

Upper Macungie Township

Financial Statements and
Supplementary Information

December 31, 2019

Upper Macungie Township

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Independent Auditors' Report

To the Board of Supervisors of
Upper Macungie Township

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Upper Macungie Township as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Upper Macungie Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Upper Macungie Township, Pennsylvania, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 17, budgetary comparison information on pages 53 and 54 and the supplementary pension trend information on pages 55 through 60 be 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Macungie Township's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
July 13, 2010

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

This discussion and analysis of Upper Macungie Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2019. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Please read it in conjunction with the Township's basic financial statements, which begin on page 18.

Financial Highlights

- Real property tax remained at 0.64 mills and the earned income tax rate remained at 1.0 percent for the Township in 2019.
- The Township continues to have no outstanding debt.
- The assets of the Township exceeded its liabilities by \$110.0 million (net position).
- The Township's governmental activities total net position increased from 2018 by \$5.5 million or 7.9 percent and unrestricted net position increased by \$5.6 million or 23.3 percent in 2019.
- Business-type activities (Sewer and Refuse Funds) net positions increased by \$3.1 million or by 9.9 percent. The unrestricted portion of net position increased by \$1.6 million or by 7.5 percent.
- Cash, cash equivalents and investments shown on the statement of net position, increased \$9.0 million as compared to 2018.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 18 and 19) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 20. For governmental activities, these statements explain how services were financed in the short term as well as what remains for future spending. The Governmental and Proprietary Funds financial statements also report the Township's operations in more detail than the entity-wide statements by providing information about the Township's most significant funds. The remaining statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Overview of the Financial Statements

The accompanying financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

Entity-Wide Financial Statements

The first two statements are entity-wide financial statements, the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.

The entity-wide statements report information about the Township as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the government's assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources. All of the current year's revenues are accounted for in the Statement of Activities regardless of when cash is received or paid.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

The two entity-wide statements report the Township's net position and how it has changed. Net position, the difference between the Township's assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources, is one way to measure the Township's financial health or position. In the long run, increases or decreases in the Township's net position are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Township, consideration must be made to additional nonfinancial factors, such as changes in the Township's property tax base and the adequacy of Township services.

It is estimated that the Township has about 15 percent of its land remaining for commercial, industrial or residential development, which could take decades to occur.

Based on the following demographic table (Table - 1), the Township is an enviable environment to live, work and transact business.

Table 1 - Demographic Data

	<u>Upper Macungie Township</u>	<u>Lehigh County</u>	<u>Pennsylvania</u>	<u>United States</u>
Per capita income	\$ 46,235	\$ 32,252	\$ 32,889	\$ 32,621
Median family income	96,030	62,178	56,445	60,293
Percent of population below poverty level	2.6%	12.0%	12.2%	11.8%

Source: U.S. Census Bureau, QuickFacts 2014-2018

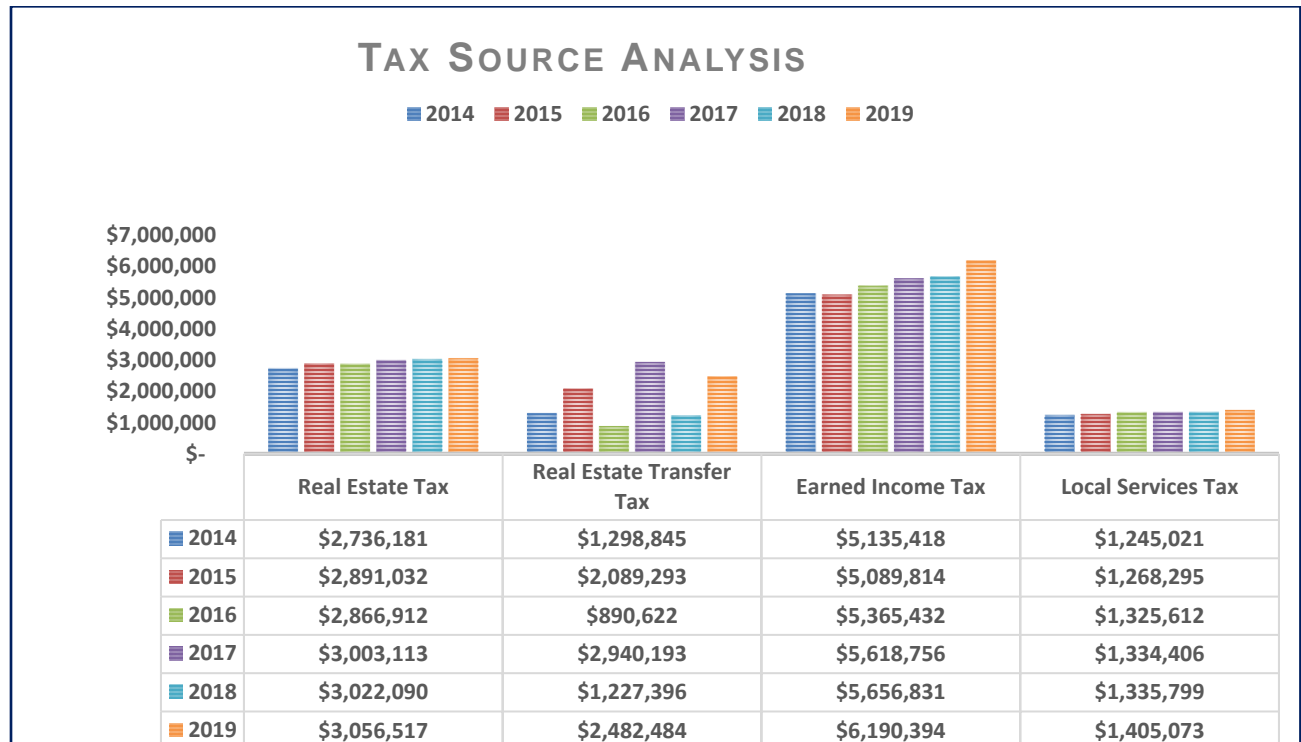
The graph on the next page provides an overview of the various taxes collected during the years 2014 through 2019. Earned income tax (EIT) and local services tax (LST) provide data regarding our residents and employees that work within the Township boundaries. Analysis of the EIT revenue shows growth of residents working and living in the Township. LST analysis provides insight into the consistent increase of employment in the Township.

Real estate tax revenue increased by \$34,427 as compared to 2018. This occurred without a tax increase and is attributable to additional developed commercial and residential property being added to the tax rolls in 2019.

Real estate transfer tax for 2019 totaled \$2,482,484 as a result of \$519 million of real estate sales.

Earned income and local services taxes collectively increased \$602,837 as strong employment continued in the Township.

Table 2 - Tax Source Analysis
Years Ended December 31, 2014 through December 31, 2019



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

- Governmental Activities** - All the Township's basic services are included here, such as public safety, public works, parks and recreation and administration. Property taxes, state and federal grants and charges for services finance most of these activities.
- Business-Type Activities** - The Township operates a Sewer Fund and charges fees to the customers of the utilities for operational expenses and tapping fees from new construction for capital related projects. The Township also operates a Refuse and Recycling Fund for which it contracts with a trash hauler to collect trash and co-mingled recycled items. These costs to the Township are passed on to residents in the form of a user fee. These fees have remained the same for the past two years, which can be seen on Table 3 of the next page.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

**Table 3 - Sewer and Refuse Rates
Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Sewer		
Residential:		
Base rate (annually)	\$ 356.00	\$ 356.00
Discount (5% discount if paid by March 30 th)	338.20	338.20
Quarterly	89.00	89.00
Per gallon additional use over 27,000 gallons per quarter	4.18	4.18
Small commercial	91.52	91.52
Schools/Institutional	148.79	148.79
Commercial:		
Base rate (monthly)	105.09	105.09
Per 1,000 gallon additional	4.90	4.90
BOD (per pound)	0.29	0.29
TSS (per pound)	0.35	0.35
TKN (per pound)	0.36	0.36
FOG (per pound)	0.52	0.52
Refuse		
Residential:		
Annually:		
Under 65	288.00	288.00
65 and over	258.00	258.00
Quarterly:		
Under 65	72.00	72.00
65 and over	64.50	64.50

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the Township's general services were financed in the short term as well as what remains for future spending. Proprietary Funds statements offer short-term and long-term information about the activities that the Township operates like a business. Fiduciary Funds financial statements provide information about financial relationships where the Township acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Township's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the Township's operations and the services it provides.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the Governmental Funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The Township's Governmental Funds include the General Fund, Capital Reserve Fund, Street Light Fund, Fire Protection Fund, Fire Alarm Fund, Stormwater Maintenance Fund, Medical Expense Fund, Highway Aid Fund, Volunteer Fire Relief Aid Fund, Operating Reserve Fund, Recreation Capital Fund, Capital Equipment Fund, Open Space Preservation Fund and Traffic Improvement Fund.

- **Proprietary Funds** - These funds are used to account for Township activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the Township charges customers for services it provides, whether to outside customers or to other units in the Township, these services generally are reported in the Proprietary Funds. The Township's two Proprietary Funds are the Sewer Fund and Refuse and Recycling Fund.
- **Fiduciary Funds** - The Township is the trustee, or fiduciary, for the Nonuniformed Employees' Pension Plan, and escrow funds. All of the Township's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations.

Entity-Wide Financial Analysis of the Township

The total net position for the Township's primary government activities, both governmental and business-type, was \$109,972,203 at December 31, 2019. Governmental activities totaled \$75,483,299 and business type activities \$34,488,904. The overall increase in net position in 2019 was \$8,641,558. Governmental activities increased \$5,539,170 and business-type activities increased \$3,102,388. Our analysis focuses on the net position (Table 4) and changes in net position (Table 5) of the Township's governmental and business-type activities.

**Table 4 - Net Position
December 31, 2019 and 2018**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 38,501,571	\$ 32,573,065	\$ 25,766,885	\$ 23,703,272	\$ 64,268,456	\$ 56,276,337
Capital and related assets	38,993,876	40,930,564	10,976,302	9,512,006	49,970,178	50,442,570
Total assets	77,495,447	73,503,629	36,743,187	33,215,278	114,238,634	106,718,907
Deferred outflows of resources	1,571,535	1,476,650	241,350	107,069	1,812,885	1,583,719
Liabilities:						
Long-term liabilities	1,655,911	2,413,540	590,916	401,426	2,246,827	2,814,966
Other liabilities	1,247,816	1,245,389	1,840,725	1,511,686	3,088,541	2,757,075
Total liabilities	2,903,727	3,658,929	2,431,641	1,913,112	5,335,368	5,572,041
Deferred inflows of resources	679,956	1,377,221	63,992	22,719	743,948	1,399,940
Net position:						
Net investment in capital assets	38,993,876	40,930,564	10,976,302	9,512,006	49,970,178	50,442,570
Restricted	6,792,206	4,927,476	-	-	6,792,206	4,927,476
Unrestricted	29,697,217	24,086,089	23,512,602	21,874,510	53,209,819	45,960,599
Total net position	\$ 75,483,299	\$ 69,944,129	\$ 34,488,904	\$ 31,386,516	\$ 109,972,203	\$ 101,330,645

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

A more detailed view of net position of the Township finds that the largest portion is comprised of unrestricted net assets. This amount of \$53,209,819, or 48.4 percent, is the Township's net position other than land, buildings, vehicles, equipment and infrastructure. The Township uses these assets to meet general expenses or to fund any other legitimate purpose of the Township.

**Table 5 - Changes in Net Position
Years Ended December 31, 2019 and 2018**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 996,157	\$ 1,224,215	\$ 9,783,849	\$ 9,947,226	\$ 10,780,006	\$ 11,171,441
Operating grants and contributions	1,827,716	1,507,862	506,495	176,121	2,334,211	1,683,983
General revenues:						
Real estate taxes	3,056,517	3,022,090	-	-	3,056,517	3,022,090
Real estate transfer taxes	2,482,484	1,227,396	-	-	2,482,484	1,227,396
Earned income taxes	6,190,394	5,656,831	-	-	6,190,394	5,656,831
LST taxes	1,405,073	1,335,799	-	-	1,405,073	1,335,799
Licenses and permits	1,938,215	1,607,952	-	-	1,938,215	1,607,952
Fines and forfeits	211,716	227,404	-	-	211,716	227,404
Grants and contributions, non-program	489,115	194,995	-	-	489,115	194,995
Interest, rents and royalties	1,069,800	765,083	697,639	345,162	1,767,439	1,110,245
Other revenues	69,958	160,712	-	-	69,958	160,712
(Loss) gain on sale of assets	(430,682)	152,540	-	-	(430,682)	152,540
Transfers	325,460	325,459	(325,460)	(325,459)	-	-
Total revenues	<u>19,631,923</u>	<u>17,408,338</u>	<u>10,662,523</u>	<u>10,143,050</u>	<u>30,294,446</u>	<u>27,551,388</u>
Expenses:						
Current:						
General government	1,817,408	1,774,589	-	-	1,817,408	1,774,589
Public safety	7,674,345	6,325,993	-	-	7,674,345	6,325,993
Public works:						
Highways and streets	3,237,041	3,415,361	-	-	3,237,041	3,415,361
Culture and recreation	1,363,248	1,621,087	-	-	1,363,248	1,621,087
Miscellaneous expenses	711	2,532	-	-	711	2,532
Sewer	-	-	5,616,740	6,199,452	5,616,740	6,199,452
Sewer capital reserve	-	-	45,669	44,455	45,669	44,455
Refuse	-	-	1,897,726	2,090,354	1,897,726	2,090,354
Total expenses	<u>14,092,753</u>	<u>13,139,562</u>	<u>7,560,135</u>	<u>8,334,261</u>	<u>21,652,888</u>	<u>21,473,823</u>
Increase in net position	<u>\$ 5,539,170</u>	<u>\$ 4,268,776</u>	<u>\$ 3,102,388</u>	<u>\$ 1,808,789</u>	<u>\$ 8,641,558</u>	<u>\$ 6,077,565</u>

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

Governmental Activities

The costs of all governmental activities for 2019 was \$14,092,753. As shown in the Statement of Activities on page 19, the amount the Township's taxpayers ultimately financed for these activities through Township taxes was \$13,134,468, which is the sum of real estate, transfer, income and LST taxes. Other costs were paid by those who directly benefited from the programs in the amount of \$996,157, or by other governments and organizations that subsidized certain programs with intergovernmental aid and contributions in the amount of \$1,827,716. Other income totaling \$3,673,582 is broken down as follows: Non-program grants and contributions - \$489,115; Pennsylvania State Police facility, land, cell tower and building rentals - \$381,247; interest earnings - \$688,553; loss on sale of assets - \$(430,682); other revenue - \$69,958; and transfers from proprietary funds - \$325,460.

