

# LOWER MACUNGIE TOWNSHIP, LEHIGH COUNTY, PENNSYLVANIA

REPORT TO THE BOARD OF COMMISSIONERS

MAY 27, 2011



REINSEL KUNTZ LESHER  
certified public accountants & consultants

FOCUSED. ON YOU.



**To the Board of Commissioners  
Lower Macungie Township  
Lehigh County, Pennsylvania**

We are pleased to present this report related to our audit of the financial statements of Lower Macungie Township as of and for the year ended December 31, 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Lower Macungie Township's financial reporting process.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Lower Macungie Township.

*Reinsel Kuntz Lesher LLP*

**Wyomissing, Pennsylvania  
May 27, 2011**

## **C O N T E N T S**

### **MATTERS TO BE COMMUNICATED**

Required communications  
Summary of accounting estimates  
Summary of recorded audit adjustments

### **LETTER COMMUNICATING A SIGNIFICANT DEFICIENCY**

### **CERTAIN WRITTEN COMMUNICATIONS BETWEEN MANAGEMENT AND OUR FIRM**

Letter communicating control deficiencies  
Representation letter  
Management letter

## **MATTERS TO BE COMMUNICATED**

## Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

<b>Area</b>	<b>Comments</b>
<b>Auditor's Responsibility Under Professional Standards</b>	<p>Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated December 6, 2010.</p>
<b>Accounting Practices</b>	<p><b>Adoption of, or Change in, Accounting Policies</b></p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Township. The Township did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the year.</p> <p><b>Significant or Unusual Transactions</b></p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Alternative Treatments Discussed with Management</b></p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>
<b>Management's Judgments and Accounting Estimates</b>	<p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."</p>

## Required Communications (Continued)

Area	Comments
<b>Audit Adjustments</b>	There were three audit adjustments made to the original trial balance presented to us to begin our audit. Audit adjustments recorded by Lower Macungie Township are shown on the attached "Summary of Recorded Audit Adjustments."
<b>Uncorrected Misstatements</b>	During the course of our audit, we did not identify any uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statement of net assets and the statement of activities and to the related financial statement disclosures. However, there were uncorrected misstatements identified in the prior year for which the carryover impact will be presented in the current year. The summary is attached to the representation letter.
<b>Disagreements with Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
<b>Consultations with Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed with Management</b>	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
<b>Difficulties Encountered in Performing the Audit</b>	We did not encounter any difficulties in dealing with management during the audit.
<b>Letter Communicating a Significant Deficiency</b>	We have separately communicated a significant deficiency identified during our audit of the financial statements, and this communication is attached.
<b>Certain Written Communications Between Management and Our Firm</b>	Copies of certain written communications between our Firm and the management of the Township are included in the last section of this report.

## LOWER MACUNGIE TOWNSHIP

### Summary of Accounting Estimates Year Ended December 31, 2010

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Township's December 31, 2010 financial statements:

<b>Area</b>	<b>Accounting Policy</b>	<b>Estimation Process</b>	<b>Comments</b>
<b>Fair value of investments</b>	Investments are held by brokers who report to the Township the fair value on a monthly basis.	Management receives the monthly investment statements. Changes to the fair value of investments are made on a quarterly basis.	None.
<b>Capital assets</b>	Depreciation of property, equipment and infrastructure is based on the Township's capital asset policy.	Management reviews the estimated useful lives of property and equipment annually and makes any required adjustments.	None.
<b>Land</b>	Estimated value of land parcels contributed to the Township is based on the assessed value of the parcel as determined by the Lehigh County Assessment office.	The Township utilized the Lehigh County Assessment office website to review the assessed valuation of donated land parcels.	The value of donated land parcels to the Township was \$ 5,058,643.
<b>Infrastructure assets</b>	Estimated value of infrastructure contributed to the Township is based on current fair value.	The Township utilized the services of Keystone Consulting Engineers, Inc. to determine the value of the infrastructure assets contributed to the Township which are to be capitalized.	The value of contributed infrastructure was \$ 5,759,790 for the year ended December 31, 2010.
<b>Allowance for bad debts and utility billings</b>	The Township has established an allowance of \$ -0- at December 31, 2010.	The Township files liens against real estate for delinquent utility billings.	None.

