

October 13, 2014

Dear Residents:

The [Middle Smithfield Township audit of 2013](#), which was performed by Riley and Company, Inc. is now available on the Township's website. As you will note within the audit, Middle Smithfield Township experienced a good year in 2013 and the Township's financial position continues to improve.

General Fund income exceeded expenses, compared to a number of prior years where the Township was in the red. The Liquid Fuels Fund ended the year with a slight negative fund balance, as the winter of 2012/2013 exhausted some of the liquid fuels account, along with our continued long term plan of paving approximately 8-miles of roads per year (of the +/-78 miles of roads within the Township.)

The Increase in Sewer Fund balance during 2013 was an unsustainable \$80,000, indicating expenses were lower than income by said amount. This increase is insufficient to cover 1 month of expenses. The need for increased revenue, to fund to increasing operating expenses and necessary capital improvements is quite evident.

The Golf operations ran as expected at a loss similar to that experienced in 2012, which was less of a loss than prior years. The net cash used by operating the course was roughly \$226,000, which was nearly 20% below the budgeted \$277,000. This would indicate a relatively good year.

Some other key facts described in the audit, should be understood by those reviewing it.

➤ Basis for Adverse Opinion on Governmental Activities:

Just as experienced last year, the auditors disagree with the Board of Supervisors with respect to the value of road improvements within the Township. While Generally Accepted Accounting Principles may consider the cost to build of roads an asset of the Township, it is the Board of Supervisors' belief that, while the roads and underlying improvements certainly have value, they do not, in any respect, have a positive or negative effect on the financial position of the Township. Given the age and uncertainty with all roads and underlying improvements, it is the Board of Supervisors belief that engaging an Engineer, at an undetermined cost to estimate the original cost of our roads, would be poor fiscal management.

Keep in mind that the road improvements are, primarily, paid for by the Commonwealth Liquid Fuels funds which are not funds generated by your local municipal taxes.

The Supervisors have posted two letters, along with the financial statements, that our auditors are required to issue as part of all audits. The purpose of these letters is to inform us about the results of the audit and to provide information about certain aspects of Township's accounting. In addition, our auditors provided us with recommendations relating to our accounting system.

If you have any further questions upon review of the audit, please contact me.

Mike Dwyer

MST Supervisor and Treasurer

MIDDLE SMITHFIELD TOWNSHIP  
FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2013

MIDDLE SMITHFIELD TOWNSHIP  
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As at December 31, 2013

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MIDDLE SMITHFIELD TOWNSHIP  
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As at December 31, 2013

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Middle Smithfield Township  
East Stroudsburg, Pennsylvania

### Report on the Financial Statements

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 Middle Smithfield Township, Monroe County, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the 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.

### Auditor's Responsibility

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

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

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

#### **Basis for Adverse Opinion on Governmental Activities**

Management has not recorded certain general infrastructure assets related to governmental activities that should be recognized in the statement of net position and, accordingly, has not recorded depreciation expense on those assets in the statement of activities. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of governmental activities, as reported in the statements of net position and activities, has not been determined.

#### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the statements of net position and activities referred to previously do not present fairly the financial position of the governmental activities of Middle Smithfield Township, Monroe County, Pennsylvania, as of and for the year ended December 31, 2013, or the changes in financial position thereof for the year then ended.

#### **Unmodified Opinions**

In our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Middle Smithfield Township, Monroe County, Pennsylvania, as of and for the year ended December 31, 2013, 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*

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison and pension information in Schedules 1 and 2 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.

Stroudsburg, PA 18360  
August 18, 2014

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Net Position  
As at December 31, 2013

Exhibit A  
Page 1

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and cash equivalents - Note 2	\$3,654,058	\$958,454	\$4,612,512
Accounts receivable - Net - Note 3	0	899,332	899,332
Due from other funds	1,675,586	(1,675,586)	0
Taxes - Note 4	315,399	0	315,399
Inventory	0	7,110	7,110
Prepaid expenses	<u>0</u>	<u>33,226</u>	<u>33,226</u>
Total Current Assets	<u>5,645,043</u>	<u>222,536</u>	<u>5,867,579</u>
Capital Assets - Notes 5 and 9:			
Land	648,892	2,981,271	3,630,163
Right of way	0	7,500	7,500
Furniture and equipment	0	237,877	237,877
Sewer system	0	9,940,615	9,940,615
Machinery and equipment	683,955	41,022	724,977
Vehicles	650,166	0	650,166
Buildings	1,979,014	2,939,989	4,919,003
Building improvements	0	52,708	52,708
Purchased capacity	0	7,061,196	7,061,196
Golf cart paths	0	160,026	160,026
Less: Accumulated depreciation	<u>(1,148,553)</u>	<u>(6,037,842)</u>	<u>(7,186,395)</u>
Total Capital Assets	2,813,474	17,384,362	20,197,836
Other Assets:			
Liquor license	<u>0</u>	<u>1,603</u>	<u>1,603</u>
Total Assets	<u>8,458,517</u>	<u>17,608,501</u>	<u>26,067,018</u>
Deferred Outflows of Resources			
Deferred loss on refunding	<u>\$0</u>	<u>\$240,238</u>	<u>\$240,238</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.



MIDDLE SMITHFIELD TOWNSHIP  
Statement of Net Position  
As at December 31, 2013

Exhibit A  
Page 2

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities:			
Current Liabilities:			
Accounts payable	\$45,317	\$27,699	\$73,016
Accrued interest on bonds	0	87,694	87,694
Current portion of long-term debt- Notes 9 and 10	338,980	386,616	725,596
Prepaid user fees	0	59,281	59,281
Accrued payroll and taxes payable	33,140	329	33,469
Customer security deposits	<u>2,060,366</u>	<u>9,281</u>	<u>2,069,647</u>
Total Current Liabilities	<u>2,477,803</u>	<u>570,900</u>	<u>3,048,703</u>
Long-Term Liabilities:			
Bonds and notes payable - Notes 9 and 10	746,436	9,850,671	10,597,107
Compensated absences	<u>62,990</u>	<u>0</u>	<u>62,990</u>
Total Long-Term Liabilities:	<u>809,426</u>	<u>9,850,671</u>	<u>10,660,097</u>
Total Liabilities	<u>3,287,229</u>	<u>10,421,571</u>	<u>13,708,800</u>
Net Position:			
Net investment in capital assets	1,728,058	7,545,434	9,273,492
Restricted	(7,678)	0	(7,678)
Unrestricted	<u>3,450,908</u>	<u>(118,266)</u>	<u>3,332,642</u>
Total Net Position	<u>\$5,171,288</u>	<u>\$7,427,168</u>	<u>\$12,598,456</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