Revenue is divided into two major components: Program Revenue and General Revenue. Program revenue is defined as charges for services, operating grants and contributions and capital grants and contributions stemming from services provided by the Township. General revenue includes taxes, investment earnings, general intergovernmental revenue and contributions, and other general revenue sources.

Total revenue for governmental activities in 2019, was \$19,631,923. Charges for services, earned income taxes, real estate taxes, real estate transfer taxes and local services tax provide the majority of the source of revenue for governmental activities within the Township. As seen on the previous page, these sources account for \$2,823,873 or 14.4 percent of total revenues. Additionally, operating grants and contributions, non-program grants and contributions, investment income, gain on sales of assets and other sources amount to \$16,808,050 or 85.6 percent.

Comparative revenue totals for 2019 versus 2018 reflect an increase of \$2,223,585 or 12.8 percent. Governmental revenue items necessitating an explanation are as follows:

- Real estate transfer tax, a tax of 0.50 percent assessed to any property purchase within the Township, increased \$1,255,088 in 2019 as a result of large commercial transactions. Residential, commercial, and industrial property transacted in 2019 totaled \$518,877,811, which was \$246,751,655 greater than 2018. See Table 5, which provides real estate sales comparisons from 2013 through 2019 for both residential and commercial property.
- Real estate tax, a tax of 0.64 mills assessed on taxable properties both residential, commercial and industrial, increased \$34,427 or by 1.1 percent compared to 2018.
- Earned income tax, which is collected from any employed Township resident at the rate of 1.0 percent of their wages and is divided equally between the Township and Parkland School District, increased by \$533,563 or 9.4 percent compared to 2018.
- Charges for services in 2019 totaled \$966,157 compared to \$1,224,215 in 2018 for a decrease of \$258,058. Boundary road upgrade fees, traffic impact fees and traffic signal contributions decreased \$771,762. Conversely, the Township received \$496,839 more in recreational fees from developers in 2018.
- With interest rates in 2019 being somewhat stable, the Township was able to improve the return on its portfolio of cash investments by \$306,459 compared to 2018. The year-end yield on investments was 1.80 percent in 2019. Interest earned in 2019 was \$688,553 versus \$382,084 earned in 2018.

Total expenses for all governmental activities in 2019 totaled \$14,092,753, which was more than 2018 expenses by \$953,191.

- General government expenses increased from \$1,774,589 in 2018 to \$1,817,408 in 2019. The full cost of the Township's secretary position was realized in 2019, which included both wages and benefits. In addition, the costs of scanning and storage township files and plans, a first time expense in 2019, totaled \$119,504.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

- Public safety expenses increased by \$1,348,352 in 2019. Department costs that are included in public safety expenses comprise of police, fire, code enforcement and zoning. Generally, outside of personnel costs, vehicle and equipment purchases are the largest cost item for public safety.
- Public works experienced a reduction in expenses for 2019. Expenses for this department decreased \$178,320 versus last year. Road repairs, including resurfacing and asphalt patching decreased by \$112,204 in 2019. Salt and anti-skid purchases increased from \$109,103 in 2018 to \$134,848 in 2019. The costs of uniforms and shoes decreased by \$20,874 in 2019 due to the change in vendor.

• **Table 6 - Real Estate Transfer Tax Schedule
Sales - 2013 Through 2019**

	Residential		Commercial		Totals	
	Sale Price	Quantity	Sale Price	Quantity	Sale Price	Quantity
2013	\$ 113,674,119	432	\$ 58,769,317	8	\$ 172,443,436	440
2014	117,909,285	434	118,559,937	17	236,469,222	451
2015	124,819,900	442	291,304,469	35	416,124,369	477
2016	148,099,172	499	45,224,850	12	193,324,022	511
2017	147,869,077	497	471,492,744	24	619,361,821	521
2018	139,163,350	471	132,962,806	23	272,126,156	494
2019	134,293,349	438	384,584,462	27	518,877,811	465
Total	\$ 925,828,252	3,213	\$ 1,502,898,585	146	\$ 2,428,726,837	3,359

Source: County of Lehigh - Recorder of Deeds Division

Business-Type Activities

Total revenue in 2019 from the Township's business-type activities for both the Sewer and Refuse and Recycling Funds was \$10,662,523 as compared to 2018, which totaled \$10,143,050. Based on these numbers, revenue increased \$519,473 from 2018 to 2019.

- Total sewer revenue for 2019 totaled was \$1,303,051, which was \$307,964 more than received in 2018. Total nonoperating revenues on the Sewer Capital Reserve Fund totaled \$430,090 in 2019 versus \$168,797 in 2018. Intergovernmental revenue (904 Grant for Recycling) totaled \$506,495 in 2019 as compared to \$176,121 in 2018. Three grant payments were received in 2019 for the years 2017-2019 with only one received in 2018.
- Interest and investment income revenue increased \$352,477 in 2019. Specifically investment gains in the Capital Reserve Fund, which increased \$226,253, accounted for most of the increase.
- Total refuse and recycling fees collected in 2019 decreased by \$136,143. However, interest and investment income increased \$17,279.

Expenses from both the Sewer and Refuse and Recycling Funds totaled \$7,560,135 in 2019 versus \$8,334,261 in 2018. The following factors were attributable to the decrease in expenses.

- Sewer expenses decreased \$581,499 in 2019. Net expenses paid to Lehigh County Authority for sewer treatment decreased \$ 563,433 based on credits received from previous years as well as less flow being treated. Unreimbursed legal fees related to litigation decreased in 2019 by \$165,534 as a settlement was reached.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

- Refuse and recycling expenses decreased \$192,627 as a result of primarily two factors. In 2018, \$266,400 was spent to acquire 7,400 new recycling carts for our residents, which was not repeated in 2019. Additionally, contracted services to our refuse and recycling hauler increased \$87,004 in 2019 as new homes were added to collection routes.

Financial Analysis of the Township's Funds

Most of the activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. Governmental Funds of the Township include the General Fund and Capital Reserve Fund. Additionally, Special Revenue Funds include the Township's Street Light Fund, Fire Protection Fund, Fire Alarm Fund, Stormwater Maintenance Fund, Medical Expense Fund, Highway Aid Fund, Open Space Preservation Fund, Operating Reserve Fund, and the Volunteer Fire Relief Aid Fund. Three other funds exist under Capital Project Funds which include the Recreation Capital Fund, Capital Equipment Fund and Traffic Improvement Fund. Most of the Township's activity occurs in the General Fund.

On page 20 of this report, the Township's Governmental Funds reported combined ending balances of \$36,814,970. The unassigned balance totals \$22,291,409, which represents funds available for spending at the Township's discretion. The remainder of the fund balances is segregated into four categories. Nonspendable, Restricted for, Committed to and Assigned to. The following Table 7 provides definition of each of these categories.

Table 7 - Components of Fund Balance for Governmental Funds

Fund balance categories:	
Nonspendable fund balance (inherently nonspendable)	(a) Portion of net resources that cannot be spent because of their form (b) Portion of net resources that cannot be spent because they must be maintained intact
Restricted fund balance (externally enforceable limitation on use)	(a) Limitations imposed by creditors, grantors, contributors or laws and regulations of other governments (b) Limitations imposed by law through constitutional provisions or enabling legislation
Committed fund balance (self-imposed limitations set in place prior to the end of the period)	(a) Limitation imposed at the highest level of decision making that requires formal action at the same level to remove
Assigned fund balance (limitation resulting from intended use)	(a) Intended use established by highest level of decision making (b) Intended use established by body designated for that purpose (c) Intended use established by official designated for that purpose
Unassigned fund balance (residual net resources)	(a) Total fund balance in the general fund in excess of nonspendable, restricted, committed and assigned fund balance (b) Excess of nonspendable, restricted and committed fund balance over total fund balance

The following information can be followed in more detail on page 20 and in the Supplementary Information Section on pages 61 and 66.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

General Fund

The General Fund is the chief operating fund of the Township. As of December 31, 2019, the total fund balance of the General Fund was \$23,050,267. The assets that comprise the fund balance for the General Fund are predominately held in bank accounts as cash and investments. The General Fund has an unassigned fund balance of \$22,820,834.

Capital Reserve Fund

The Capital Reserve Fund is used to account for financial resources planned for use in the acquisition of capital equipment and capital improvements for the Township. The Capital Reserve Fund has an assigned fund balance of \$3,342,981.

Street Light Fund

A special revenue fund called the Street Light Fund is used by the Township to account for the revenue inflow of tax dollars to pay for the PPL electric and maintenance charges associated with public street lighting in various locations and developments in the township. The Street Lighting Fund has a negative unassigned fund balance of \$391,359 at year-end 2019. Many Township street lights cannot be assessed to tax payers since these lights are located in public places, thus the deficit is covered by the General Fund.

Fire Protection Fund

This special revenue fund accounts for the fire hydrant tax assessed to each property owner that has a residence situated within 780 feet of a public fire hydrant. The outflow for expenses is paid to Lehigh County Authority for the maintenance and water flow for each hydrant. The Fire Protection Fund has a restricted fund balance of \$898,329.

Fire Alarm Fund

This fund provides for the funding of firefighters' gratuity, which is annually distributed to the three township volunteer fire companies: Trexlertown Station #25; Fogelsville Station #8; and Upper Macungie Township Station #56. Fees for false alarms are accounted for in this fund and are the majority income source. Historically, this fund has run a deficit fund balance and has transferred adequate cash from the General Fund to pay the gratuity. The Fire Alarm Fund has a negative unassigned balance of \$138,066.

Stormwater Maintenance Fund

This fund is earmarked to account for the revenue and costs associated with run-off stormwater mandates as promulgated under the Federal and Commonwealth Departments of Environmental Protection. Current revenue is derived from developer contributions. The Stormwater Maintenance Fund has an assigned fund balance of \$128,466.

Medical Expense Fund

This fund has been established to account for the Township's administrative health care costs associated with the Affordable Health Care Act. Revenue flow is provided by any dividend return from the Township's health insurance pool. The Medical Expense Fund has an assigned fund balance of \$1,101,885.

Highway Aid Fund

The Township's Highway Aids Fund is used to separately account for both revenue received from the Commonwealth of Pennsylvania in the form of liquid fuels allocations and the expenses associated with road improvements, snow removal and capital purchases for the Public Works Department. The Highway Aid Fund has a restricted fund balance of \$1,649,692 as of December 31, 2019.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

Open Space Preservation Fund

This fund is used to account for funds set aside for the acquisition and preservation of open space within the Township. The Open Space Preservation Fund has an assigned fund balance of \$848,901 as of December 31, 2019.

Volunteer Fire Relief Aid Fund

This fund is used as a conduit to record the receipt of state aid for our three volunteer fire companies and the subsequent disbursement of all funds to the same. No balance is shown as of year-end 2019.

Operating Reserve Fund

This fund is used for funds set aside for operating purposes. The Operating Reserve Fund has an assigned fund balance of \$990,716 as of December 31, 2019.

Recreation Capital Fund

This fund provides an accounting of capital enhancements, structures and land improvements to the Township's ten parks. Revenue is generated by developer fees and grant funds. Expenses include equipment purchases directly associated with park and recreation maintenance and development, recreation project costs including engineering and in-house or contracted services. The Recreation Capital Fund has a restricted fund balance of \$2,764,040.

Capital Equipment Fund

The establishment of this fund was done to segregate monies set aside to purchase various capital items for each department in the general fund. Revenue is provided directly by various funds within the Township. The Capital Equipment Fund has an assigned fund balance of \$1,088,973.

Traffic Improvement Fund

Revenue for this fund accrues from various escrow accounts that have been partially funded by both developers and through state grants for traffic improvements. The Traffic Improvement Fund has a restricted ending fund balance of \$1,480,145.

Fiduciary Funds

The Township has two fiduciary funds. The Pension Trust Fund is used to segregate the assets and account for the earnings, expenses and retirement payments of the Township's Nonuniformed Employees' Defined Benefit Pension Plan, and had a net fund balance of \$7,348,590. The Escrow Fund is used to segregate the assets and accounting for builders and developers escrow funds and had a net fund balance of \$0.

Proprietary Funds

The Township's Proprietary Funds are the Sewer Fund, Sewer Capital Reserve Fund and Refuse Fund and are accounted for as business-type activities.

The unrestricted net position portions not designated or assigned to other functions of the Sewer, Sewer Capital Reserve and Refuse Funds are \$10,583,124, \$10,317,390 and \$2,612,088, respectively.