**LOWER MACUNGIE TOWNSHIP**

**Summary of Recorded Audit Adjustments  
Year Ended December 31, 2010**

**See attached Schedule.**

Lower Macungie Township

Year End: December 31, 2010

Adjusting journal entries

Date: 1/1/2010 To 12/31/2010

Account No: 1 To 3

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							(826,456.44)		
1	12/31/2010	Contribution Receivable	65,145.100 PEN	8402	311,570.00				
1	12/31/2010	Employer Contributions	65,388.000 PEN	8402		311,570.00			
		Record pension fund contribution receivable at 12/31/2010.			311,570.00	311,570.00	(514,886.44)	311,570.00	
2	12/31/2010	Accounts Payable	35,200.200 LFF	2005.05	131,000.00				
2	12/31/2010	Major Equipment	35,493.680 LFF	2005.05		131,000.00			
		Adjust Plasterer Equipment Company invoice # 011411 for JD Backhoe purchase; purchase order was dated 11/24/2010 however equipment not received as of 12/31/2010.			131,000.00	131,000.00	(383,886.44)	131,000.00	
3	12/31/2010	Due to Developers Impact Fund	01,230.370 GF			447.00			
3	12/31/2010	Contributions in Lieu of Recreation	01,361.305 GF		447.00				
3	12/31/2010	Due from General Fund	37,130.010 DIF		447.00				
3	12/31/2010	Traffic Contributions from Developer	37,283.100 DIF			16,000.00			
3	12/31/2010	Recreation Contributions from Develk	37,283.200 DIF			102,635.00			
3	12/31/2010	Traffic Contributions	37,361.300 DIF		16,000.00				
3	12/31/2010	Rec Fee from Developers	37,361.305 DIF			447.00			
3	12/31/2010	Rec Fee from Developers	37,361.305 DIF		102,635.00				
		Adjust and record deferred revenue at 12/31/2010.			119,529.00	119,529.00	(502,521.44)	(118,635.00)	
					562,099.00	562,099.00	(502,521.44)	323,935.00	

**LETTER COMMUNICATING A SIGNIFICANT DEFICIENCY**



**To the Board of Commissioners  
Lower Macungie Township  
Lehigh County, Pennsylvania**

In planning and performing our audit of the financial statements of Lower Macungie Township (the "Township") as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following control deficiency to be a significant deficiency:

- Deferred Revenue: Developer Fee Fund – In 2010, the Township did not record deferred revenue in the Developer Fee Fund for traffic impact fees received in accordance with Act 209 and recreation fees received in accordance with Article 503 of the Municipalities Planning Code. These fees are returnable to the developer if the Township does not spend the funds within specified time frames and therefore, should be recorded as deferred revenue until such time as the funds are spent or the time restriction expires. The Township recorded the fees received in 2010 as current year revenue. An audit adjustment was required to properly record deferred revenue at December 31, 2010.

This communication is intended solely for the information and use of the Board of Commissioners, management and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.

*Reinsel Kuntz Lesker LLP*

**Wyomissing, Pennsylvania  
May 27, 2011**

**CERTAIN WRITTEN COMMUNICATIONS BETWEEN  
MANAGEMENT AND OUR FIRM**



**To the Board of Commissioners  
Lower Macungie Township  
Lehigh County, Pennsylvania**

In connection with our audit of the financial statements of Lower Macungie Township (the "Township") as of and for the year ended December 31, 2010, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Certain control deficiencies that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

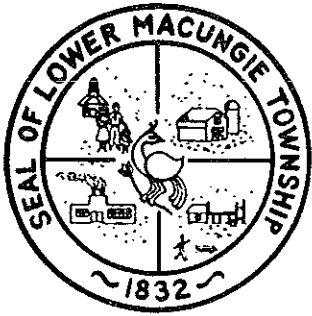
- Escrow Activity - The Township recorded escrow activity in QuickBooks, and then posted summary transactions of the activity into the Township's accounting software via a general journal entry. Recording activity in this manner could lead to a lack of consistency between QuickBooks and the accounting software and therefore, could lead to financial statement misstatement. The use of a separate accounting package is not the preferred approach from both workflow and control considerations. We noted that effective January 1, 2011, the Township will no longer use QuickBooks and all transactions will be accounted for in the Caselle Accounting Software.