**MIDDLE SMITHFIELD TOWNSHIP**  
Statement of Activities  
As at December 31, 2013

Exhibit B

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities:</b>							
General government	(\$1,028,433)	\$81,775	\$34,551	\$0	(\$912,107)	\$0	(\$912,107)
Public safety	(596,224)	125,015	373,274	0	(97,935)	0	(97,935)
Public works - sanitation	(74,890)	13,823	0	0	(61,067)	0	(61,067)
Public works - highways and streets	(1,568,362)	0	386,621	126,895	(1,054,846)	0	(1,054,846)
Culture and recreation	(77,605)	1,430	0	0	(76,175)	0	(76,175)
Interest	(19,951)	0	0	0	(19,951)	0	(19,951)
Insurance	(101,729)	0	0	0	(101,729)	0	(101,729)
Other	(9,282)	0	0	0	(9,282)	0	(9,282)
<b>Total Governmental Activities</b>	<b>(3,476,476)</b>	<b>222,043</b>	<b>794,446</b>	<b>126,895</b>	<b>(2,333,092)</b>	<b>0</b>	<b>(2,333,092)</b>
<b>Business-type Activities</b>							
Sewer	(1,931,837)	2,012,709	0	0	0	80,872	80,872
Golf	(686,730)	349,991	0	0	0	(336,739)	(336,739)
<b>Total Business-type Activities</b>	<b>(2,618,567)</b>	<b>2,362,700</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(255,867)</b>	<b>(255,867)</b>
<b>Total Government</b>	<b>(\$6,095,043)</b>	<b>\$2,584,743</b>	<b>\$794,446</b>	<b>\$126,895</b>	<b>(2,333,092)</b>	<b>(255,867)</b>	<b>(2,588,959)</b>
<b>General Revenues:</b>							
Taxes					3,465,537	0	3,465,537
Interest and rents					9,324	5,179	14,503
Other					36,849	0	36,849
<b>Total General Revenues</b>					<b>3,511,710</b>	<b>5,179</b>	<b>3,516,889</b>
<b>Change in Net Position</b>					<b>1,178,618</b>	<b>(250,688)</b>	<b>927,930</b>
<b>Net Position at Beginning of Year, Previously Presented</b>					<b>4,005,345</b>	<b>7,847,543</b>	<b>11,852,888</b>
<b>Prior Period Adjustment - Note 14</b>					<b>(12,675)</b>	<b>(169,687)</b>	<b>(172,362)</b>
<b>Net Position at Beginning of Year, as Restated</b>					<b>3,992,670</b>	<b>7,677,856</b>	<b>11,670,526</b>
<b>Net Position at End of Year</b>					<b>\$5,171,288</b>	<b>\$7,427,168</b>	<b>\$12,598,456</b>

The "Notes to Financial Statements" are in integral part of these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Balance Sheet  
Governmental Funds  
As at December 31, 2013

Exhibit C

	<u>General Fund</u>	<u>Liquid Fuels Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents - Note 2	\$3,628,980	\$25,078	\$3,654,058
Due from other funds	1,839,765	0	1,839,765
Taxes	<u>68,394</u>	<u>0</u>	<u>68,394</u>
Total Assets	<u>\$5,537,139</u>	<u>\$25,078</u>	<u>\$5,562,217</u>
Liabilities:			
Accounts payable	\$34,742	\$10,575	\$45,317
Customer security deposits	2,060,366	0	2,060,366
Accrued payroll and taxes payable	33,140	0	33,140
Due to other funds	<u>141,998</u>	<u>22,181</u>	<u>164,179</u>
Total Current Liabilities	2,270,246	32,756	2,303,002
Fund Balances:			
Unassigned	<u>3,266,893</u>	<u>(7,678)</u>	<u>3,259,215</u>
Total Liabilities and Fund Balances	<u>\$5,537,139</u>	<u>\$25,078</u>	<u>\$5,562,217</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Reconciliation of the Governmental Fund Balance Sheet  
to the Statement of Net Position  
As at December 31, 2013

Exhibit D

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Total Fund Balances - Governmental Funds	\$3,259,215
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Amounts reported for governmental activities in the statement of net position are different because:

Real estate taxes receivable in excess of sixty days are reported as receivable on the Statement of Net Position but not on the Governmental Funds Balance Sheet:

Accounts receivable	266,641	
Allowance for doubtful accounts	<u>(19,636)</u>	
		247,005

Capital assets, net of accumulated depreciation, are reported on the Statement of Net Position but not on the Governmental Funds Balance Sheet	2,813,474
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Long-term debt is reported on the Statement of Net Position but not on the Governmental Funds Balance Sheet	(1,085,416)
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Accrued compensated absences are reported as a liability on the Statement of Net Position but not on the Governmental Funds Balance Sheet.	<u>(62,990)</u>
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Net Position - Governmental Activities	<u>\$5,171,288</u>
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The "Notes to Financial Statements" are in integral part of these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - All Governmental Fund Types  
As at December 31, 2013

Exhibit E  
Page 1

	<u>General Fund</u>	<u>Liquid Fuels Fund</u>	<u>Total</u>
Revenues:			
Taxes	\$3,408,786	\$0	\$3,408,786
Licenses and permits	245,551	0	245,551
Fines and forfeits	2,496	0	2,496
Interest, rents, and royalties	9,177	147	9,324
Intergovernmental	311,087	369,203	680,290
Charges for services	<u>215,047</u>	<u>0</u>	<u>215,047</u>
Total Revenues	<u>4,192,144</u>	<u>369,350</u>	<u>4,561,494</u>
Expenditures:			
General Government	851,985	0	851,985
Public safety	573,021	0	573,021
Public works - sanitation	271,365	0	271,365
Public works - highways and streets	834,165	437,272	1,271,437
Culture and recreation	63,858	0	63,858
Community development	31	0	31
Debt service	160,371	24,696	185,067
Employer paid benefits and withholding items	529,468	0	529,468
Insurance	<u>101,729</u>	<u>0</u>	<u>101,729</u>
Total Expenditures	<u>3,385,993</u>	<u>461,968</u>	<u>3,847,961</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$806,151</u>	<u>(\$92,618)</u>	<u>\$713,533</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - All Governmental Fund Types  
As at December 31, 2013

