Certain financial amounts may be easy to ascertain such as long-term debt and pension liabilities. However, other amounts, such as capital assets, may require an extensive amount of work to develop.

2018-002 – Personnel Files

- Condition:** Our review of Personnel File Information in order to verify information used to develop amounts or disclosures in the financial statement noted the following;
1. Complete and accurate personnel files are not maintained by the Township Manager office, who is designated as the person responsible for Human Resources.
 2. The Police Department maintains the personnel file for the police officers.
 3. For three of the individuals tested, personnel information held by the Township did not match the information provided by the Township's actuary. The personnel information used by the actuary is the basis for determining amounts and disclosures in the financial statements and must be accurate.
- Criteria:** Prudent Human Resource policies require that the township maintain full and accurate human resource documentation on its past and present and employees. These files should be maintained by the Individual or Office that is designated to handle the Human Resource process for the Township.
- Cause:** Personnel information may have been misfiled over the years and some information is being located. In addition, the Police Department maintains its own Personnel Files.

POCONO TOWNSHIP
SCHEDULE OF FINDINGS
DECEMBER 31, 2018

Effect: Amounts reported or disclosed in the financial statements may be inaccurate.

Recommendation:

We recommend that the Township Manager, as the designated Human Resource Director, maintain complete and accurate personnel information in their files in order to adequately maintain the employment records of the Township.

Status:

The personnel files have not been moved to the township manager office charged through the ordinance with Human Resource responsibilities. A separate set of personnel files for each employee are maintained in the manager's office and copies of all personnel related documents are being maintained in the files.

POCONO TOWNSHIP
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2018

2016-001 – Documentation Deficiencies

Condition: During the course of our audit, we noted there is a certain lack of documentation regarding policies and procedures within the Township:

- As part of our review of Board minutes, we noted a change in status from an hourly position to a salaried position; however, the payroll system was not updated to reflect the change. This resulted in the employee continuing to be paid as an hourly employee (based on a Board approved salary) with overtime.
- During our entrance meeting, we were informed that certain non-union employees were being provided with benefits to which they were not entitled. Specifically, family health insurance coverage was being provided instead of employee only coverage, which was allegedly in violation of Township policies. We noted the policy itself for non-union employees is not clearly documented in the employee handbook or elsewhere, changes in salary and benefits in the board minutes for new and existing employees are not always clear, and written documentation approving these changes in personnel files is not maintained.
- Although the Township policies in the employee handbook do not clearly define employee co-pays for single and family coverage, we were informed that all non-union employees hired after 2007 only receive single coverage and employees should be charged for family coverage. As part of our testing over employee benefits, we noted one employee's health coverage was increased from single coverage to family coverage in January 2015; however, no authorization by the Board for the increase in benefits was documented and the employee's co-pay amount did not include reimbursement for dependent coverage. We noted that the August 2015 Board minutes show a motion to approve a salary increase for this employee, with the employee paying 10% of the premium cost for healthcare. The minutes do not clarify if healthcare coverage includes family coverage. In addition, the 2015 budget does not reflect the increased coverage. The 2016 budget approved by the Board, however, does reflect an increase for the dependent coverage in the Financial Administration line item and the employee continued to receive family coverage without any increase in co-pays or deductions in 2016.
- As part of our testing over employee benefits, we noted another non-union employee was hired in 2015 who received family health insurance coverage; however, no deduction or co-pay was withheld at all for health insurance coverage. In addition, Board minutes from February 2015 noting the new employee's salary did not clearly specify the health benefit coverage and the co-pay required.
- As part of our testing over the payroll process, we requested copies of employee W-4 and I-9 forms. For several of the items requested, there was no documentation available and employees were asked to complete new forms.

Effect: One salaried employee was paid overtime and two employees were paid healthcare benefits to which they may not have been entitled. Also, required employer documentation was not maintained.

POCONO TOWNSHIP
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2018

Cause: The Township's internal controls over payroll and benefits are not appropriately designed and documented.

Criteria: Accurate processing of payroll, including deductions, requires current information to be maintained for each employee.

Recommendation:

We recommend the Township implement written policies and procedures by which the payroll process and employee status changes are subject to proper review and approval. In addition, documentation of authorized salaries and benefits should be maintained for each employee and the employee handbook should be updated to properly reflect the benefits employees are entitled to receive and the cost to the employee for those benefits.

Status: This finding has been resolved.

Finding 2017-001: Unresolved, repeated as 2018-001.

Finding 2017-002: Unresolved, repeated as 2018-002.