- Permit Applications - The Township uses pre-printed application forms that require the calculation of fees owed based upon the type of permit being issued. The current application forms do not include a pre-printed sequential number. The Township does not use a sequential numbering system when issuing permits. The permit department's master log of permits issued during the year is not integrated with the general ledger. Also, there is no reconciliation process in place to reconcile the master log of permits issued with cash received and unused or missing applications. We noted that in 2011, the Township has purchased "Permit-n-Force" software and Township staff have received training and are inputting current year (2011) information into the software. A process has also been implemented in 2011 to reconcile permits issued with cash received and unused or missing applications.

This communication is intended solely for the information and use of management, the Board of Commissioners and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.

*Reinsel Kuntz Lesker LLP*

**Wyomissing, Pennsylvania**  
**May 27, 2011**



# LOWER MACUNGIE TOWNSHIP

3400 BROOKSIDE ROAD

MACUNGIE, PA 18062-1428

PHONE: 610 966-4343 • FAX: 610 965-3654

May 27, 2011

Reinsel Kuntz Leshar LLP  
1330 Broadcasting Road  
P.O. Box 7008  
Wyomissing, PA 19610

In connection with your audit of the primary government basic financial statements of Lower Macungie Township, Lehigh County, Pennsylvania (the "Township"), as of and for the year ended December 31, 2010, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards that are:
  - a. Component units.
  - b. Other organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
  - c. Jointly governed organizations in which we participated.
3. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria. We have determined the following funds to be major for public interest reasons - *Liquid Fuels Fund, Developer Fee Fund and Debt Service Fund*. We believe that all judgmentally determined major funds are particularly important to the financial statement users.

6. We are responsible for compliance with laws and regulations applicable to the Township including adopting, approving and amending budgets.
7. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
8. We have made available to you:
  - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
  - b. All minutes of the meetings of the Governing Board and committees of Board Members or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
    - (1) Statutory, regulatory or contractual provisions or requirements.
    - (2) Financial reporting practices that could have a material effect on the financial statements.
9. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management or employees who have significant roles in the internal control; or
  - b. Others where the fraud could have a material effect on the financial statements.
10. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Township received in communications from employees, former employees, analysts, regulators, short sellers or others.
12. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Township's ability to record, process, summarize and report financial data.
13. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

15. The following have been properly recorded and/or disclosed in the financial statements:
- a. Related-party transactions, including those with the primary government having accountability for Lower Macungie Township, component units for which the Township is accountable, other organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, joint ventures in which the Township has an interest, and jointly governed organizations in which Lower Macungie Township participates, all as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
  - b. The fair value of investments.
  - c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
  - d. Debt issue provisions.
  - e. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
  - f. Risk financing activities.
  - g. Assets and liabilities measured at fair value.
  - h. Deposits and investment securities category of custodial credit risk.
16. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.

- b. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.
- c. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2010.
- d. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill; any service commitments.
- e. For any material loss to be sustained as a result of purchase commitments.
- f. For environmental clean-up obligations.

17. There are no:


- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450 and/or GASB Statement No. 10.
- d. Guarantees, whether written or oral, under which the Government is contingently liable.
- e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
- f. Line of credit or similar arrangements.
- g. Agreements to repurchase assets previously sold.
- h. Security agreements in effect under the Uniform Commercial Code.
- i. Other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
- j. Liabilities which are subordinated in any way to any other actual or possible liabilities.