Exhibit E  
Page 2

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	<u>General Fund</u>	<u>Liquid Fuels Fund</u>	<u>Total</u>
Other Financing Sources (Uses):			
Proceeds of short-term debt	\$171,774	\$0	\$171,774
Refunds of prior year expenditures	21,454	0	21,454
Proceeds of sale of fixed assets	19,997	0	19,997
Refund of prior revenues	<u>(9,251)</u>	<u>0</u>	<u>(9,251)</u>
Total Other Financing Sources (Uses)	<u>203,974</u>	<u>0</u>	<u>203,974</u>
Net Change in Fund Balances	1,010,125	(92,618)	917,507
Fund Balances at Beginning of Year	<u>2,256,768</u>	<u>84,940</u>	<u>2,341,708</u>
Fund Balances at End of Year	<u><u>\$3,266,893</u></u>	<u><u>(\$7,678)</u></u>	<u><u>\$3,259,215</u></u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
As at December 31, 2013

Exhibit F

Total Net Change in Fund Balances - Governmental Funds	\$917,507
Amounts reported for governmental activities in the statement of activities are different because:	
Real estate taxes receivable in excess of sixty days are reported as revenues on the Statement of Activities but not on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	56,751
Depreciation is reported as an expense on the Statement of Activities but not on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	(162,218)
Debt principal payments are reported as expenditures on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances but not on the Statement of Activities	166,732
Expenditures for capital assets are reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances but not on the Statement of Activities	352,884
Note and capital lease proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of Net Position and does not affect the Statement of Activities.	(171,774)
An allowance for doubtful accounts is recorded on the government-wide statements to estimate the amount of taxes receivable that will not be collected. The change in the allowance is recorded as bad debt expense on the Statement of Activities.	(5,681)
The increase in the accrued compensated absences liability is recorded as an expenditure on the Statement of Activities, but not on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.	30,635
Bond discount is recorded on the Government-wide Statement of Net Position and amortized over the life of the bond.	(1,616)
On the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, all proceeds of the sale of capital assets are reported as income but on the Statement of Activities, the book value (portion not depreciated) of capital assets are offset against the proceeds of sales.	<u>(4,602)</u>
Change in Net Position	<u>\$1,178,618</u>

The "Notes to Financial Statements" are in integral part of these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Net Position - Proprietary Funds  
As at December 31, 2013

Exhibit G  
Page 1

	<u>Sewer</u>	<u>Golf</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and cash equivalents - Note 2	\$928,955	\$29,499	\$958,454
Accounts receivable - Net - Note 3	882,189	17,143	899,332
Due from other funds	231,798	863	232,661
Inventory	0	7,110	7,110
Prepaid expenses	<u>0</u>	<u>33,226</u>	<u>33,226</u>
Total Current Assets	<u>2,042,942</u>	<u>87,841</u>	<u>2,130,783</u>
Capital Assets - Notes 5 and 9:			
Land	52,732	2,928,539	2,981,271
Right of way	7,500	0	7,500
Furniture and equipment	0	237,877	237,877
Sewer system	9,940,615	0	9,940,615
Machinery and equipment	41,022	0	41,022
Buildings	0	2,939,989	2,939,989
Building improvements	0	52,708	52,708
Golf cart paths	0	160,026	160,026
Purchased capacity	7,061,196	0	7,061,196
Less: Accumulated depreciation	<u>(5,692,633)</u>	<u>(345,209)</u>	<u>(6,037,842)</u>
Total Capital Assets	11,410,432	5,973,930	17,384,362
Other Assets:			
Liquor license	<u>0</u>	<u>1,603</u>	<u>1,603</u>
Total Assets	<u>13,453,374</u>	<u>6,063,374</u>	<u>19,516,748</u>
Deferred Outflow of Resources:			
Deferred loss on refunding	<u>\$240,238</u>	<u>\$0</u>	<u>\$240,238</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.



MIDDLE SMITHFIELD TOWNSHIP  
Statement of Net Position - Proprietary Funds  
As at December 31, 2013

Exhibit G  
Page 2

	<u>Sewer</u>	<u>Golf</u>	<u>Total</u>
Liabilities:			
Current Liabilities:			
Accounts payable	\$0	\$27,699	\$27,699
Accrued interest on bonds	87,694	0	87,694
Current portion of long term debt - Notes 9 and 10	362,931	23,685	386,616
Prepaid user fees	16,354	42,927	59,281
Accrued payroll and taxes payable	109	220	329
Due to other funds	22,997	1,885,250	1,908,247
Customer security deposits	<u>8,163</u>	<u>1,118</u>	<u>9,281</u>
Total Current Liabilities	498,248	1,980,899	2,479,147
Long-Term Liabilities:			
Bonds and notes payable - Notes 9 and 10	<u>9,532,987</u>	<u>317,684</u>	<u>9,850,671</u>
Total Liabilities	<u>10,031,235</u>	<u>2,298,583</u>	<u>12,329,818</u>
Net Position:			
Net investment in capital assets	1,912,874	5,632,560	7,545,434
Unrestricted	<u>1,749,503</u>	<u>(1,867,769)</u>	<u>(118,266)</u>
Total Net Position	<u>\$3,662,377</u>	<u>\$3,764,791</u>	<u>\$7,427,168</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenses and Changes in Net Position -  
Proprietary Funds  
As at December 31, 2013

Exhibit H  
Page 1

	<u>Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Operating Revenues:			
Connection fees	\$194,338	\$0	\$194,338
User fees	1,818,246	0	1,818,246
Inspection fees	125	0	125
Cart and green fees	0	240,947	240,947
Food and beverage sales	0	40,075	40,075
Memberships	0	57,031	57,031
Miscellaneous income	0	3,262	3,262
Pro shop sales	0	8,676	8,676
Rents and royalties	<u>0</u>	<u>5,162</u>	<u>5,162</u>
Total Operating Revenues	<u>2,012,709</u>	<u>355,153</u>	<u>2,367,862</u>
Operating Expenses:			
Administrative	17,465	2,238	19,703
Advertising and marketing expense	0	23,162	23,162
Clubhouse and restaurant supplies	0	3,409	3,409
Contracted services	317,098	0	317,098
Depreciation and amortization	584,199	91,009	675,208
Engineering	67,917	0	67,917
Food and beverage purchases	0	14,511	14,511
Golf cart lease	0	48,468	48,468
Other operating expenses	157,773	50,938	208,711
Pro shop supplies	0	4,615	4,615
Professional services and wages	42,871	11,493	54,364
Rent	18,000	0	18,000
Repairs and maintenance	0	99,333	99,333
Supplies	129,743	1,760	131,503
Utilities	111,090	58,779	169,869
Vehicle fuel	0	22,142	22,142
Wages and payroll taxes	35,641	241,535	277,176
Bad debts expense	<u>21,119</u>	<u>0</u>	<u>21,119</u>
Total Operating Expenses	<u>1,502,916</u>	<u>673,392</u>	<u>2,176,308</u>
Income (Loss) from Operations	<u>\$509,793</u>	<u>(\$318,239)</u>	<u>\$191,554</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenses and Changes in Net Position -  
Proprietary Funds  
As at December 31, 2013