General Fund Budgetary Highlights

The statement comparing the Township's budget and actual results can be found in the Required Supplementary Information section of this document on page 52. The Board of Supervisors of the Township annual adopts the budget for all funds. No amendments may be made without the approval of the governing body.

The 2019 General Fund budget was adopted on December 27, 2018, with a net balance of \$560,429. This amount was reflective after consideration for all revenue, expenses and other uses including asset sale proceeds, and interfund transfers in and out.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

Revenue

Revenue for the 2019 General Fund Budget was approved at a total funding amount of \$13,027,226. This amount is approximately \$1,223,000 more than 2018's General Fund Budget of \$11,804,040. Budgeted revenue items of mention are listed below.

- Taxes including real estate, real estate transfer, earned income and local services totaled \$9,880,000 (75.8 percent) of all budgeted revenue and provided the majority of funding for the General Fund. In 2018, the Township budgeted a total of \$9,480,000 for these revenue items.
- Charges for services including licenses, permits, inspections and developer fees totaled \$1,674,600 (12.9 percent) of all budgeted revenue as compared to \$1,115,000 in 2018.
- Intergovernmental revenue sources, which included pension state aid, public utility tax, retail liquor license fees and police grant programs accounted for \$515,526 of 2019's budget. Last year's budget (2018), this line item totaled \$490,940.
- Interest, rents and royalties for 2019 totaled \$714,000 based on the expected bank earnings and investment return on cash accounts, rental of Township land and buildings, PA State Police building rental and cell tower royalties.
- Fines and forfeits totaled \$189,000 based on expected receipts collected by local magisterial offices as well as Lehigh and Berks County Courts. In 2018, these revenues were budgeted at \$184,000.

Expenditures

Approved expenses for the General Fund 2019 budget were \$11,872,556. Various expenses associated with the 2018 budget will be discussed below.

- General government administration costs were \$1,639,933 or 13.8 percent of budget, including supervisor, financial, clerical, management, accounting, legal and engineering expenses. The amount budgeted for 2018 was \$1,581,223.
- Public safety expenses were \$6,970,518 or 58.7 percent of budget for police fire and code enforcement. In 2018, the budgeted amount was \$6,566,605.
- Public works expenses were \$2,354,666 or 19.8 percent of budget, which includes highway and streets maintenance. The amount of \$2,073,797 was budgeted in 2018.
- Culture and recreation expenses were \$904,839, or 7.6 percent of budget, which includes park maintenance, administration of recreational activities and functions. \$933,438 was budgeted in 2018.

Budget Comparison

Actual revenue for the year exceeded budgeted revenue by \$3,451,996 and actual expenses for the year were less than budgeted by \$856,238, resulting in a net positive difference of \$4,308,234. Some of the major factors contributing to this difference will be explained below.

Revenue

- Earned income tax collection through the Township's tax collection agency, Berkheimer and Associates, totaled \$6,190,394, which exceeded budget by \$940,394 or 17.9 percent.
- Real estate transfer taxes, collected by the County of Lehigh, exceeded budget by \$1,732,484 or 231.0 percent on a total amount of \$2,482,484.

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

- Charges for services including licenses, permits, inspections and developer fees exceeded budget by \$592,572 on total revenue of \$2,267,172. Development in the Township continues to expand in both residential and commercial areas. Table 8 depicts both budgeted revenue versus actual for 2019.

Table 8 - Permit Revenue Actual Comparison to Budget

	Budget	Actual	Over (Under) Budget \$	Over (Under) Budget %
Building, electrical, plumbing	\$ 1,250,000	\$ 1,817,198	\$ 567,198	45.4 %
Sprinkler permits	25,000	24,877	(123)	(0.5)
Mechanical, grading permits	58,000	51,930	(6,070)	(10.5)
Road occupancy permits	4,000	19,122	15,122	378.1
Other permits	17,500	25,088	7,588	43.4
Other charges for services	320,100	328,957	8,857	2.8
	<u>\$ 1,674,600</u>	<u>\$ 2,267,172</u>	<u>\$ 592,572</u>	<u>35.4 %</u>

Expenditures

Wages and salaries for all departments in the General Fund totaled \$4,642,568 or \$254,650 less than budget for 2019. Public safety wages were lower than budget as a result of less private duty pay for police. Overall, wage breakdown is as follows on Table 9.

Table 9 - Salaries and Wages (Budget to Actual Comparison)

Department	Budget	Actual	Over (Under) Budget \$	Over (Under) Budget %
General government	\$ 501,185	\$ 467,123	\$ (34,062)	(6.8) %
Public safety	3,201,567	3,088,534	(113,033)	(3.5)
Public works	784,994	699,886	(85,108)	(10.8)
Culture and recreation	409,472	387,025	(22,447)	(5.5)
	<u>\$ 4,897,218</u>	<u>\$ 4,642,568</u>	<u>\$ (254,650)</u>	<u>(5.2) %</u>

Fringe benefits for all departments totaled \$2,800,786, which was \$79,958 less than budget. Pension costs, FICA expense and workers' compensation premiums were a combined \$101,700 under budget. Health insurance premiums exceeded budget by \$21,067. Table 10 provides more departmental detail on these costs.

Table 10 - Fringe Benefits (Budget to Actual Comparison)

Department	Budget	Actual	Over (Under) Budget \$	Over (Under) Budget %
General government	\$ 231,065	\$ 233,129	\$ 2,064	0.9 %
Public safety	1,867,661	1,801,234	(66,427)	(3.6)
Public works	535,469	522,765	(12,704)	(2.4)
Culture and recreation	246,549	243,658	(2,891)	(1.2)
	<u>\$ 2,880,744</u>	<u>\$ 2,800,786</u>	<u>\$ (79,958)</u>	<u>(2.8) %</u>

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

- All other general fund expenses, for operating totaled \$3,572,964 versus the budget amount of \$4,095,594.
- Third party code enforcement inspector fees increased \$113,785 as the township's construction and home improvement activity increased.
- Insurance premiums for the Township, excluding workers' compensation coverage, totaled \$194,977. This amount was over budget by \$8,477. Additional high costing vehicles and equipment coverage were added during the year, which increased the cost for 2019.
- Professional fees for general legal and general engineering totaled \$108,593 and \$310,224, respectively, and were a combined \$418,817 or exceeded the budget of \$375,000 by \$43,817.
- Total fuel (gasoline and diesel) costs of \$141,000 were budgeted for the Township in 2019. Actual use totaled \$136,976 or under budget by 2.9 percent.
- Salting, cindering and plowing costs for 2019 totaled \$200,537, which was below budget of \$208,283 by \$7,746 or 3.7 percent.

Capital Assets

Upper Macungie Township's investment in capital assets for both its governmental and business-type activities as of December 31, 2019 and 2018, totaled \$49,970,178 and \$50,442,570, respectively (net of accumulated depreciation). Township investment in capital assets include land, buildings and improvements, infrastructure (roads, bridges, stormwater and sewer lines and traffic signals), machinery, equipment and vehicles. (See Table 11).

**Table 11 - Capital Assets
Years Ended December 31, 2019 and 2018**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 9,400,396	\$ 10,018,064	\$ -	\$ -	\$ 9,400,396	\$ 10,018,064
Buildings	11,735,966	13,166,266	232,154	232,154	11,968,120	13,398,420
Improvements other than buildings	4,694,434	5,350,600	-	-	4,694,434	5,350,600
Infrastructure	39,430,659	38,696,467	16,706,108	16,456,634	56,136,767	55,153,101
Construction in progress	1,940,892	1,279,418	1,302,499	146,617	3,243,391	1,426,035
Machinery, equipment and vehicles	12,771,888	12,141,444	3,661,516	3,048,967	16,433,404	15,190,411
Total capital assets	79,974,235	80,652,259	21,902,277	19,884,372	101,876,512	100,536,631
Total accumulated depreciation	(40,980,359)	(39,721,695)	(10,925,975)	(10,372,366)	(51,906,334)	(50,094,061)
Capital assets, net	\$ 38,993,876	\$ 40,930,564	\$ 10,976,302	\$ 9,512,006	\$ 49,970,178	\$ 50,442,570

Upper Macungie Township

Management's Discussion and Analysis (Unaudited)

Future Outlook

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Township. The Township's evaluation of the effects of these events is ongoing; however, based on current information, the Township has been impacted by this crisis in the following ways:

- The Township's main office remained and still remains open. Precautions have been taken to minimize foot traffic including requiring all payments be mailed in or dropped in the outside drop box. No employees were laid off or furloughed. Employees were encouraged to work remotely from home if able and applicable. There was nominal additional costs for additional cleaning and personal protective equipment, which is expected to be reimbursed by the Federal and/or State governments.
- For approximately the first half of the 2020 year, total Township revenues have been higher than the same period in 2019. However, several individual revenue streams have seen decreases including: Real Estate Tax (4 percent lower), Realty Service Tax (7 percent lower), Local Services Tax (17 percent lower), Magistrate-Fines (25 percent lower), and Annual Fire Inspections (35 percent lower).
- The Township has collected approximately 90 percent of real estate taxes for the year 2020 before June 1, 2020. 2019 real estate taxes collected in this same timeframe were approximately 95 percent.
- For approximately the first half of 2020, collection of residential fees has decreased in comparison to approximately the first half of 2019, from \$1,571,338 to \$1,540,232, respectively.
- The fair value of investments has decreased notably in the first half of 2020 when compared to balances reported as of December 31, 2019. Additionally, investment return for the first half of 2020 was approximately 1.04 percent which was less than half of the annual yield for the same timeframe in 2020, of 2.29 percent.
- Park pavilions and Splash Park were closed.
- The Township's collection of current receivables has slowed some, but is not at an alarming level. The Township did not enact any changes to lengthen payment periods for discounts or eliminate any interest or penalty for late or non-payments.
- Charges for waste management services increased approximately 20 percent for the first half of 2020, due to increased volume of trash collection from homeowners performing home improvement projects during the quarantine.

The extent of the impact of COVID-19 on the Township's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

Financial Management

Upper Macungie Township's financial report is designed to provide its residents and taxpayers with a general overview of the Township's finances and to show the Board of Supervisor's accountability for the money it receives and spends. If you have any questions about this report or would like to request additional financial information, please contact Bruce Koller, Finance Director for the Township at 610-395-4892, ext. 115 or bkoller@uppermac.org.

Upper Macungie Township

Statement of Net Position

December 31, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,319,950	\$ 2,465,253	\$ 4,785,203
Investments	34,002,650	21,930,458	55,933,108
Taxes receivable, net	619,884	-	619,884
Due from escrow	218,362	-	218,362
Accounts receivable, net	250,276	1,874,941	2,125,217
Internal balances	533,410	(533,410)	-
Net pension asset	327,606	-	327,606
Prepaid items	229,433	29,643	259,076
Capital assets, net	38,993,876	10,976,302	49,970,178
	<u>77,495,447</u>	<u>36,743,187</u>	<u>114,238,634</u>
Deferred Outflows of Resources			
Deferred outflows of resources, pension	<u>1,571,535</u>	<u>241,350</u>	<u>1,812,885</u>
Liabilities			
Accounts payable and accrued expenses	1,247,816	1,840,725	3,088,541
Long-term liabilities:			
Net pension liability	1,346,208	480,398	1,826,606
Early retirement benefits	<u>309,703</u>	<u>110,518</u>	<u>420,221</u>
	<u>2,903,727</u>	<u>2,431,641</u>	<u>5,335,368</u>
Deferred Inflows of Resources			
Deferred inflows of resources, pension	<u>679,956</u>	<u>63,992</u>	<u>743,948</u>
Net Position			
Net investment in capital assets	38,993,876	10,976,302	49,970,178
Restricted	6,792,206	-	6,792,206
Unrestricted	<u>29,697,217</u>	<u>23,512,602</u>	<u>53,209,819</u>
	<u>\$ 75,483,299</u>	<u>\$ 34,488,904</u>	<u>\$ 109,972,203</u>

See notes to financial statements

Upper Macungie Township

Statement of Activities

Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General government	\$ 1,817,408	\$ 106	\$ 663,923	\$ -	\$ (1,153,379)	\$ -	\$ (1,153,379)
Public safety	7,674,345	264,960	309,280	-	(7,100,105)	-	(7,100,105)
Public works, highways and streets	3,237,041	-	854,513	-	(2,382,528)	-	(2,382,528)
Culture and recreation	1,363,248	731,091	-	-	(632,157)	-	(632,157)
Miscellaneous expense	711	-	-	-	(711)	-	(711)
Total governmental activities	14,092,753	996,157	1,827,716	-	(11,268,880)	-	(11,268,880)
Business-Type Activities							
Sewer Fund	5,616,740	7,906,338	-	-	-	2,289,598	2,289,598
Sewer Capital Reserve Fund	45,669	-	-	-	-	(45,669)	(45,669)
Refuse Fund	1,897,726	1,877,511	506,495	-	-	486,280	486,280
Total business-type activities	7,560,135	9,783,849	506,495	-	-	2,730,209	2,730,209
Total Primary Government	\$ 21,652,888	\$ 10,780,006	\$ 2,334,211	\$ -	(11,268,880)	2,730,209	(8,538,671)
General Revenue							
Taxes:							
Property taxes					3,056,517	-	3,056,517
Real estate transfer taxes					2,482,484	-	2,482,484
Earned income taxes					6,190,394	-	6,190,394
Local services taxes					1,405,073	-	1,405,073
Licenses and permits					1,938,215	-	1,938,215
Fines and forfeits					211,716	-	211,716
Grants and contributions not restricted to specific programs					489,115	-	489,115
Interest, rents and royalties					1,069,800	697,639	1,767,439
Miscellaneous					69,958	-	69,958
Loss on sale of asset					(430,682)	-	(430,682)
Transfers					325,460	(325,460)	-
Total general revenue and transfers					16,808,050	372,179	17,180,229
Changes in net position					5,539,170	3,102,388	8,641,558
Net Position, January 1, 2019					69,944,129	31,386,516	101,330,645
Net Position, December 31, 2019					\$ 75,483,299	\$ 34,488,904	\$ 109,972,203