- k. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
  - l. Leases and material amounts of rental obligations under long-term leases.
  - m. Authorized, but unissued bonds and/or notes.
  - n. Derivative financial instruments.
  - o. Special and extraordinary items.
  - p. Arbitrage rebate liabilities.
  - q. Impairments of capital assets and the method of measuring the impairment are appropriate.
18. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450 and/or GASB Statement No. 10.
  19. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private or to special assessment bond holders that is not disclosed in the financial statement.
  20. We have satisfactory title to all owned assets.
  21. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, when applicable, approved.
  23. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  24. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
  25. Capital assets, including infrastructure assets, are properly capitalized, reported and depreciated.
  26. Required supplementary information is properly measured and presented.
  27. We confirm that the Township does not provide any postemployment benefits other than a pension plan that would require disclosures in accordance with GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

28. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, and will post all adjustments accordingly. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes. We have reviewed, approved, and are responsible for the depreciation schedules. We have provided the method, rate, and salvage value for the preparation of the schedules.
29. Investments are carried at fair value.
30. Investments of pension trust funds are pursuant to the guidelines established by the Pension Board.
31. The restatement of the financial statements as of and for the year ended December 31, 2009, because of improper valuation of land, is appropriate. We agree with the restatement of the previously issued financial statements discussed in Note 10. In that regard:
  - a. The restatement corrects an error in those financial statements.
  - b. We were not aware of the error when those financial statements were issued.
  - c. We are not aware of any other errors in those financial statements.
  - d. We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.
32. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
33. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.
34. We believe that the effects of the uncorrected misstatements aggregated by you and summarized in the attached schedules are immaterial, both individually and in the aggregate to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

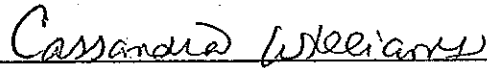
Management reviewed, approved and asserted their responsibility for the final draft financial statements.

LOWER MACUNGIE TOWNSHIP



---

Bruce E. Fosselman  
Township Manager



---

Cassandra Williams  
Director of Finance

**LOWER MACUNGIE TOWNSHIP**

**SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS**

As of and for the Year Ended December 31, 2010

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**OPINION UNIT: GOVERNMENT ACTIVITIES**

**Effect – Increase (Decrease)**

<u>DESCRIPTION: GOVERNMENT ACTIVITIES</u>	<u>FUND BALANCE/ EQUITY</u>	<u>REVENUES</u>	<u>EXPENDITURE/ EXPENSE</u>	<u>OTHER</u>
CARRYOVER IMPACT FROM PREVIOUS YEARS			(12,525)	(12,525)
CURRENT YEAR MISSTATEMENTS				
• Known Errors:				
• Differences with Estimates				
• Projected Errors				
<b>TOTAL EFFECT ON OPERATIONS</b>			<u><u>(12,525)</u></u>	<u><u>(12,525)</u></u>

**LOWER MACUNGIE TOWNSHIP**

**SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS**

As of and for the Year Ended December 31, 2010

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**OPINION UNIT: BUSINESS-TYPE ACTIVITIES**

**Effect – Increase (Decrease)**

<u>DESCRIPTION: BUSINESS-TYPE ACTIVITIES</u>	<u>FUND BALANCE/ EQUITY</u>	<u>REVENUES</u>	<u>EXPENDITURE/ EXPENSE</u>	<u>OTHER</u>
CARRYOVER IMPACT FROM PREVIOUS YEARS		(12,807)		(12,807)
CURRENT YEAR MISSTATEMENTS				
• Known Errors:				
• Differences with Estimates				
• Projected Errors				
<b>TOTAL EFFECT ON OPERATIONS</b>		<u>(12,807)</u>		<u>(12,807)</u>

**LOWER MACUNGIE TOWNSHIP**

**SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS**

As of and for the Year Ended December 31, 2010

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**OPINION UNIT: MAJOR FUND**

**Effect – Increase (Decrease)**

<b>DESCRIPTION: CAPITAL PROJECTS FUND</b>	<b>FUND BALANCE/ EQUITY</b>	<b>REVENUES</b>	<b>EXPENDITURE/ EXPENSE</b>	<b>OTHER</b>
<b>CARRYOVER IMPACT FROM PREVIOUS YEARS</b>			(12,525)	(12,525)
<b>CURRENT YEAR MISSTATEMENTS</b>				
• Known Errors:				
• Differences with Estimates				
• Projected Errors				
<b>TOTAL EFFECT ON OPERATIONS</b>			<u>(12,525)</u>	<u>(12,525)</u>