Exhibit H  
Page 2

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	<u>Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Non-operating Revenues (Expenses):			
Interest earnings	\$0	\$17	\$17
Debt interest	<u>(426,581)</u>	<u>(13,338)</u>	<u>(439,919)</u>
Total Non-operating Revenues (Expenses)	<u>(428,921)</u>	<u>(13,321)</u>	<u>(442,242)</u>
Change in Net Position	80,872	(331,560)	(250,688)
Net Position at Beginning of Year	<u>3,581,505</u>	<u>4,096,351</u>	<u>7,677,856</u>
Net Position at End of Year	<u>\$3,662,377</u>	<u>\$3,764,791</u>	<u>\$7,427,168</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Cash Flows  
As at December 31, 2013

Exhibit I  
Page 1

	Sewer Fund	Golf Fund	Total
Cash Flows from Operating Activities:			
Cash paid for goods and services	(\$870,371)	(\$341,488)	(\$1,211,859)
Cash received for services	1,840,154	357,276	2,197,430
Cash paid to employees	<u>(35,641)</u>	<u>(241,535)</u>	<u>(277,176)</u>
Net Cash Provided (Used) by Operating Activities	<u>934,142</u>	<u>(225,747)</u>	<u>708,395</u>
Cash Flows from Investing Activities:			
Interest earnings	0	17	17
Loans from other funds	<u>0</u>	<u>260,809</u>	<u>260,809</u>
Net Cash Provided by (Used) by Investing Activities	<u>0</u>	<u>260,826</u>	<u>260,826</u>
Cash Flows from Capital and Related Financing Activities:			
Payments to purchase capital assets	(41,868)	(9,911)	(51,779)
Payment of interest and fiscal agent fees	(396,087)	(12,848)	(408,935)
Principal paid on long-term debt	<u>(370,000)</u>	<u>(25,421)</u>	<u>(395,421)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(807,955)</u>	<u>(48,180)</u>	<u>(856,135)</u>
Net Increase (Decrease) in Cash	126,187	(13,101)	(113,086)
Cash and Cash Equivalents at Beginning of Year	<u>802,768</u>	<u>42,600</u>	<u>845,368</u>
Cash and Cash Equivalents at End of Year	<u>\$928,955</u>	<u>\$29,499</u>	<u>\$958,454</u>

The "Notes to Financial Statements" are in integral part of these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Cash Flows  
As at December 31, 2013

Exhibit I  
Page 2

	<u>Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$509,793	(\$318,239)	\$191,554
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	584,199	91,009	675,208
Bad debt expense	21,119	0	21,119
Change in consumer accounts receivable	(86,269)	(14,349)	(100,618)
Change in prepaid expenses	0	(14,231)	(14,231)
Change in security deposits	0	578	578
Change in deferred revenue	(86,019)	15,894	(70,125)
Change in trade accounts payable	(8,414)	13,591	5,177
Change in Due from General Fund	<u>(267)</u>	<u>0</u>	<u>(267)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$934,142</u>	<u>(\$225,747)</u>	<u>\$708,395</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Net Position - Pension Fund  
As at December 31, 2013

Exhibit J

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Assets:

Investments at Fair Value - Assets Held by PMRS

\$1,549,123

Net Position:

Net Position Held in Trust for Pension Benefits

\$1,549,123

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Changes in Net Position - Pension Fund  
As at December 31, 2013

Exhibit K

Additions:	
Contributions:	
Commonwealth	\$13,959
Members	54,419
Employer	<u>43,370</u>
Total Contributions	<u>111,748</u>
Investment Income:	
Interest	<u>77,607</u>
Total Additions	<u>189,355</u>
Deductions:	
Administrative expense	900
Repay state aid	19,349
Benefits and refunds paid	<u>47,072</u>
Total Deductions	<u>67,321</u>
Change in Net Position Held in Trust for Pension Benefits	122,034
Net Position Held in Trust for Pension Benefits at Beginning of Year	<u>1,427,089</u>
Net Position Held in Trust for Pension Benefits at End of Year	<u>\$1,549,123</u>

The "Notes to Financial Statements" are in integral part of  
these statements and should be read in conjunction therewith.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 1

Note 1: Summary of Significant Accounting Policies:

Middle Smithfield Township was established in 1794 and operates as a second-class township in Monroe County, Pennsylvania, using a Board of Supervisors as its governing body.

The accounting and reporting policies of the Township relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to state and local governments. US GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Township are described below.

Reporting Entity

These financial statements report on all of the services provided by the Township to residents and businesses within its boundaries. Township services provided include public safety, highways and streets, planning and zoning, recreation and community services, and general administrative services. The criteria for including organizations as component units within the Township's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

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

Based on the aforementioned criteria, Middle Smithfield Township has no component units.



MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 2

Note 1: Summary of Significant Accounting Policies: (Continued)

Basis of Presentation

Government Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

In the Statement of Net Position, the governmental column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and other obligations. The Township's net position is reported in three parts - net investment in capital assets; restricted; and unrestricted. The restricted component of net position utilizes restricted resources to finance qualifying activities.

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

Fund Financial Statements

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 3

Note 1: Summary of Significant Accounting Policies: (Continued)

Fund Financial Statements (Continued)

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Township has elected to present other funds as major funds, which either had debt outstanding or specific community focus. The non-major funds, if any, are combined in one column in the fund financial statements.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Township has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the Township. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid through the General Fund.

Liquid Fuels Fund

The Liquid Fuels Fund is a special revenue fund that accounts for state highway funds received and expenditures for qualified highway expenses.

Proprietary Funds

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 4

Note 1: Summary of Significant Accounting Policies: (Continued)

Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The Township has presented the following major proprietary funds:

Sewer Fund

The Township took over sewer operations from the former Middle Smithfield Township Municipal Authority in December 2009. The Township now administers the operation of the sewer facilities.

Golf Fund

On February 12, 2010, the Township assumed the operations of the golf course and restaurant located in Country Club of the Poconos at Big Ridge. The Township acquired the related assets pertaining to the operation of the Golf Course and Country Club, and the remaining undeveloped lands located within the Planned Residential Development.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and which are therefore not available to support Township programs. The reporting focus is on net position and changes in net position and the fiduciary funds are reported using accounting principles similar to proprietary funds.