See notes to financial statements

Upper Macungie Township

Balance Sheet - Governmental Funds
December 31, 2019

	General Fund	Capital Reserve Fund	Street Light Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Assets					
Cash and cash equivalents	\$ 380,703	\$ 123,616	\$ -	\$ 1,815,631	\$ 2,319,950
Investments	20,935,854	3,212,117	-	9,854,679	34,002,650
Taxes receivable, net	614,649	-	1,265	3,970	619,884
Due from escrow	218,362	-	-	-	218,362
Due from other funds	1,404,710	-	-	15,220	1,419,930
Other receivables	128,749	9,227	-	37,300	175,276
Prepaid expenses	229,433	-	-	-	229,433
	<u>23,912,460</u>	<u>3,344,960</u>	<u>1,265</u>	<u>11,726,800</u>	<u>38,985,485</u>
Total assets	<u>\$ 23,912,460</u>	<u>\$ 3,344,960</u>	<u>\$ 1,265</u>	<u>\$ 11,726,800</u>	<u>\$ 38,985,485</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable and other current liabilities	\$ 826,014	\$ -	\$ 303,556	\$ 118,246	\$ 1,247,816
Due to other funds	-	1,979	89,068	795,473	886,520
	<u>826,014</u>	<u>1,979</u>	<u>392,624</u>	<u>913,719</u>	<u>2,134,336</u>
Total liabilities	<u>826,014</u>	<u>1,979</u>	<u>392,624</u>	<u>913,719</u>	<u>2,134,336</u>
Deferred Inflows of Resources					
Unavailable revenues, property taxes	36,179	-	-	-	36,179
	<u>36,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,179</u>
Fund Balances					
Nonspendable:					
Prepaid expenses	229,433	-	-	-	229,433
Restricted for:					
Road and street improvements	-	-	-	3,129,837	3,129,837
Fire protection	-	-	-	898,329	898,329
Recreational activities	-	-	-	2,764,040	2,764,040
Assigned to:					
Capital projects	-	3,342,981	-	-	3,342,981
Stormwater	-	-	-	128,466	128,466
Employee benefits	-	-	-	1,101,885	1,101,885
Capital projects	-	-	-	1,088,973	1,088,973
Operations	-	-	-	1,839,617	1,839,617
Unassigned (deficit)	22,820,834	-	(391,359)	(138,066)	22,291,409
	<u>23,050,267</u>	<u>3,342,981</u>	<u>(391,359)</u>	<u>10,813,081</u>	<u>36,814,970</u>
Total fund balances	<u>23,050,267</u>	<u>3,342,981</u>	<u>(391,359)</u>	<u>10,813,081</u>	<u>36,814,970</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 23,912,460</u>	<u>\$ 3,344,960</u>	<u>\$ 1,265</u>	<u>\$ 11,726,800</u>	<u>\$ 38,985,485</u>

See notes to financial statements

Upper Macungie Township

Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities

December 31, 2019

Total Governmental Funds Balances	\$ 36,814,970
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:	
Land	9,400,396
Construction in progress	1,940,892
Depreciable capital assets, net	27,652,588
Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the Governmental Funds	891,579
Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	36,179
The Township received a receivable which was put into escrow as part of the sale of land and buildings which are not current financial resources and not reported in the funds.	75,000
Net pension asset is not recorded as an asset in the Governmental Funds; however, this item reported as an asset in the government-wide financial statements.	327,606
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:	
Net pension liability	(1,346,208)
Early retirement benefits	<u>(309,703)</u>
Net Position of Governmental Activities	<u><u>\$ 75,483,299</u></u>

Upper Macungie Township

Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2019

	General Fund	Capital Reserve Fund	Street Light Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 12,705,000	\$ -	\$ 106,910	\$ 352,917	\$ 13,164,827
Fines and forfeits	184,809	-	-	40,075	224,884
Licenses and permits	1,938,215	-	-	-	1,938,215
Intergovernmental	514,592	-	-	1,869,560	2,384,152
Charges for services	328,957	-	-	678,363	1,007,320
Interest, rents and royalties	737,692	133,923	-	198,185	1,069,800
Refund of prior year expenditures	60,967	-	-	144,915	205,882
Miscellaneous	8,990	-	-	2	8,992
Total revenues	<u>16,479,222</u>	<u>133,923</u>	<u>106,910</u>	<u>3,284,017</u>	<u>20,004,072</u>
Expenditures					
Current:					
General government	1,625,729	9,832	-	309,540	1,945,101
Public safety	6,574,435	-	-	919,541	7,493,976
Public works	2,003,458	-	183,024	1,452,857	3,639,339
Culture and recreation	811,984	-	-	694,326	1,506,310
Miscellaneous	712	-	-	-	712
Total expenditures (deficiency)	<u>11,016,318</u>	<u>9,832</u>	<u>183,024</u>	<u>3,376,264</u>	<u>14,585,438</u>
Excess (deficiency) of revenues over expenditures	<u>5,462,904</u>	<u>124,091</u>	<u>(76,114)</u>	<u>(92,247)</u>	<u>5,418,634</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	1,531,460	1,531,460
Interfund transfers in	325,460	-	-	741,900	1,067,360
Interfund transfers out	(741,900)	-	-	-	(741,900)
Total other financing sources (uses)	<u>(416,440)</u>	<u>-</u>	<u>-</u>	<u>2,273,360</u>	<u>1,856,920</u>
Net change in fund balances (deficit)	5,046,464	124,091	(76,114)	2,181,113	7,275,554
Fund Balance (Deficit), Beginning	<u>18,003,803</u>	<u>3,218,890</u>	<u>(315,245)</u>	<u>8,631,968</u>	<u>29,539,416</u>
Fund Balance (Deficit), Ending	<u>\$ 23,050,267</u>	<u>\$ 3,342,981</u>	<u>\$ (391,359)</u>	<u>\$ 10,813,081</u>	<u>\$ 36,814,970</u>

See notes to financial statements

Upper Macungie Township

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 7,275,554
Capital outlays are reported in governmental funds as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,336,187) exceeds depreciation (\$2,235,733) in the current period.	100,454
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and disposals) is to decrease net assets.	(1,962,141)
Property taxes that will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in governmental funds.	5,820
Expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	
Early retirement benefits	650,940
Pension expense	<u>(531,457)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 5,539,170</u></u>

Upper Macungie Township

Statement of Net Position - Proprietary Funds
Year Ended December 31, 2019

	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Sewer Capital Reserve Fund</u>	<u>Total</u>
Assets and Deferred Outflows				
Current Assets				
Cash and cash equivalents	\$ 1,137,478	\$ 323,010	\$ 1,004,765	\$ 2,465,253
Investments	9,579,310	2,358,870	9,992,278	21,930,458
Accounts receivable, net	1,508,251	366,690	-	1,874,941
Prepaid expenses	27,212	2,431	-	29,643
Total current assets	<u>12,252,251</u>	<u>3,051,001</u>	<u>10,997,043</u>	<u>26,300,295</u>
Capital Assets				
Utility system	16,706,108	-	-	16,706,108
Construction in progress	1,302,499	-	-	1,302,499
Buildings	-	232,155	-	232,155
Equipment and furniture	2,983,753	520,534	157,228	3,661,515
Accumulated depreciation	(10,713,462)	(143,725)	(68,788)	(10,925,975)
Total capital assets	<u>10,278,898</u>	<u>608,964</u>	<u>88,440</u>	<u>10,976,302</u>
Total assets	<u>22,531,149</u>	<u>3,659,965</u>	<u>11,085,483</u>	<u>37,276,597</u>
Deferred Outflows of Resources				
Deferred outflows of resources, pension	<u>214,738</u>	<u>26,612</u>	<u>-</u>	<u>241,350</u>
Total assets and deferred outflows of resources	<u>\$ 22,745,887</u>	<u>\$ 3,686,577</u>	<u>\$ 11,085,483</u>	<u>\$ 37,517,947</u>
Liabilities, Deferred Inflows and Net Position				
Current Liabilities				
Accounts payable and other liabilities	\$ 1,096,913	\$ 139,293	\$ 604,519	\$ 1,840,725
Due to other funds	204,258	254,018	75,134	533,410
Total current liabilities	<u>1,301,171</u>	<u>393,311</u>	<u>679,653</u>	<u>2,374,135</u>
Noncurrent Liabilities				
Net pension liability	427,426	52,972	-	480,398
Early retirement benefits	98,332	12,186	-	110,518
Total noncurrent liabilities	<u>525,758</u>	<u>65,158</u>	<u>-</u>	<u>590,916</u>
Total liabilities	<u>1,826,929</u>	<u>458,469</u>	<u>679,653</u>	<u>2,965,051</u>
Deferred Inflows of Resources				
Deferred inflows of resources, pension	<u>56,936</u>	<u>7,056</u>	<u>-</u>	<u>63,992</u>
Net Position				
Investment in capital assets	10,278,898	608,964	88,440	10,976,302
Unrestricted	10,583,124	2,612,088	10,317,390	23,512,602
Total net position	<u>20,862,022</u>	<u>3,221,052</u>	<u>10,405,830</u>	<u>34,488,904</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 22,745,887</u>	<u>\$ 3,686,577</u>	<u>\$ 11,085,483</u>	<u>\$ 37,517,947</u>

See notes to financial statements

Upper Macungie Township

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds

Year Ended December 31, 2019

	Sewer Fund	Refuse Fund	Sewer Capital Reserve Fund	Total
Operating Revenues				
Charges for services	\$ 7,904,475	\$ 1,877,511	\$ -	\$ 9,781,986
Other operating revenue	1,863	-	-	1,863
Total operating revenues	<u>7,906,338</u>	<u>1,877,511</u>	<u>-</u>	<u>9,783,849</u>
Operating Expenses				
Administration	130,566	-	26,015	156,581
Salaries and wages	840,987	144,693	-	985,680
Treatment expense	3,772,429	-	-	3,772,429
Contracted services	205,344	1,627,617	-	1,832,961
Fuel and utilities	58,466	-	-	58,466
Repairs and maintenance	93,471	27,445	-	120,916
Insurance expense	26,160	3,018	-	29,178
Supplies expense	19,658	30,656	-	50,314
Depreciation	469,659	64,297	19,654	553,610
Total operating expenses	<u>5,616,740</u>	<u>1,897,726</u>	<u>45,669</u>	<u>7,560,135</u>
Income (loss) from operations	<u>2,289,598</u>	<u>(20,215)</u>	<u>(45,669)</u>	<u>2,223,714</u>
Nonoperating Revenues				
Interest and investment revenue	198,015	69,534	430,090	697,639
Intergovernmental	-	506,495	-	506,495
Total nonoperating revenues	<u>198,015</u>	<u>576,029</u>	<u>430,090</u>	<u>1,204,134</u>
Transfers				
Change in net position	2,957,921	402,199	(257,732)	3,102,388
Net Position, Beginning	<u>17,904,101</u>	<u>2,818,853</u>	<u>10,663,562</u>	<u>31,386,516</u>
Net Position, Ending	<u>\$ 20,862,022</u>	<u>\$ 3,221,052</u>	<u>10,405,830</u>	<u>\$ 34,488,904</u>

See notes to financial statements

Upper Macungie Township

Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2019

	Sewer Fund	Refuse Fund	Sewer Capital Reserve Fund	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 7,586,388	\$ 1,950,773	\$ -	\$ 9,537,161
Payments to employees	(719,971)	(169,227)	-	(889,198)
Payments to suppliers	(4,532,492)	(1,658,565)	(26,015)	(6,217,072)
Net cash provided by (used in) operating activities	<u>2,333,925</u>	<u>122,981</u>	<u>(26,015)</u>	<u>2,430,891</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition, construction and improvements of capital assets	(1,819,865)	(198,041)	-	(2,017,906)
Proceeds from grant	-	506,495	-	506,495
Transfers (to) from other funds	470,308	(153,615)	(109,873)	206,820
Net cash provided by (used in) capital and related financing activities	<u>(1,349,557)</u>	<u>154,839</u>	<u>(109,873)</u>	<u>(1,304,591)</u>
Cash Flows From Investing Activities				
Purchase of investments	(2,161,894)	(322,961)	(1,423,000)	(3,907,855)
Proceeds from sale of investments	-	-	1,353,464	1,353,464
Earnings on investments	198,015	69,534	430,090	697,639
Net cash provided by (used in) investing activities	<u>(1,963,879)</u>	<u>(253,427)</u>	<u>360,554</u>	<u>(1,856,752)</u>
Net increase (decrease) in cash and cash equivalents	(979,511)	24,393	224,666	(730,452)
Cash and Cash Equivalents, Beginning	<u>2,116,989</u>	<u>298,617</u>	<u>780,099</u>	<u>3,195,705</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,137,478</u>	<u>\$ 323,010</u>	<u>\$ 1,004,765</u>	<u>\$ 2,465,253</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 2,289,598	\$ (20,215)	\$ (45,669)	\$ 2,223,714
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	469,659	64,297	19,654	553,610
(Increase) decrease in:				
Accounts receivable	(319,950)	73,262	-	(246,688)
Prepaid expenses	552	(298)	-	254
Increase (decrease) in:				
Accounts payable and other liabilities	(160,944)	4,019	-	(156,925)
Pension related liabilities, deferred inflows, and deferred outflows	185,737	18,405	-	204,142
Early retirement benefits	(64,721)	(42,939)	-	(107,660)
Due to other funds	(66,006)	26,450	-	(39,556)
Net cash provided by (used in) operating activities	<u>\$ 2,333,925</u>	<u>\$ 122,981</u>	<u>\$ (26,015)</u>	<u>\$ 2,430,891</u>