**LOWER MACUNGIE TOWNSHIP**

**SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS**

As of and for the Year Ended December 31, 2010

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**OPINION UNIT: MAJOR FUND**

**Effect – Increase (Decrease)**

<u>DESCRIPTION: SEWER FUND</u>	<u>FUND BALANCE/ EQUITY</u>	<u>REVENUES</u>	<u>EXPENDITURE/ EXPENSE</u>	<u>OTHER</u>
CARRYOVER IMPACT FROM PREVIOUS YEARS		(12,807)		(12,807)
CURRENT YEAR MISSTATEMENTS				
• Known Errors:				
• Differences with Estimates				
• Projected Errors				
<b>TOTAL EFFECT ON OPERATIONS</b>		<u>(12,807)</u>		<u>(12,807)</u>

# LOWER MACUNGIE TOWNSHIP, LEHIGH COUNTY, PENNSYLVANIA

MANAGEMENT LETTER

DECEMBER 31, 2010



REINSEL KUNTZ LESHER  
certified public accountants & consultants

FOCUSED. ON YOU.



**To the Board of Commissioners  
Lower Macungie Township  
Lehigh County, Pennsylvania**

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of Lower Macungie Township (the "Township") as of and for the year ended December 31, 2010. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Township's practices and procedures.

**ACCOUNTS RECEIVABLE COLLECTION POLICIES: SEWER AND SOLID WASTE**

During our analysis of sewer and solid waste accounts receivable, we noted that the Township has an increasing number of delinquent customer account balances. Although steps have been taken to improve collections, collections remain lower than expected. Balances in excess of ninety days as a percentage of total accounts receivable are as follows:

<u>Year Ending December 31st</u>	<u>% of Accounts Receivable Balances in Excess of 90 Days</u>
2007	28%
2008	37%
2009	31%
2010	45%

**Recommendation:**

We recommend the Township continue to improve its collection efforts. Improved collections will in turn increase the availability of funds to support the cost of operations in the sewer and solid waste funds.

**MUNICIPAL PENSION STATE AID**

During the audit process, it was determined that the Township was not in compliance with the Act 205 requirement to remit funds received to the pension plan within 30 days. The Township received the funds from the Commonwealth of Pennsylvania in September 2010 and did not remit the funds into the pension plan until February 2011.

**Recommendation:**

- We recommend that the Township remit the funds to the plan timely to maintain compliance with Act 205.

## CAPITAL ASSET RECORDS

Audit procedures in the area of capital assets disclosed that the Township has not implemented the capital asset module of its accounting software. Information concerning historical cost and depreciation of capital assets are maintained in Microsoft Access Database. Maintaining records in this manner makes the asset cost, as well as accumulated depreciation, susceptible to misstatement due to potential errors in calculating formulas that may go undetected.

### **Recommendation:**

- We recommend that management implement the capital asset module of its accounting software that is integrated with the general ledger. This will provide more accurate information regarding capital assets.

## NEW ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS FOR FUND BALANCES

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with loans receivable. This Statement also provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The classifications of reserved, designated and unreserved are replaced by the new categories.

The following are the new categories and related definitions to be used for describing the components of fund balances:

- **Nonspendable** - Includes amounts either not in spendable form, or legally or contractually required to be maintained intact. This would include inventory, prepaid and noncurrent receivables.
- **Restricted** - Reflects the same definition as restricted net assets: constraints placed on the use of amounts 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. This would generally include amounts in bonded capital projects funds and debt service funds.

- Committed - Includes amounts that are committed for specific purposes by formal action of the Board of Commissioners. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the Board removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.
- Assigned - Amounts that are intended by the Township to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Board. This would include any activity reported in a fund other than the general fund that is not otherwise restricted more narrowly by the above definitions.
- Unassigned - Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated", unless formally committed or assigned.

Governments will also be required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

This standard is effective for the year ending December 31, 2011.

**Recommendations:**

- We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be please to assist with preparation for implementing the new standards.

This letter is intended solely for the information and use of the Board of Commissioners and others within the Township and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving Lower Macungie Township and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

*Reinsel Kuntz Leaker LLP*

**Wyomissing, Pennsylvania  
May 27, 2011**