The Township has presented the following fiduciary fund:

Non-uniform Pension Plan - Accounts for contributions by the Township and its employees to the Township's employee pension plan. Benefit payments and plan administration expenses are paid from this fund.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 5

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Note 1: Summary of Significant Accounting Policies: (Continued)

Fiduciary Funds (Continued)

The Township's fiduciary fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of third parties, such as pension participants, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Township considers taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt services expenditures, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 6

Note 1: Summary of Significant Accounting Policies: (Continued)

Policy for Applying Post - November 30, 1989 FASB Pronouncements

The Township's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Township has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Township has chosen not to do so.

Budgetary Control

The General Fund utilizes the cash basis of accounting for budgetary purposes, which differs from generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. At least 30 days prior to budget adoption, the Township prepares a proposed budget for the ensuing year.
2. Notification of the proposed budget and hearings on it are held by the Township prior to adoption.
3. Prior to December 31", the budget is legally enacted by the Township and the tax levy ordinance is adopted.
4. The Township, during the budget year, is authorized to modify the budget through either budget transfers or supplemental appropriations.
5. The budget lapses at the end of the year.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 7

Note 1: Summary of Significant Accounting Policies: (Continued)

Interfund Balances

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as due to and from other funds.

Interfund balances at December 31, 2013 are as follows:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
General Fund	Sewer Fund	\$141,998
Golf Fund	General Fund	\$1,795,450
Golf Fund	Sewer Fund	\$89,800
Sewer Fund	General Fund	\$22,134
Sewer Fund	Golf Fund	\$863
Liquid Fuels Fund	General Fund	\$22,181

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. For governmental activities, as reported in the government-wide financial statements, only property, plant and equipment have been reported as capital assets. The Township has not reported the historical cost of general infrastructure assets, such as roads, bridges, drainage systems, etc. as capital assets in the governmental activities financial statements.

Capital assets are valued at historical cost or estimated historical cost, if actual historical is not available. Repairs and maintenance costs that do not significantly extend the life of an asset are recorded as expenses. Renewals and betterments are capitalized. Assets capitalized have an original cost of \$500 or more and over one year of useful life.

Depreciation has been calculated on each class of depreciable property based on their estimated useful lives using the straight-line method.  
Estimated useful lives are as follows:

Buildings	50 years
Improvements	25-50 years
Vehicles and transportation equipment	5-7 years
Machinery and equipment	5-7 years

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 8

Note 1: Summary of Significant Accounting Policies: (Continued)

Capital Assets (Continued)

Amortization of capital assets acquired under capital leases is included in depreciation expense.

Compensated Absences

The Township's policy for accrual of compensated absences is to allow full-time employees to accrue days of sick leave. The value of compensated absences at the end of the year is calculated by multiplying the number of accumulated hours by each employee's pay rate as of the end of the year.

Allowance for Uncollectible Accounts

The allowance for doubtful accounts is based on management's collection experience.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows

The Township adopted GASB Statement 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". For purposes of reporting cash flows all highly liquid investments (including restricted assets) with original maturity of three months or less are considered to be cash equivalents.

Equity Classification - Government-Wide Financial Statements

Equity is classified as net position and displayed in three components for government-wide presentation:

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 9

Note 1: Summary of Significant Accounting Policies: (Continued)

Equity Classification - Government-Wide Financial Statements (Continued)

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Equity Classification - Governmental Fund Financial Statements

In the fund financial statements the Township reports fund balance classifications in accordance with the provisions of GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The following are the Township's fund balance categories:

Non-Spendable - Not in spendable form or legally or contractually required to remain intact.

Restricted - Externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation.

Committed - Only can be used for specific purposes pursuant to constraints by formal action of the highest level of decision-making authority. The Township's Committed Fund Balance is fund balance reporting required by the Township Supervisors, either because of a Township Policy or in the Township Policy Manual, or because of motions that passed at Board meetings.

Assigned - Constrained by intent to be or used for specific purpose. The Township's Assigned Fund Balance is fund balance reporting under the direction of authorized Township Personnel.

Unassigned - Residual classification of the Township's general fund and includes all spendable amounts not contained in the other classifications.



MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 10

Note 1: Summary of Significant Accounting Policies: (Continued)

Equity Classification - Governmental Fund Financial Statements (Continued)

No minimum fund balance policies have been established.

When both restricted and unrestricted resources are available for use in funds other than the General Fund, it is the Township's policy to first use unrestricted resources - committed, and assigned - in order as needed, and then use externally restricted resources. For the General Fund, the Township's policy is to first use externally restricted resources and then use unrestricted resources - committed, assigned, and unassigned - in order as needed.

Note 2: Cash and Cash Equivalents:

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be recovered. The Township's policy for minimizing credit risk for bank balances exceeding the Federal Deposit Insurance Corporation's insured limits relies upon the Pennsylvania Pledge Act 72 (72 P.S. section 3836-1 et seq.). Act 72 requires the financial institution to pool collateral for all of its government deposits in addition to having the collateral held by an approved custodian in the institution's name.

Credit Risk

The Township is permitted to invest funds in U.S. Treasury Bills, short-term obligations of the United States Government or its agencies or instrumentalities, obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by full faith and credit of the political subdivision, certificates of deposit, secured purchase agreements, authorized Investment Trust Companies and time or share accounts of institutions insured or secured by the FDIC to the extent such certificates are insured by a proper bond or collateral in accordance with the law.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 11

Note 2: Cash and Cash Equivalents: (Continued)

The Township maintains deposits with PLGIT. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, and is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. The Township treats PLGIT deposits as cash equivalents on the statement of net position and fund balance sheets.

Summary of deposits as of December 31, 2013:

Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Township's name	\$4,330,248
Uninsured and collateralized with securities held by the pledging financial institution	0
Uninsured and uncollateralized	<u>0</u>
Total	<u>\$4,330,248</u>

Reconciliation of Cash & Cash Equivalents:

Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Township's name	\$4,330,248
Add: Amount Insured Under FDIC	312,047
Less: Outstanding Checks	(198,852)
Plus: Deposits in Transit	<u>6,468</u>
Carrying Amount	4,449,911
Add: Petty Cash	1,405
Add: Pooled Deposits - Cash Equivalents	<u>161,193</u>
Total Cash and Cash Equivalents	<u>\$4,612,509</u>

Foreign Currency Risk

The Township was not exposed to foreign currency risk during the year.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 12

Note 2: Cash and Cash Equivalents: (Continued)

Restricted Cash

The Township has restricted cash accounts relating to monies held in the Liquid Fuels Fund. Liquid Fuels Fund holds the Liquid Fuels Funding provided by Pennsylvania which is restricted to use for road related expenditures.