See notes to financial statements

Upper Macungie Township

Statement of Fiduciary Net Position - Fiduciary Funds

Year Ended December 31, 2019

	Pension Trust Fund	Escrow Fund	Total
Assets			
Cash and cash equivalents	<u>\$ 338,778</u>	<u>\$ 1,276,309</u>	<u>\$ 1,615,087</u>
Investments			
Equities	5,216,703	-	5,216,703
Fixed income	<u>1,776,131</u>	<u>-</u>	<u>1,776,131</u>
Total investments	<u>6,992,834</u>	<u>-</u>	<u>6,992,834</u>
Accounts receivable	<u>16,978</u>	<u>-</u>	<u>16,978</u>
Total assets	<u>\$ 7,348,590</u>	<u>\$ 1,276,309</u>	<u>\$ 8,624,899</u>
Liabilities			
Escrows payable	<u>\$ -</u>	<u>\$ 1,276,309</u>	<u>\$ 1,276,309</u>
Net Position			
Restricted for pension benefits	<u>7,348,590</u>	<u>-</u>	<u>7,348,590</u>
Total net position	<u>7,348,590</u>	<u>-</u>	<u>7,348,590</u>
Total liabilities and net position	<u>\$ 7,348,590</u>	<u>\$ 1,276,309</u>	<u>\$ 8,624,899</u>

See notes to financial statements

Upper Macungie Township

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
Year Ended December 31, 2019

	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 426,885
Investment Earnings	
Net increase in fair value of investments	989,815
Interest	57,938
Dividends	115,633
Investment activity expense	(36,566)
	<u>1,126,820</u>
Total investment earnings	1,126,820
Total additions	1,553,705
Deductions	
Benefits	442,128
	<u>442,128</u>
Change in net position	1,111,577
Net Position, Beginning	<u>6,237,013</u>
Net Position, Ending	<u><u>\$ 7,348,590</u></u>

See notes to financial statements

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

1. Summary of Significant Accounting Policies

Upper Macungie Township (the Township), located in Pennsylvania, complies with generally accepted accounting principles (GAAP). GAAP includes all relevant GASB pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note. The Township operates under the "Second Class Township Code", providing services as authorized by the code: Public Safety (Police and Fire), Highway and Streets, Sanitation, Health and Social Services, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

Reporting Entity

Financial accountability is defined in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. The Township is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. The Township also may be financially accountable if an organization is fiscally dependent on the Township regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board.

Based on the aforementioned criteria, the Township does not have any component units to report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as Pension and Agency Funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under Proprietary Funds below. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Therefore, Governmental Funds financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements of Governmental Funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Township and for each governmental program. Expenses are those that are specifically associated with a service or program and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from Special Revenue Funds and the restrictions on their net position use.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Governmental Funds

All Governmental Funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major Governmental Funds of the Township include the General Fund, the Capital Reserve Fund and the Street Light Fund. All other Governmental Funds are grouped together and presented in a separate column as Other Governmental Funds. Details of the other governmental funds can be found in the supplementary section starting on page 61.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period.

Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis.

Property tax and earned income tax receivables collected after 60 days from year-end, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of Governmental Funds accounting relates to decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, as provided in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain Governmental Funds liabilities and expenditures, such as compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the Governmental Funds.

Fund Financial Statements

Fund financial statements report detailed information about the Township. The focus of Governmental and Enterprise Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The three major Governmental Funds are each presented in a single column on the Governmental Fund financial statements. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds financial statements are presented by fund type.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

The Township reports the following major Governmental Funds:

- The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Capital Reserve Fund* is used to account for financial resources to be used for the acquisition of capital equipment and capital improvements in the governmental activities.
- The *Street Light Fund* is used to account for the revenue inflow of tax dollars to pay for the PPL electric and maintenance charges associated with public street lighting in various locations and developments in the Township.

The Other Governmental Funds of the Township are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Proprietary Funds

Proprietary Funds are accounted for using the accrual basis of accounting. These funds account for operations financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in the Proprietary Funds.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. Operating expenses for the Township's Proprietary Funds include sewer disposal, refuse and recycling collection and disposal, salaries, supplies and administrative costs and depreciation. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Township reports the following Proprietary Funds:

- The *Sewer Fund* accumulates resources necessary for the operation of the sewage collection system.
- The *Refuse Fund* accumulates resources necessary for the collection and disposal of refuse and recycling within the Township.
- The *Sewer Capital Reserve Fund* is used to account for financial resources to be used for the acquisition of capital equipment and capital improvements in the sewage collection system.

Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. The Township reports the following Trust and Agency funds:

- The Pension Trust Fund is used to account for financial resources restricted for retirement benefits of the nonuniformed employees participating under the Township's defined benefit pension plan. The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due in accordance with Act 205, as amended. Benefits are recognized when due and payable in accordance with the terms of the plan.
- The Escrow Fund is an agency fund and is used to account for financial resources held by the Township on a purely custodial basis. Assets in the Escrow Fund equal liabilities.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Budgets and Budgetary Accounting

The Township is required by state law to adopt annual budgets for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Township Board of Supervisors is then called for the purpose of adopting the proposed budget.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Township Board of Supervisors.
- The budget must be filed with the Pennsylvania Department of Community and Economic Development by January 31.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of Township Board of Supervisors. Amendments are presented to Township Board of Supervisors at its regular meetings. Each amendment must have Township Board of Supervisors approval. Such amendments are made before the fact, are reflected in the official minutes of the Township Board of Supervisors and are not made after fiscal year end as dictated by law.

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by Township Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

With the exception of Pension Trust Funds, statutes authorize the Township to invest in: (1) obligations, participations and other instruments of any Federal agency, (2) repurchase agreements with respect to U.S. Treasury bills or obligations, (3) negotiable certificates of deposit, (4) bankers' acceptances, (5) commercial paper, (6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and (7) certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository under PA Act 72. Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120 percent of the funds deposited. The security pledged by the various depositories utilized during the year and at December 31, 2019, was in excess of the minimum requirements just described.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

The Township has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. 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. Investments in qualifying external investment pools are reported at amortized cost basis.

The law provides that the government's Pension Trust Funds may invest in any form or type of investment, financial instrument or financial transaction if determined by the government to be prudent. Investments for the Township are reported at fair value.

Transactions Between Funds

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of the assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment of the Township are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	15-40
Infrastructure	20-50
Vehicles	5-7
Machinery and equipment	5-30

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category. The deferred outflow of resources related to pensions is reported in the government-wide statement of net position and is the result of changes in plan assumptions, the net difference between projected and actual earnings on pension plan investments, the differences between expected and actual experience of the pension plan, and contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category. Accordingly, the item, *unavailable revenue*, which arises only under a modified accrual basis of accounting, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of differences between expected and actual experience of the pension plan and changes in plan assumptions.

Net Position Flow Assumption

Sometimes the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance/Net Position

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 Township Board of Supervisors). 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.
- **Assigned Fund Balance** - Amounts the Township intends to use for a specific purpose. Intent can be expressed by Township Board of Supervisors or by an official or body to which the Township Board of Supervisors delegates the authority. The Board has not delegated the authority to assign fund balance as of December 31, 2019.
- **Unassigned Fund Balance** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

The Township Board of Supervisors establishes (modifies or rescinds) fund balance commitments 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.

- **Deficit Fund Balances** - The Street Light Fund and other nonmajor funds have a net deficit balance at December 31, 2019 and results from the Township not funding 100 percent of the operating deficits of these funds in the current or past years. These deficit funds will be funded in future by operating subsidy payments.

Restricted Net Position

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first and then unrestricted resources as they are needed. Administrative expenses are paid with the use of unrestricted resources.

New Accounting Principle

The Township adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, for the year ended December 31, 2019. GASB No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain pronouncements. The adoption of this standard did not have a significant impact on the Township's financial statements.

2. Taxes

For 2019, tax was levied on the assessed value of real estate at a total of 0.64 mills.

The taxable assessed valuation of property as of January 1, 2019, was \$4,197,680,700.

The real estate tax collection calendar is as follows:

Initial billing	April 1
Discount period	April 1 to May 31
Face period	June 1 to July 31
Penalty period	August 1 and thereafter
Lien date	January 31

Other taxes levied in 2019 are as follows:

Real estate transfer tax	1% of sale price
Earned income tax	1% of gross income
LST tax	\$52 per person

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

3. Deposits and investments

Deposits

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. The Township does not have a formal policy for custodial credit risk on deposits. The Township is required by statute to deposit funds in depositories that are either banks, banking institutions, or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

At December 31, 2019, the carrying amount of the Township's deposits was \$6,400,290 and the bank balance was \$8,887,413. Of the bank balance, \$512,660 was covered by federal depository insurance and \$8,374,753 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Township's name.

Investments

The Township holds excess operating cash in investment portfolios structured to secure adequate ongoing operating funds while optimizing earnings and minimizing risk on funds earmarked for long term purposes.

The overall investment objective is to preserve principal cash balance, maintain appropriate liquidity for current use and conservatively optimize earnings on excess cash.

As of December 31, 2019, the Township's Governmental Funds had the following investments and maturities:

	Maturities		
	Fair Value	0 to 5 Years	5 to 10 Years
U.S. Treasury notes/bills	\$ 3,447,695	\$ 3,396,722	\$ 50,973
State investment pools	23,499,392	23,499,392	-
Certificates of deposit	6,010,388	6,010,388	-
Federal Home Loan Mortgage Corporation (FHLMC)	437,257	437,257	-
Federal National Mortgage Association (FNMA)	657,918	593,214	64,704
Total	<u>\$ 34,052,650</u>	<u>\$ 33,936,973</u>	<u>\$ 115,677</u>

As of December 31, 2019, the Township's Proprietary Funds had the following investments and maturities:

	Maturities		
	Fair Value	0 to 5 Years	5 to 10 Years
U.S. Treasury notes/bills	\$ 8,480,149	\$ 8,480,149	\$ -
State investment pools	9,938,131	9,938,131	-
Federal Home Loan Mortgage Corporation (FHLMC)	1,080,821	1,080,821	-
Federal National Mortgage Association (FNMA)	2,431,357	2,232,291	199,066
Total	<u>\$ 21,930,458</u>	<u>\$ 21,731,392</u>	<u>\$ 199,066</u>

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

A portion of the Township's investments is in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF), both of which are funds similar to mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. Investments in these funds are valued at amortized cost which approximates fair value.

PLGIT is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. Participants purchase "shares" in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Depository Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provide by law is pledged by the depository. Shares may be withdrawn at any time in any amount, with no liquidity fees or redemption gates. PLGIT/PLGIT PLUS have received an "AAm" rating from Standard and Poor's, an independent credit rating agency. The Township considers its deposits with PLGIT to be short term investments for financial reporting purposes.

PSDLAF is a fund created specifically to assist local governments in the Commonwealth of Pennsylvania to help manage their investment needs. The fund provides local governments multiple investment programs, in accordance with the provisions of the Pennsylvania Intergovernmental Cooperation Act and section 521 of the Pennsylvania Public School Code of 1949, as amended. Additionally, PSDLAF has maintained Standard and Poor's highest credit rating of "AAAm" since the foundation of the fund.

GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF and PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2019, is \$33,437,523. These assets maintain a stable net asset value of \$1 per share. PSDLAF and PLGIT are not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79. The Township had \$174,653 invested in a PSDLAF MAX account at December 31, 2019. This investment incurs a penalty if funds, other than state aid, are withdrawn within 14 days of deposit. In addition, the Township had 11,462,870 invested in a PLGIT Prime account, which only permits two withdrawals per month.

As of December 31, 2019, the Township's Nonuniformed Employees' Pension Plan had the following investments and maturities:

	Fair Value	Maturities		
		0 to 5 Years	5 to 10 Years	More Than 10 Years
U.S. Treasury notes	\$ 329,628	\$ 210,877	\$ 82,347	\$ 36,404
U.S. Treasury bonds	172,907	45,053	-	127,854
Municipal bonds	227,732	-	190,164	37,568
Domestic common stock	2,709,162	2,709,162	-	-
Foreign common stock	92,011	92,011	-	-
Mutual funds	2,415,530	2,415,530	-	-
Federal National Mortgage Association (FNMA)	199,542	136,494	27,409	35,639
Corporate bonds	846,322	303,107	391,015	152,200
	<u>\$ 6,992,834</u>	<u>\$ 5,912,234</u>	<u>\$ 690,935</u>	<u>\$ 389,665</u>

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy prioritizes the inputs valuation methods into three Levels (Levels 1, 2 and 3).

Level 1 - Observable, quoted prices for identical assets or liabilities in active markets.

Level 2 - Quoted prices in inactive markets, whose values are based on models, but the inputs to those models are observable either directly or indirectly for the whole term of the asset or liability.

Level 3 - Valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs (Level 3). If the fair value of an asset or liability (Level 1) measured are categorized from different levels of the fair value hierarchy, the measurement is categorized in the lowest level input that is significant to the entire measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value:

All of the following were classified in Level 1 of the hierarchy as they are valued using prices quoted in active markets: U.S. Treasury notes, U.S. Treasury bonds, State investment pools, certificates of deposit, FHLMC, FNMA, Municipal Bonds, Corporate Bonds, Common Stock and Mutual Funds.