Note 3: Accounts Receivable:

At December 31, 2013 accounts receivable were as follows:

	<u>Sewer</u>	<u>Golf</u>	<u>Total</u>
Accounts Receivable	\$1,260,763	\$17,143	\$1,277,906
Less: Allowance for Uncollectible Accounts	<u>(378,574)</u>	<u>0</u>	<u>(378,574)</u>
Accounts Receivable Net of Allowance for Uncollectible Accounts	<u>\$882,189</u>	<u>\$17,143</u>	<u>\$899,332</u>

Note 4: Property Taxes:

Based upon assessed valuation provided by Monroe County (\$214,552,400 in 2013), the Township bills and collects its own property taxes through an appointed tax collector. The schedule for property taxes levied for 2013 is as follows:

March 1	Levy Date
March 1 through April 30	2% Discount Period
May 1 through June 30	Face Payment Period
July 1 through December 31	10% Penalty Period
January 1 (following year)	Lien Date

The Township's tax rate for all purposes for 2013 was 9.5 mills (\$9.50 per \$100 of assessed valuation).

At December 31, 2013 taxes receivable on the government-wide financial statements were as follows:

Taxes Receivable	\$335,035
Less: Allowance for Uncollectible Accounts	<u>(19,636)</u>
Taxes Receivable Net of Allowance for Uncollectible Accounts	<u>\$315,399</u>

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

Page 13

Note 5: Capital Assets:

A summary of the changes in governmental activities capital assets are as follows:

	Balance <u>1/1/13</u>	Plus <u>Additions</u>	Less <u>Disposals</u>	Balance <u>12/31/13</u>
Land	\$648,892	\$0	\$0	\$648,892
Buildings	1,979,014	0	0	1,979,014
Vehicles	548,134	121,166	(19,134)	650,166
Machinery and Equipment	452,237	231,718	0	683,955
Less: Accumulated Depreciation	<u>(1,000,867)</u>	<u>(162,218)</u>	<u>14,532</u>	<u>(1,148,553)</u>
Total	<u>\$2,627,409</u>	<u>\$190,666</u>	<u>(\$4,602)</u>	<u>\$2,813,474</u>

Depreciation expense of \$112,862, \$44,077, and \$5,279 was charged to governmental activities in the Public Works – Highway, General Government, and Public Works – Sanitation departments, respectively.

Management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. See Note 1 for more information.

A summary of the changes in business-type activities capital assets are as follows:

<u>Sewer Fund:</u>	Balance <u>1/1/13</u>	Plus <u>Additions</u>	Less <u>Disposals</u>	Balance <u>12/31/13</u>
Land	\$52,732	\$0	\$0	\$52,732
Machinery and Equipment	41,022	0	0	41,022
Purchased Capacity	7,061,196	0	0	7,061,196
Right of Way	7,500	0	0	7,500
Sewer system	9,898,747	41,868	0	9,940,615
Less: Accumulated Depreciation	<u>(5,108,434)</u>	<u>(584,199)</u>	<u>0</u>	<u>(5,692,633)</u>
Total	<u>\$11,952,763</u>	<u>(\$542,331)</u>	<u>\$0</u>	<u>\$11,410,432</u>

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 5: Capital Assets: (Continued)

<u>Golf Fund:</u>	<u>Balance 1/1/13</u>	<u>Plus Additions</u>	<u>Less Disposals</u>	<u>Balance 12/31/13</u>
Land	\$2,928,539	\$0	\$0	\$2,928,539
Buildings	2,939,989	0	0	2,939,989
Building Improvements	52,708	0	0	52,708
Furniture and Equipment	227,966	9,911	0	237,877
Golf Cart Parts	160,026	0	0	160,026
Less: Accumulated Depreciation	<u>(254,200)</u>	<u>(91,009)</u>	<u>0</u>	<u>(345,209)</u>
Total	<u>\$6,055,028</u>	<u>(\$81,098)</u>	<u>\$0</u>	<u>\$5,973,930</u>

Note 6: Pension Plan:

Plan Description

General

The Middle Smithfield Township pension plan is a single-employer cash balance pension plan controlled by the provisions of Ordinance No. 102 adopted pursuant to Act 15 of 1974. The Plan is governed by the Township's Board of Supervisors. The Township Supervisors may amend plan provisions and are responsible for the management of plan assets. The Plan is included in the Township's basic financial statements as a Pension Trust. Stand-alone financial statements are not publicly available.

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). The CAFR is available on the PMRS Website. A copy can be obtained by contacting the PMRS accounting office.

Plan Membership

Membership of the plan consisted of the following at December 31, 2013:

Active plan members	27
Retirees and beneficiaries currently receiving benefits	6
Terminated plan members entitled to but not yet receiving benefits	<u>8</u>
Total	<u>41</u>

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 6: Pension Plan: (Continued)

Plan Membership

Employees are 100% vested after the first day of the month following the completion of six months of employment. For the year ended December 31, 2013, there were eight employees vested in the plan.

The payroll for Township employees covered by the Non-Uniformed Employees' Pension Plan for the year ended December 31, 2013 was \$842,752.

Benefit Provisions

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-Living allowances are provided at the discretion of the plan.

Contributions

Member contributions are 2.00%; Voluntary to 8.00%, Municipal is 6.00% of payroll.

Forfeitures shall be applied to reduce the employer's contribution.

Act 205

Act 205 of 1984, Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for full payment of the Minimum Municipal Obligation (MMO) to each employee pension fund of the municipality.

Basis of Accounting

The plan's financial statements are prepared using 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, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 6: Pension Plan: (Continued)

Method Used to Value Investments

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statements No.3 of the Government Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

Note 7: Risk Management:

The Township is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters.

The Township manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors, and omissions	Purchased commercial insurance	Limited
Workers compensation, health and life	Purchased commercial insurance	Limited
Physical property loss and natural disasters	Purchased commercial insurance	Limited

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Exposure to losses is limited to deductibles and self-insured retention amounts as specified in the insurance policy.

Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 8: Litigation:

The Township is a party to various legal proceedings. These financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the any legal proceeding is difficult to predict, due to the insurance coverage maintained by the Township and the State statute relating to judgments, the Township believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Township.

Note 9: Capital Leases Payable:

Governmental Activities:

<u>Description</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31</u>	<u>Due within One Year</u>
Capital lease - DCFS USA LLC, annual payment of \$18,298, including interest at 4.3%, matures March 22, 2015, secured by equipment.	\$34,322	\$0	(\$16,793)	\$17,529	\$17,529
Capital lease - PACCAR Financial, annual payment of \$24,696, including interest at 4.990%, matures April 21, 2015, secured by equipment.	67,366	0	(21,256)	46,110	22,341
Capital lease - Bank Capital Services Corp, annual payment of \$4,074, including interest at 5.25%, maturing 2015, secured by equipment.	11,432	0	(3,683)	7,749	3,809
Capital lease – Caterpillar Financial Services Corp, annual payment of \$177,271, including interest at 3.20%, maturing 2014, secured by equipment.	<u>0</u>	<u>171,774</u>	<u>0</u>	<u>171,774</u>	<u>171,774</u>
Totals	<u>\$113,120</u>	<u>\$171,774</u>	<u>(\$41,732)</u>	<u>\$243,162</u>	<u>\$215,453</u>



MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 9: Capital Leases Payable: (Continued)

Business-type Activities:

<u>Description</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Capital lease - Deere Credit, Inc., monthly payments of \$452, including interest at 5.75%, matures May 1, 2013, secured by equipment.	\$2,669	\$0	(\$2,669)	\$0	\$0
Capital lease - US Bank, monthly payments of \$1,325, including interest at 5.99%, matures June 16, 2015, secured by equipment.	36,836	0	(14,078)	22,758	14,945
Capital lease - Deere Credit, Inc., monthly payments of \$812, including interest at 5.75%, matures May 1, 2015, secured by equipment.	<u>22,654</u>	<u>0</u>	<u>(8,674)</u>	<u>13,980</u>	<u>9,186</u>
Totals	<u>\$62,159</u>	<u>\$0</u>	<u>(\$25,421)</u>	<u>\$36,738</u>	<u>\$24,131</u>

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 10: Long-Term Debt

The Township's long-term debt activity for the year ended December 31, 2013 is summarized as follows:

	<u>Balance January 1</u>	<u>Issues/ Additions</u>	<u>Repayments/ Retirements</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Series 2012 GO Bond	\$985,000	\$0	(\$125,000)	\$860,000	\$125,000
Less: Discount to be Amortized	<u>(19,362)</u>	<u>0</u>	<u>1,616</u>	<u>(17,746)</u>	<u>(1,473)</u>
Total Governmental Long-Term Debt	<u>\$965,638</u>	<u>\$0</u>	<u>(\$123,384)</u>	<u>\$842,254</u>	<u>\$123,527</u>
	<u>Balance January 1</u>	<u>Issues/ Additions</u>	<u>Repayments/ Retirements</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>					
Series 2009 GOB Series A	\$1,450,000	\$0	(\$5,000)	\$1,445,000	\$5,000
Series 2009 GOB Series AA	4,625,000	0	0	4,625,000	0
Series 2012 GOB	<u>4,585,000</u>	<u>0</u>	<u>(365,000)</u>	<u>4,220,000</u>	<u>365,000</u>
Total	10,660,000	0	(370,000)	10,290,000	370,000
Less: Discount and Deferred Loss on Refunding to be Amortized	<u>(97,591)</u>	<u>0</u>	<u>8,140</u>	<u>(89,451)</u>	<u>(7,514)</u>
Total Business-Type Long-Term Debt	<u>\$10,562,409</u>	<u>\$0</u>	<u>(\$361,860)</u>	<u>\$10,200,549</u>	<u>\$362,486</u>

At December 31, 2013 long-term debt consists of the following:

Series 2009 GOB Series A and AA

The General Obligation Bonds, Series of 2009 were issued on October 20, 2009, to provide funds for the Township to purchase unused capacity in the Fernwood Treatment plant and to pay the costs to upgrade and expand the Route 209 Inceptor Line and pay all costs and expenses incurred in connection with the sale of the bonds. The 2009 Bonds consist of \$1,455,000 Series A Bonds, and \$4,625,000 Series AA Bonds. The Series AA Bonds are federally taxable Build America Bonds - Issuer Subsidy.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 10: Long-Term Debt: (Continued)

Series 2009 GOB Series A and AA (Continued)

The Bonds mature starting October 1, 2012 and bear interest at rates ranging from 1.67% to 3.87% for Series A and 6.2% to 6.4% for Series AA, depending on the scheduled maturity date of individual bonds. Interest payments are due April 15 and November 15 of each year. Final maturity is October 1, 2039. At the option of the Township, these Bonds may be redeemed prior to maturity but after October 1, 2014 for Series A and after October 1, 2019 for Series AA.

Series 2012 GOB

The General Obligation Bonds, Series of 2012 in the original amount of \$5,945,000 were issued as of September 18, 2012, to provide funds for, among other things, the acquisition of additional sewer collection and treatment capacity, planning, designing, acquiring, constructing, installing, furnishing, and equipping of alterations, renovations, additions, and improvements to the Township's sewer system, purchasing capital equipment for use by the Township, additional capital projects approved by the Board of Supervisors, to currently refund the outstanding balance of the 2005 General Obligation Note, to currently refund the outstanding 2006 General Obligation Bonds, to currently refund the outstanding balance of the 2011 General Obligation Note, and to pay the costs and expenses of issuance of the Bonds.

The Bonds will mature starting November 15, 2012 and will bear interest at rates ranging from 1% to 3.625%, depending on the scheduled maturity date of individual bonds. Interest payments are due May 15 and November 15 of each year. Final maturity is November 15, 2039. At the option of the Township, these Bonds may be redeemed prior to maturity.

Since these bonds were issued to refund previous debt that was attributable to both governmental and business-type activities, the debt, the related original issue discount, and costs of issuance have been allocated between the governmental and business-type activities (and between the proprietary funds) in proportion to the balance of the debt that was refunded and the planned use of the additional debt that was incurred.