Certain certificates of deposit were classified in Level 2 of the hierarchy as they are valued using quoted prices in inactive markets.

No investments were classified as Level 3 as of December 31, 2019.

Certificates of deposit held by banks of \$2,580,388 are stated at cost which approximates their fair value.

The following tables summarize the Township's investments measured by the hierarchy levels as of December 31, 2019:

Investment Type	Investments in Governmental Funds Measured at Fair Value			
	Level 1	Level 2	Level 3	Fair Value
U.S. Treasury notes/bills	\$ 3,447,695	\$ -	\$ -	\$ 3,447,695
State investment pools	23,449,392	-	-	23,449,392
Certificates of deposit	2,580,388	3,430,000	-	6,010,388
Federal Home Loan Mortgage Corporation (FHLMC)	437,257	-	-	437,257
Federal National Mortgage Association (FNMA)	657,918	-	-	657,918
	<u>\$ 30,572,650</u>	<u>\$ 3,430,000</u>	<u>\$ -</u>	<u>34,002,650</u>

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Investment Type	Investments in Proprietary Funds Measured at Fair Value			
	Level 1	Level 2	Level 3	Fair Value
U.S. Treasury notes/bills	\$ 8,480,149	\$ -	\$ -	\$ 8,480,149
State investment pools	9,938,131	-	-	9,938,131
Federal Home Loan Mortgage Corporation (FHLMC)	1,080,821	-	-	1,080,821
Federal National Mortgage Association (FNMA)	2,431,357	-	-	2,431,357
	<u>\$ 21,930,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>21,930,458</u>

The following table summarizes the Township's Nonuniformed Employees' Pension Plan measured by the hierarchy levels as of December 31, 2019:

Investment Type	Investments in Nonuniformed Employees' Pension Plan Measured at Fair Value			
	Level 1	Level 2	Level 3	Fair Value
U.S. Treasury notes	\$ 329,628	\$ -	\$ -	\$ 329,628
U.S. Treasury bonds	172,907	-	-	172,907
Municipal bonds	227,732	-	-	227,732
Domestic common stock	2,709,162	-	-	2,709,162
Foreign common stock	92,011	-	-	92,011
Mutual funds	2,415,530	-	-	2,415,530
Federal National Mortgage Association (FNMA)	199,542	-	-	199,542
Corporate bonds	-	846,322	-	846,322
	<u>\$ 6,146,512</u>	<u>\$ 846,322</u>	<u>\$ -</u>	<u>6,992,834</u>

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.

The Township's investment policy does not further limit its investment choices.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

4. Interfund Receivables, Payables and Transfers

The balance of short-term interfund receivables and payables at December 31, 2019 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,404,710	\$ -
Street Light Fund	-	89,068
Fire Protection Fund	-	86,533
Fire Alarm Fund	-	205,088
Refuse Fund	-	254,018
Sewer Fund	-	204,258
Sewer Reserve Fund	-	75,134
Recreation Capital Fund	2,297	81,550
Stormwater Maintenance Fund	-	5,839
Capital Reserve Fund	-	1,979
Capital Equipment Fund	12,923	120,204
Traffic Improvement Fund	-	296,259
	<u>\$ 1,419,930</u>	<u>\$ 1,419,930</u>

Interfund balances between the General and other funds arise when expenses are paid from the General Fund and are not reimbursed from the other funds prior to year-end.

Interfund transfers at December 31, 2019, are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 325,460	\$ 741,900
Other Governmental Funds	741,900	-
Sewer Fund	470,308	-
Refuse Fund	-	153,615
Sewer Capital Reserve Fund	-	642,153
	<u>\$ 1,537,668</u>	<u>\$ 1,537,668</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts to pay for general obligations in general activities and (3) use unrestricted revenues collected in the Sewer and Refuse Funds to finance various programs/reimburse expenses accounted for in the General Fund in accordance with budgetary authorizations.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

5. Capital Assets

	January 1, 2019	Additions	Deletions	Transfers	December 31, 2019
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 10,018,064	\$ -	\$ (617,668)	\$ -	\$ 9,400,396
Construction in progress	1,279,418	720,435	-	(58,961)	1,940,892
Total capital assets not being depreciated	<u>11,297,482</u>	<u>720,435</u>	<u>(617,668)</u>	<u>(58,961)</u>	<u>11,341,288</u>
Capital assets being depreciated:					
Land improvements	5,350,600	-	(699,870)	43,704	4,694,434
Buildings and improvements	13,166,266	-	(1,430,300)	-	11,735,966
Machinery, equipment and vehicles	12,141,444	881,560	(266,373)	15,257	12,771,888
Infrastructure	38,696,467	734,192	-	-	39,430,659
Total capital assets being depreciated	<u>69,354,777</u>	<u>1,615,752</u>	<u>(2,396,543)</u>	<u>58,961</u>	<u>68,632,947</u>
Accumulated depreciation:					
Land improvements	(3,541,051)	(196,862)	227,458	-	(3,510,455)
Buildings and improvements	(3,288,018)	(270,999)	489,359	-	(3,069,658)
Machinery, equipment and vehicles	(7,672,320)	(708,799)	260,252	-	(8,120,867)
Infrastructure	(25,220,306)	(1,059,073)	-	-	(26,279,379)
Total accumulated depreciation	<u>(39,721,695)</u>	<u>(2,235,733)</u>	<u>977,069</u>	<u>-</u>	<u>(40,980,359)</u>
Total capital assets being depreciated, net	<u>29,633,082</u>	<u>(619,981)</u>	<u>(1,419,474)</u>	<u>58,961</u>	<u>27,652,588</u>
Governmental activities capital assets, net	<u>\$ 40,930,564</u>	<u>\$ 100,454</u>	<u>\$ (2,037,142)</u>	<u>\$ -</u>	<u>\$ 38,993,876</u>

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

	January 1, 2019	Additions	Deletions	Transfers	December 31, 2019
Business-Type Activities					
Capital assets not being depreciated:					
Construction in progress	\$ 146,617	\$ 1,155,882	\$ -	\$ -	\$ 1,302,499
Capital assets being depreciated:					
Sewer collection system infrastructure	16,456,634	249,474	-	-	16,706,108
Buildings	232,155	-	-	-	232,155
Machinery and equipment	684,707	-	-	-	684,707
Vehicles	2,098,145	612,550	-	-	2,710,695
Office equipment and furniture	266,114	-	-	-	266,114
Total capital assets being depreciated	<u>19,737,755</u>	<u>862,024</u>	<u>-</u>	<u>-</u>	<u>20,599,779</u>
Accumulated depreciation:					
Sewer collection system infrastructure	(7,961,877)	(331,317)	-	-	(8,293,194)
Buildings	(17,439)	(11,607)	-	-	(29,046)
Machinery and equipment	(559,126)	(35,794)	-	-	(594,920)
Vehicles	(1,631,343)	(157,954)	-	-	(1,789,297)
Office equipment and furniture	(202,581)	(16,938)	-	-	(219,519)
Total accumulated depreciation	<u>(10,372,366)</u>	<u>(553,610)</u>	<u>-</u>	<u>-</u>	<u>(10,925,976)</u>
Total capital assets being depreciated, net	<u>9,365,389</u>	<u>308,414</u>	<u>-</u>	<u>-</u>	<u>9,673,803</u>
Governmental activities capital assets, net	<u>\$ 9,512,006</u>	<u>\$ 1,464,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,976,302</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 59,755
Public safety	559,948
Public works	1,346,784
Culture and recreation	269,246
Total	<u>\$ 2,235,733</u>

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

6. Defined Benefit Pension Plan (Nonuniformed Employees' Pension Plan)

Summary of Significant Accounting Policies

Method Used to Value Investments - Nonuniformed Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value.

Plan Description

Plan Administration - The Township administers the Nonuniformed Employees' Pension Plan, a single employer defined benefit pension plan that provides pensions for regular, full-time employees. The plan is included in the accompanying financial statements of the Township as a pension trust fund and does not issue a separate plan financial statements.

Management of the Nonuniformed Employees' Pension Plan is vested in the Township Supervisors. The Township Supervisors are responsible for managing, investing and monitoring the Township's Nonuniformed Pension Fund.

Plan Membership - At December 31, 2019, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	27
Inactive plan members entitled to but not year receiving benefits	5
Active plan members	46
	<hr/>
	78
	<hr/> <hr/>
Number of participating employers	1
	<hr/> <hr/>

Benefits Provided - The Nonuniformed Employees' Pension Plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime, with payments guaranteed for the first 120 months. The amount of monthly pension is equal to 2 percent of average monthly compensation times years of benefit service, up to a maximum of 30 years. For members as of January 1, 2002, the minimum monthly pension is equal to 55 percent of average monthly compensation. Average monthly compensation is based upon the highest three consecutive plan years of employment. If a member continues working after his normal retirement date, his pension does not start until he actually retires. If an active member becomes disabled and remains disabled for six months, he is eligible for a disability pension. The monthly disability pension is equal to the actuarial equivalent of the accrued benefit at the date of disability. If a vested member dies prior to retirement, a death benefit is payable to his named beneficiary equal to the actuarial equivalent of the pension accrued to date. Unless otherwise elected, with the consent of the member's spouse, the named beneficiary shall be the member's spouse and payment shall be made in the form of a Preretirement Survivor Annuity, with any additional benefits paid in a lump sum.

Cost-of-living adjustments may be made to retirees with a maximum total cost-of-living increase of 30 percent.

The benefit provisions of the Township's Nonuniformed Employees' Pension Plan are established by Township ordinances.

Funding Policy and Contributions - The Township pays the full cost of the plan. Member contributions are not required. The Township is required to contribute the amounts necessary to fund the Nonuniformed Employees' Pension Plan using the actuarial basis specified by state statute. The state also provides funds (distribution of foreign casualty insurance premium taxes) to the Township, which are used by the Township, in making its regular contributions to the Nonuniformed Employees' Pension Plan.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

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 biennial 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 percent 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. In accordance with Act 205, the Township was required to contribute \$426,885 to the plan for the year 2019. Township and Commonwealth contributions in 2019 were \$216,669 and \$210,216, respectively.

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

Investments

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board of Trustees to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	48.0 %
International equity	12.0
Fixed income	33.0
Cash	7.0
	<u>100.0 %</u>

Concentrations - The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2019, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5 percent or more of Fiduciary Net Position.

Rate of Return - For the year ended December 31, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 16.85 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2019, were as follows:

Total pension liability	\$ 9,174,453
Plan fiduciary net position	<u>(7,347,847)</u>
Net pension liability	<u>\$ 1,826,606</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>80.09%</u>

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3%
Salary increases	5% average annual increase	
Investment rate of return		7.5%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

The long-term expected rate of return on 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 plan investment expense and inflation) 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 asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2019 (see the plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50% - 7.50%
International equity	4.50% - 6.50%
Fixed income	1.00% - 3.00%
Cash	0.00% - 1.00%

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100 percent funded status.

Changes in the Net Position Liability

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balance, December 31, 2018	\$ 7,872,449	\$ 6,236,304	\$ 1,636,145
Changes for the year:			
Service cost	304,774	-	304,774
Interest	655,455	-	655,455
Changes for experience	55,461	-	55,461
Changes of assumptions	727,127	-	727,127
Contributions:			
Employer	-	426,885	(426,885)
Net investment income	-	1,125,471	(1,125,471)
Benefit payments	(440,813)	(440,813)	-
Net changes	1,302,004	1,111,543	190,461
Balance, December 31, 2019	<u>\$ 9,174,453</u>	<u>\$ 7,347,847</u>	<u>\$ 1,826,606</u>

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

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 7.5 percent, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point higher lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net pension liability	\$ 2,951,619	\$ 1,826,606	\$ 871,422

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2019, the Township recognized pension expense of \$696,103 for the Nonuniformed Employees' Pension Plan. At December 31, 2019, the Township reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 281,446	\$ 162,277
Change of actuarial assumptions	636,236	-
Net difference between projected and actual earnings on pension plan investments	-	81,034
	<u>\$ 917,682</u>	<u>\$ 243,311</u>

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

Years ending December 31:	
2020	\$ 106,103
2021	78,551
2022	137,553
2023	(41,126)
2024	131,098
Thereafter	<u>262,192</u>
Total	<u>\$ 674,371</u>

7. Defined Benefit Pension Plan (Police Pension Plan)

Summary of Significant Accounting Policies

Financial information of the Township's Police Pension Plan (the Plan) is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due as required by Act 600 and Act 205 of the Commonwealth of Pennsylvania. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by GASB for aggregate PMRS investments are included in PMRS's separately issued CAFR.

Plan Description

The Upper Macungie Township Police Pension Plan is a single-employer defined benefit pension plan adopted pursuant to ACT 15 of 1974. The Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer Public Employee Retirement System that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR).

A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Plan Membership

Membership of the Plan consisted of the following at December 31, 2018:

Inactive plan members or beneficiaries currently receiving benefits	11
Inactive plan members entitled to but not year receiving benefits	-
Active plan members	<u>28</u>
	<u>39</u>

Benefits Provided - The Police Pension 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 2 percent times credited service times final average salary but in no event is the basic benefit greater than 50 percent of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last three years annualized salary. Married officers will receive joint and 50 percent survivor annuity. Normal retirement is age 50 with at least 12 years of service. Early retirement is available after 24 years of service regardless of age.