As a result of the current refunding of the above referenced debt, the Township reduced its total debt service payments on that debt by \$136,322, which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$133,403.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 11: Debt Service Requirements:

Annual debt service requirements for Governmental Activities are as follows:

	<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
Bonds:				
	2014	\$125,000	\$11,650	\$136,650
	2015	125,000	10,400	135,400
	2016	125,000	8,838	133,838
	2017	130,000	7,588	137,588
	2018	150,000	5,963	155,963
	2019-2020	<u>205,000</u>	<u>4,713</u>	<u>209,713</u>
	Total	<u>860,000</u>	<u>49,152</u>	<u>909,152</u>
Capital leases:				
	2014	215,453	8,885	224,338
	2015	<u>27,709</u>	<u>1,348</u>	<u>29,057</u>
	Total	<u>243,162</u>	<u>10,233</u>	<u>253,395</u>
Grand Total		<u>\$1,103,162</u>	<u>\$59,385</u>	<u>\$1,162,547</u>

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 11: Debt Service Requirements: (Continued)

Annual debt service requirements for Business-type activities are as follows:

	<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
Bonds:				
	2014	\$370,000	\$345,387	\$715,387
	2015	380,000	341,612	721,612
	2016	385,000	336,800	721,800
	2017	380,000	332,862	712,862
	2018	225,000	328,025	553,025
	2019-2023	1,235,000	1,534,373	2,769,373
	2024-2028	1,690,000	1,293,345	2,983,345
	2029-2033	2,215,000	938,469	3,153,469
	2034-2038	2,770,000	465,583	3,235,583
	2039	<u>640,000</u>	<u>25,348</u>	<u>665,348</u>
	Total	<u>10,290,000</u>	<u>5,941,804</u>	<u>16,231,804</u>
Capital Leases:				
	2014	24,131	1,521	25,652
	2015	<u>12,607</u>	<u>218</u>	<u>12,825</u>
	Total	<u>36,738</u>	<u>1,739</u>	<u>38,477</u>
Grand Total		<u>\$10,326,738</u>	<u>\$5,943,543</u>	<u>\$16,270,281</u>

Note 12: Subsequent Events:

Management has evaluated subsequent events through August 18, 2014, the date the financial statements were available to be issued.

MIDDLE SMITHFIELD TOWNSHIP  
Notes to Financial Statements  
As at December 31, 2013

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Note 13: Adoption of GASB 65:

Middle Smithfield Township is required to adopt GASB 65 for the year ended December 31, 2013. GASB 65 identifies certain items previously reported as assets and liabilities that are to be reported for financial statement purposes as deferred outflows of resources and deferred inflows of resources.

As at December 31, 2013, Middle Smithfield Township has \$240,238 of assets that are considered to be deferred outflows of resources. In addition, GASB 65 requires that debt issuance costs be recognized as an expense in the period incurred instead of being amortized over the life of the related debt. As a result of this requirement, a prior period adjustment of \$172,362 has been recorded as of December 31, 2012 to reduce net position by the amount of unamortized debt issuance cost reported in the 2012 financial statements.

MIDDLE SMITHFIELD TOWNSHIP  
Required Supplementary Information  
For the Year Ended December 31, 2013

MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual - General Fund  
For the Year Ended December 31, 2013

Schedule 1

	<u>Budget</u>	<u>Report</u>	<u>Variance</u>
Revenues:			
Taxes	\$3,107,779	\$3,408,786	\$301,007
Licenses and permits	230,000	245,551	15,551
Fines and forfeits	3,500	2,496	(1,004)
Interest, rents, and royalties	1,700	9,177	7,477
Intergovernmental	386,580	311,087	(75,493)
Charges for services	164,400	215,047	50,647
Unclassified operating revenues	<u>1,000</u>	<u>0</u>	<u>(1,000)</u>
Total Revenues	<u>3,894,959</u>	<u>4,192,144</u>	<u>297,185</u>
Expenditures:			
General Government	858,346	851,985	6,361
Public safety	485,757	573,021	(87,264)
Public works - sanitation	205,180	271,365	(66,185)
Public works - highways and streets	892,615	834,165	58,450
Culture and recreation	341,957	63,858	278,099
Community development	22,500	31	(22,469)
Debt service	148,803	160,371	(11,568)
Employer paid benefits and withholding items	536,825	529,468	7,357
Insurance	<u>107,150</u>	<u>101,729</u>	<u>5,421</u>
Total Expenditures	<u>3,599,133</u>	<u>3,385,993</u>	<u>213,140</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>295,826</u>	<u>806,151</u>	<u>510,325</u>
Other Financing Sources (Uses):			
Proceeds of short-term debt	0	171,774	171,774
Refunds of prior year expenditures	98,458	21,454	(77,004)
Proceeds of sale of fixed assets	0	19,997	19,997
All other financing uses	(3,000)	0	3,000
Refund of prior revenues	<u>0</u>	<u>(9,251)</u>	<u>(9,251)</u>
Total Other Financing Sources (Uses)	<u>95,458</u>	<u>203,974</u>	<u>108,516</u>
Change in Fund Balance	<u>\$391,284</u>	<u>\$1,010,125</u>	<u>\$618,841</u>



MIDDLE SMITHFIELD TOWNSHIP  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual - Liquid Fuels Fund  
For the Year Ended December 31, 2013

Schedule 2

	<u>Budget</u>	<u>Report</u>	<u>Variance</u>
Revenues:			
Interest, rents, and royalties	\$0	\$147	\$147
Intergovernmental	<u>353,821</u>	<u>369,203</u>	<u>15,382</u>
Total Revenues	<u>353,821</u>	<u>369,350</u>	<u>15,529</u>
Expenditures:			
Public works - highways and streets	307,100	437,272	(130,172)
Debt service	<u>0</u>	<u>24,696</u>	<u>(24,696)</u>
Total Expenditures	<u>307,100</u>	<u>461,968</u>	<u>(154,868)</u>
Change in Fund Balance	<u>\$46,721</u>	<u>(\$92,618)</u>	<u>(\$139,339)</u>

MIDDLE SMITHFIELD TOWNSHIP  
Schedule of Funding Progress and  
Actuarial Information  
December 31, 2013

Schedule 3

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<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Actuarial Valuation Date</u>	<u>Percentage Contributed</u>
2001	\$17,140	1999	100.00%
2002	\$25,945	1999	100.00%
2003	\$28,238	2001	100.00%
2004	\$32,165	2001	100.00%
2005	\$34,593	2003	100.00%
2006	\$38,619	2003	100.00%
2007	\$44,778	2005	100.00%
2008	\$46,373	2005	100.00%
2009	\$59,152	2007	100.00%
2010	\$66,107	2007	100.00%
2011	\$68,483	2009	100.00%
2012	\$52,224	2009	100.00%
2013	\$43,370	2011	100.00%

The information presented above was determined as part of the actuarial valuations at the dates listed.

Since a Schedule of Funding Progress was not prepared by the Actuary, it has not been presented as Required Supplementary Information.

Additional information as of the actuarial latest valuation date used to determine the Annual Required Contribution (ARC) is as follows:

Actuarial Valuation Date - January 1, 2011  
Actuarial Cost Method - Entry age, Normal  
Amortization Method - Level Dollar Closed  
Remaining Amortization Period - N/A  
Asset Valuation Method - Fair Value

Actuarial Assumptions:

Investment Rate of Return - 6.00%  
Projected Salary Increase - 5.20%