If a member dies in service, a benefit will be paid per Act 30 equal to 100 percent of salary. For total and permanent disablement, a monthly benefit equal to 75 percent of Final Monthly Average Salary at date of disablement regardless of age or service. Covered employees are required to contribute a percentage of their compensation to the plan, which was 3.0 percent for 2018 and 2017. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Funding and Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the Plan's Minimum Municipal Obligation (MMO). The MMO is based upon the Plan's biennial actuarial valuation. In accordance with the Plan's governing ordinance, members are required to contribute 3 percent of compensation to the Plan.

The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the Plan and funded through investment earnings. In accordance with Act 205, the Township was required to contribute \$315,533 to the Plan for the year 2018. Township and Commonwealth contributions in 2018 were \$256,040 and \$59,493, respectively.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

Investments

Investment Policy - The plan policy in regard to the allocation of invested assets is established and may be amended by the PMRS. It is the policy of the PMRS to pursue an investment strategy that (1) maintains a fully funded status with regard to accumulated retirement benefits obligations, (2) maximizes return within reasonable and prudent levels of risk in order to minimize municipal and employee contributions, (3) maintains flexibility in determining the future level of contributions and (4) provides the ability to pay all benefit and expense obligations when due. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The following was the plan's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Large cap equities	25.0 %
Small cap equities	15.0
International developed markets securities	15.0
International emerging markets equities	10.0
Fixed income	15.0
Real estate	20.0
	<u>100.0 %</u>

Investments are reported quoted market price. The plan's fair value of investments as of December 31, 2018, was \$10,901,270. Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

Concentrations - At December 31, 2018, none of the plan's individual investments exceeded 5 percent of the total portfolio.

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 7 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

Total pension liability	\$ 10,573,664
Plan fiduciary net position	<u>(10,901,270)</u>
Net pension liability (asset)	<u>\$ (327,606)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>103.1%</u>

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3%
Salary increases	Age related scale with merit and inflation component	
Investment rate of return		5.25%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table.

The actuarial assumptions used in the January 1, 2018, valuation were based on the PMRS Experience Study completed in 2015, as well as subsequent Board approved changes, including the decrease in the regular interest to 5.25 percent for the January 1, 2018 valuation.

The long-term expected rate of return on 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 plan investment expense and inflation) 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 asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset included in the Plan's target asset allocation as of December 31, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap equities	4.60 %
Small cap equities	7.30
International developed markets securities	3.50
International emerging markets equities	8.30
Fixed income	1.10
Real estate	5.40

Discount Rate - While it is often common practice to establish an actuarial Discount Rate that is equal to the Long Term Expected Rate of Return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

1. Retiree Plan liability as a percentage of total Plan liability,
2. Active Plan participant liability as a percentage of total Plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System Long-Term Expected Rate of Return, and
5. PMRS administrative expenses.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance, December 31, 2018	\$ 9,649,866	\$ 11,407,768	\$ (1,757,902)
Changes for the year:			
Service cost	446,322	-	446,322
Interest	523,698	-	523,698
Difference between expected and actual experience	198,871	-	198,871
Changes of assumptions	-	-	-
Contributions:			
Employer	-	315,533	(315,533)
Member	-	84,380	(84,380)
Net investment income (loss)	-	(635,337)	635,337
Benefit payments	(245,093)	(245,093)	-
Administrative expenses	-	(25,981)	25,981
Net changes	923,798	(506,498)	1,430,296
Balance, December 31, 2019	\$ 10,573,664	\$ 10,901,270	\$ (327,606)

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate - The following presents the net pension (asset) liability of the Township, calculated using the discount rate of 5.25 percent, 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 (4.25 percent) or one percentage point higher (6.25 percent) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net pension (asset) liability	\$ 1,523,831	\$ (327,606)	\$ (1,836,046)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2018, the Township recognized pension expense of \$430,717 for the Police Pension Plan. At December 31, 2019, the Township reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 213,964	\$ 280,117
Changes in assumptions	208,323	184,341
Net difference between projected and actual earnings on pension plan investments	210,470	-
Contributions subsequent to the measurement date	262,446	-
Total	\$ 895,203	\$ 464,458

\$262,446 reported as deferred outflows of resources related to pensions resulting from Township contributions made subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended December 31, 2020.

Upper Macungie Township

Notes to the Basic Financial Statements
December 31, 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

Years ending December 31:	
2020	\$ (38,357)
2021	(13,480)
2022	220,202
2023	(19,632)
2024	(16,791)
Thereafter	<u>36,357</u>
Total	<u>\$ 168,299</u>

8. Early Retirement Benefits

The Township implemented a policy for early retirement benefits under which employees with at least 25 years of service qualify for three years of health insurance if the employee retires at age 62. There is no formal plan and no assets have been set aside to cover future costs. Management has estimated the net present value of the future benefits to be \$420,221. Accordingly, a liability has been reported in fund level statements for the Enterprise Funds and the government-wide statements for the Governmental Funds.

9. Risk Management

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

The Township participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

10. New Accounting Pronouncements

The GASB has approved the following statements:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 92, *Omnibus*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

Upper Macungie Township

Notes to the Basic Financial Statements

December 31, 2019

11. Subsequent Event

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Township. As of the audit opinion date, the Township's evaluation of the effects of these events is ongoing; however, based on current information, the Township has been impacted by this crisis in the following ways:

- For the first half of the 2020 year, total Township revenues have been higher than the same period in 2019.
- For the first half of 2020, the Township's investments produced an annual yield of 1.04 percent compared to 2.29 percent in the same period of 2019. A significant decrease in investment fair values has also occurred during the first half of 2020.
- No layoffs or deferment of employees has occurred.
- Park pavilions were closed. Any prepayment on usage was returned.

The full extent of the impact of COVID-19 on the Township's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

Upper Macungie Township

Budgetary Comparison Schedule - General Fund (Unaudited)

Year Ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 9,880,000	\$ 9,880,000	\$ 12,705,000	\$ 2,825,000
Fines and forfeits	189,000	189,000	184,809	(4,191)
Licenses and permits	1,354,500	1,354,500	1,938,215	583,715
Intergovernmental	515,526	515,526	514,592	(934)
Charges for services	320,100	320,100	328,957	8,857
Interest, rents and royalties	714,000	714,000	737,692	23,692
Refund of prior year expenditures	50,000	50,000	60,967	10,967
Miscellaneous	4,100	4,100	8,990	4,890
	<u>13,027,226</u>	<u>13,027,226</u>	<u>16,479,222</u>	<u>3,451,996</u>
Expenditures				
Current:				
General government	1,639,933	1,639,933	1,625,729	14,204
Public safety	6,970,518	6,970,518	6,574,435	396,083
Public works	2,354,666	2,354,666	2,003,458	351,208
Culture and recreation	904,839	904,839	811,984	92,855
Miscellaneous	2,600	2,600	712	1,888
	<u>11,872,556</u>	<u>11,872,556</u>	<u>11,016,318</u>	<u>856,238</u>
Excess of revenues over expenditures	<u>1,154,670</u>	<u>1,154,670</u>	<u>5,462,904</u>	<u>4,308,234</u>
Other Financing Sources (Uses)				
Interfund transfers in	325,459	325,459	325,460	1
Interfund transfers out	(919,700)	(919,700)	(741,900)	177,800
	<u>(594,241)</u>	<u>(594,241)</u>	<u>(416,440)</u>	<u>177,801</u>
Total other financing sources (uses)	<u>(594,241)</u>	<u>(594,241)</u>	<u>(416,440)</u>	<u>177,801</u>
Total change in fund balance	560,429	560,429	5,046,464	4,486,035
Fund Balance, Beginning	<u>18,003,803</u>	<u>18,003,803</u>	<u>18,003,803</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 18,564,232</u>	<u>\$ 18,564,232</u>	<u>\$ 23,050,267</u>	<u>\$ 4,486,035</u>

Upper Macungie Township

Note to the Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2019

1. Budgetary Policy

The Board of Supervisors annually adopts the budget for the General Fund of the Township. Management may not amend the budget without the approval of the governing body. Uncommitted appropriations lapse at year-end. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Upper Macungie Township

Schedule of Changes in the Nonuniformed Employees' Pension Plan Net Pension Liability and Related Ratios (Unaudited)
Last Six Fiscal Years

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 304,774	\$ 259,688	\$ 247,322	\$ 205,872	\$ 196,069	\$ 246,293
Interest	655,455	564,932	538,719	490,504	468,561	468,884
Changes for experience	55,461	-	332,740	-	(365,122)	-
Changes of assumptions	727,127	-	-	-	-	-
Benefit payments	(440,813)	(449,814)	(447,981)	(407,434)	(356,284)	(251,980)
Net change in total pension liability	1,302,004	374,806	670,800	288,942	(56,776)	463,197
Total pension liability, beginning	7,872,449	7,497,643	6,826,843	6,537,901	6,594,677	6,131,480
Total pension liability, ending (a)	<u>\$ 9,174,453</u>	<u>\$ 7,872,449</u>	<u>\$ 7,497,643</u>	<u>\$ 6,826,843</u>	<u>\$ 6,537,901</u>	<u>\$ 6,594,677</u>
Plan Fiduciary Net Position						
Contributions, employer	\$ 426,885	\$ 334,212	\$ 315,529	\$ 295,561	\$ 380,731	\$ 382,494
Net investment income (loss)	1,125,471	(391,941)	749,554	303,205	(37,799)	331,039
Benefit payments, including refunds of member contributions	(440,813)	(449,814)	(447,981)	(407,434)	(356,284)	(251,980)
Net change in plan fiduciary net position	1,111,543	(507,543)	617,102	191,332	(13,352)	461,553
Plan fiduciary net position, beginning	6,236,304	6,743,847	6,126,745	5,935,413	5,948,765	5,487,212
Plan fiduciary net position, ending (b)	<u>\$ 7,347,847</u>	<u>\$ 6,236,304</u>	<u>\$ 6,743,847</u>	<u>\$ 6,126,745</u>	<u>\$ 5,935,413</u>	<u>\$ 5,948,765</u>
Net pension liability (asset), ending (a) - (b)	<u>\$ 1,826,606</u>	<u>\$ 1,636,145</u>	<u>\$ 753,796</u>	<u>\$ 700,098</u>	<u>\$ 602,488</u>	<u>\$ 645,912</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>80.09%</u>	<u>79.22%</u>	<u>89.95%</u>	<u>89.74%</u>	<u>90.78%</u>	<u>90.21%</u>
Covered Payroll	<u>\$ 2,545,135</u>	<u>\$ 2,447,739</u>	<u>\$ 2,412,665</u>	<u>\$ 2,154,016</u>	<u>\$ 1,973,790</u>	<u>\$ 1,811,476</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>71.77%</u>	<u>66.84%</u>	<u>31.24%</u>	<u>32.50%</u>	<u>30.52%</u>	<u>35.66%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2019.

Upper Macungie Township

Schedule of Nonuniformed Employees' Pension Plan Contributions (Unaudited)
Last Six Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 426,885	\$ 334,212	\$ 315,529	\$ 295,561	\$ 380,731	\$ 382,494
Contributions in relation to the actuarially determined contribution	<u>426,885</u>	<u>334,212</u>	<u>315,529</u>	<u>295,561</u>	<u>380,731</u>	<u>382,494</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 2,545,135</u>	<u>\$ 2,447,739</u>	<u>\$ 2,412,665</u>	<u>\$ 2,154,016</u>	<u>\$ 1,973,790</u>	<u>\$ 1,811,476</u>
Contribution as a percentage of covered payroll	<u>16.77%</u>	<u>13.65%</u>	<u>13.08%</u>	<u>13.72%</u>	<u>19.29%</u>	<u>21.12%</u>

Notes to Schedule

Valuation date: January 1, 2018 January 1, 2015 January 1, 2013

Actuarially determined contribution rates are calculated by January 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortized method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Remaining amortization period	12 years	8 years	15 years
Asset valuation method inflation	Market Value	Market Value	Market Value
Inflation	3.00%	3.00%	3.00%
Salary increases	5% annual increase	5% annual increase	5% annual increase
Investment rate of return	7.50%	7.50%	7.50%
Retirement age	Normal retirement age	Normal retirement age	Normal retirement age
Mortality	RP 2000 Mortality Tables	RP 2000 Mortality Tables	RP 2000 Mortality Tables

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2019.

Upper Macungie Township

Schedule of Nonuniformed Employees' Pension Plan Investment Returns (Unaudited)
Last Six Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	<u>16.85%</u>	<u>-5.45%</u>	<u>11.51%</u>	<u>5.38%</u>	<u>-0.13%</u>	<u>6.79%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2019.

Upper Macungie Township

Schedule of Changes in the Police Pension Plan Net Pension Liability and Related Ratios (Unaudited)
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service cost	\$ 446,322	\$ 438,224	\$ 373,469	\$ 417,730	\$ 393,631
Interest	523,698	486,959	448,045	431,789	348,892
Differences between expected and actual experience	198,871	-	98,811	(22,879)	(588,800)
Changes of assumption	-	-	347,207	(337,961)	-
Transfers	-	-	-	-	2,982,990
Benefit payments	(245,093)	(222,149)	(184,555)	(159,230)	(159,142)
Net change in total pension liability	923,798	703,034	1,082,977	329,449	2,977,571
Total pension liability, beginning	9,649,866	8,946,832	7,863,855	7,534,406	4,556,835
Total pension liability, ending (a)	<u>\$ 10,573,664</u>	<u>\$ 9,649,866</u>	<u>\$ 8,946,832</u>	<u>\$ 7,863,855</u>	<u>\$ 7,534,406</u>
Plan Fiduciary Net Position					
Contributors:					
Employer	\$ 315,533	\$ 290,684	\$ 529,685	\$ 491,459	\$ 1,368,386
Member	84,380	70,994	75,895	105,289	95,575
Net investment income	(635,337)	1,696,674	636,045	(61,341)	120,496
Transfers	-	-	-	-	4,471,787
Benefit payments, including refunds of member contributions	(245,093)	(222,149)	(184,555)	(159,230)	(159,142)
Administrative expenses	(25,981)	(25,075)	(25,827)	(19,784)	(8,401)
Net change in plan fiduciary net position	(506,498)	1,811,128	1,031,243	356,393	5,888,701
Plan fiduciary net position, beginning	11,407,768	9,596,640	8,565,397	8,209,004	2,320,303
Plan fiduciary net position, ending (b)	<u>\$ 10,901,270</u>	<u>\$ 11,407,768</u>	<u>\$ 9,596,640</u>	<u>\$ 8,565,397</u>	<u>\$ 8,209,004</u>
Net pension liability (asset), ending (a) - (b)	<u>\$ (327,606)</u>	<u>\$ (1,757,902)</u>	<u>\$ (649,808)</u>	<u>\$ (701,542)</u>	<u>\$ (674,598)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>103.10%</u>	<u>118.22%</u>	<u>107.26%</u>	<u>108.92%</u>	<u>108.95%</u>
Covered Payroll	<u>\$ 2,410,835</u>	<u>\$ 2,367,092</u>	<u>\$ 2,148,165</u>	<u>\$ 2,105,760</u>	<u>\$ 1,880,292</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>-13.59%</u>	<u>-74.26%</u>	<u>-30.25%</u>	<u>-33.32%</u>	<u>-35.88%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2018.

Upper Macungie Township

Schedule of Police Pension Plan Contributions (Unaudited)
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 315,533	\$ 290,644	\$ 529,665	\$ 491,459	\$ 403,119
Contributions in relation to the actuarially determined contribution	<u>315,533</u>	<u>290,684</u>	<u>529,685</u>	<u>491,459</u>	<u>1,368,386</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ (40)</u>	<u>\$ (20)</u>	<u>\$ -</u>	<u>\$ (965,267)</u>
Covered payroll	<u>\$ 2,410,835</u>	<u>\$ 2,367,092</u>	<u>\$ 2,148,165</u>	<u>\$ 2,105,760</u>	<u>\$ 1,880,292</u>
Contribution as a percentage of covered payroll	<u>13.09%</u>	<u>12.28%</u>	<u>24.66%</u>	<u>23.34%</u>	<u>72.78%</u>

NOTES TO SCHEDULE

Valuation date: January 1, 2018 January 1, 2015 January 1, 2013

Actuarially determined contribution rates are calculated by January 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age	Entry age	Entry age
Amortized method	Level dollar	Level dollar	Level dollar
Remaining amortization period	N/A	N/A	N/A
Asset valuation method	Market Value	Market Value	Market Value
Inflation		3.0%	3.0%
Salary increases	Age related scale with merit	Age related scale with merit and	Age related scale with merit and
Investment rate of return	inflation component	inflation component	inflation component
	5.50%	5.25%	5.50%
Retirement age	Age 60 or 55 with 20 years' service	Age 60 or 55 with 20 years' service	Age 60 or 55 with 20 years' service
COLA increases	3.0% for those eligible	3.0% for those eligible	3.0% for those eligible
Mortality	RP 2000 Mortality Tables	RP 2000 Mortality Tables	RP 2000 Mortality Tables

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2018.

Upper Macungie Township

Schedule of Police Pension Plan Investment Returns (Unaudited)

Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	<u>7.00%</u>	<u>17.84%</u>	<u>8.23%</u>	<u>-0.27%</u>	<u>5.20%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available only for 2014 through 2018.

Upper Macungie Township

Combining Balance Sheet - Total Other Governmental Funds

December 31, 2019

	Special Revenue Funds	Capital Projects Funds	Total Other Governmental Funds
Assets			
Cash and cash equivalents	\$ 602,045	\$ 1,213,586	\$ 1,815,631
Investments	5,193,073	4,661,606	9,854,679
Due from other funds	-	15,220	15,220
Taxes receivable	3,970	-	3,970
Other receivables	22,000	15,300	37,300
	<u>5,821,088</u>	<u>5,905,712</u>	<u>11,726,800</u>
Total assets	<u>\$ 5,821,088</u>	<u>\$ 5,905,712</u>	<u>\$ 11,726,800</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable and other current liabilities	\$ 43,705	\$ 74,541	\$ 118,246
Due to other funds	297,460	498,013	795,473
	<u>341,165</u>	<u>572,554</u>	<u>913,719</u>
Total liabilities	<u>341,165</u>	<u>572,554</u>	<u>913,719</u>
Fund Balances			
Restricted for:			
Road and street improvements	1,649,692	1,480,145	3,129,837
Fire protection	898,329	-	898,329
Recreation activities	-	2,764,040	2,764,040
Assigned to:			
Fire protection	-	-	-
Stormwater	128,466	-	128,466
Employee benefits	1,101,885	-	1,101,885
Capital projects	-	1,088,973	1,088,973
Operations	1,839,617	-	1,839,617
Unassigned (deficit)	(138,066)	-	(138,066)
	<u>5,479,923</u>	<u>5,333,158</u>	<u>10,813,081</u>
Total fund balances	<u>5,479,923</u>	<u>5,333,158</u>	<u>10,813,081</u>
Total liabilities and fund balances	<u>\$ 5,821,088</u>	<u>\$ 5,905,712</u>	<u>\$ 11,726,800</u>

Upper Macungie Township

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -

Total Other Governmental Funds

Year Ended December 31, 2019

	Special Revenue Funds	Capital Projects Funds	Total Other Governmental Funds
Revenues			
Taxes	\$ 352,917	\$ -	\$ 352,917
Fees and fines	40,075	-	40,075
Intergovernmental	1,525,360	344,200	1,869,560
Charges for services	-	678,363	678,363
Investment earnings	117,277	80,908	198,185
Refund of prior year expenditures	144,915	-	144,915
Miscellaneous	-	2	2
	<u>2,180,544</u>	<u>1,103,473</u>	<u>3,284,017</u>
Total revenues			
Expenditures			
Current:			
General government	215,320	94,220	309,540
Public safety	369,292	550,249	919,541
Public works	811,911	640,946	1,452,857
Culture and recreation	-	694,326	694,326
	<u>1,396,523</u>	<u>1,979,741</u>	<u>3,376,264</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>784,021</u>	<u>(876,268)</u>	<u>(92,247)</u>
Other Financing Sources			
Proceeds from sale of fixed assets	-	1,531,460	1,531,460
Interfund transfers in	-	741,900	741,900
	<u>-</u>	<u>2,273,360</u>	<u>2,273,360</u>
Total other financing sources			
Net change in fund balances	784,021	1,397,092	2,181,113
Fund Balances, Beginning	<u>4,695,902</u>	<u>3,936,066</u>	<u>8,631,968</u>
Fund Balances, Ending	<u>\$ 5,479,923</u>	<u>\$ 5,333,158</u>	<u>\$ 10,813,081</u>

Upper Macungie Township

Combining Balance Sheet - Other Governmental - Special Revenue Funds
December 31, 2019

	Special Revenue Funds								Total Special Revenue Funds
	Fire Protection Fund	Fire Alarm Fund	Stormwater Maintenance Fund	Medical Expense Fund	Highway Aid Fund	Volunteer Fire Relief Fund	Operating Reserve Fund	Open Space Preservation Fund	
Assets									
Cash and cash equivalents	\$ 296,665	\$ 45,022	\$ 135,174	\$ 44,931	\$ 21,959	\$ -	\$ 50,969	\$ 7,325	\$ 602,045
Investments	727,063	-	-	1,056,954	1,627,733	-	939,747	841,576	5,193,073
Taxes receivable	3,970	-	-	-	-	-	-	-	3,970
Other receivables	-	22,000	-	-	-	-	-	-	22,000
Total assets	\$ 1,027,698	\$ 67,022	\$ 135,174	\$ 1,101,885	\$ 1,649,692	\$ -	\$ 990,716	\$ 848,901	\$ 5,821,088
Liabilities and Fund Balances									
Liabilities									
Accounts payable and other current liabilities	\$ 42,836	\$ -	\$ 869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,705
Due to other funds	86,533	205,088	5,839	-	-	-	-	-	297,460
Total liabilities	129,369	205,088	6,708	-	-	-	-	-	341,165
Fund Balances									
Restricted for:									
Road and street improvements	-	-	-	-	1,649,692	-	-	-	1,649,692
Fire protection	898,329	-	-	-	-	-	-	-	898,329
Assigned to:									
Stormwater	-	-	128,466	-	-	-	-	-	128,466
Employee benefits	-	-	-	1,101,885	-	-	-	-	1,101,885
Operations	-	-	-	-	-	-	990,716	848,901	1,839,617
Unassigned	-	(138,066)	-	-	-	-	-	-	(138,066)
Total fund balances	\$ 898,329	\$ (138,066)	\$ 128,466	\$ 1,101,885	\$ 1,649,692	\$ -	\$ 990,716	\$ 848,901	\$ 5,479,923

Upper Macungie Township

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Other Governmental - Special Revenue Funds
 Year Ended December 31, 2019

	Special Revenue Funds								Total Special Revenue Funds
	Fire Protection Fund	Fire Alarm Fund	Stormwater Maintenance Fund	Medical Expense Fund	Highway Aid Fund	Volunteer Fire Relief Fund	Operating Reserve Fund	Open Space Preservation Fund	
Revenues									
Taxes	\$ 352,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 352,917
Fees and fines	-	40,075	-	-	-	-	-	-	40,075
Intergovernmental	-	-	-	-	854,513	236,567	-	434,280	1,525,360
Investment earnings	16,596	-	-	22,387	44,791	-	21,554	11,949	117,277
Refund of prior year expenditures	-	-	-	144,915	-	-	-	-	144,915
Total revenues	369,513	40,075	-	167,302	899,304	236,567	21,554	446,229	2,180,544
Expenditures									
Current:									
General government	172,751	-	42,223	346	-	-	-	-	215,320
Public safety	-	132,725	-	-	-	236,567	-	-	369,292
Public works	-	-	-	-	811,911	-	-	-	811,911
Total expenditures	172,751	132,725	42,223	346	811,911	236,567	-	-	1,396,523
Net change in fund balances	196,762	(92,650)	(42,223)	166,956	87,393	-	21,554	446,229	784,021
Fund Balances, Beginning	701,567	(45,416)	170,689	934,929	1,562,299	-	969,162	402,672	4,695,902
Fund Balances, Ending	\$ 898,329	\$ (138,066)	\$ 128,466	\$ 1,101,885	\$ 1,649,692	\$ -	\$ 990,716	\$ 848,901	\$ 5,479,923

Upper Macungie Township

Combining Balance Sheet - Other Governmental - Capital Projects Funds

December 31, 2019

	Capital Projects Funds			Total Capital Projects Funds
	Recreation Capital Fund	Capital Equipment Fund	Improvement Improvement Fund	
Assets				
Cash and cash equivalents	\$ 406,137	\$ 240,844	\$ 566,605	\$ 1,213,586
Investments	2,422,756	1,023,545	1,215,305	4,661,606
Due from other funds	2,297	12,923	-	15,220
Other receivables	15,300	-	-	15,300
Total assets	<u>\$ 2,846,490</u>	<u>\$ 1,277,312</u>	<u>\$ 1,781,910</u>	<u>\$ 5,905,712</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 900	\$ 68,135	\$ 5,506	\$ 74,541
Due to other funds	81,550	120,204	296,259	498,013
Total liabilities	<u>82,450</u>	<u>188,339</u>	<u>301,765</u>	<u>572,554</u>
Fund Balances				
Restricted for:				
Recreation activities	2,764,040	-	-	2,764,040
Road and street improvements	-	-	1,480,145	1,480,145
Assigned to:				
Capital Purchases	-	1,088,973	-	1,088,973
Total fund balances	<u>\$ 2,764,040</u>	<u>\$ 1,088,973</u>	<u>\$ 1,480,145</u>	<u>\$ 5,333,158</u>

Upper Macungie Township

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Other Governmental - Capital Projects Funds
 Year Ended December 31, 2019

	Capital Projects Funds			Total Capital Projects Funds
	Recreation Capital Fund	Capital Equipment Fund	Improvement Improvement Fund	
Revenues				
Intergovernmental	\$ 344,200	\$ -	\$ -	\$ 344,200
Charges for services	678,363	-	-	678,363
Investment earnings	48,030	15,531	17,347	80,908
Miscellaneous	2	-	-	2
Total revenues	1,070,595	15,531	17,347	1,103,473
Expenditures				
Current:				
General government	-	94,220	-	94,220
Public safety	-	550,249	-	550,249
Public works	-	376,905	264,041	640,946
Culture and recreation	694,326	-	-	694,326
Total expenditures	694,326	1,021,374	264,041	1,979,741
Excess (deficiency) of revenues over expenditures	376,269	(1,005,843)	(246,694)	(876,268)
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	1,451,000	80,460	-	1,531,460
Interfund transfers in	-	741,900	-	741,900
Total other financing sources	1,451,000	822,360	-	2,273,360
Net change in fund balances	1,827,269	(183,483)	(246,694)	1,397,092
Fund Balances, Beginning	936,771	1,272,456	1,726,839	3,936,066
Fund Balances, Ending	\$ 2,764,040	\$ 1,088,973	\$ 1,480,145	\$ 5,333,158