Pocono Mountain Regional Police Department

Financial Statements
Year Ended December 31, 2015

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POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

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INDEPENDENT AUDITOR'S REPORT

To the Police Commission
Pocono Mountain Regional Police Department
Pocono Summit, Pennsylvania

We have audited the accompanying financial statements of the Pocono Mountain Regional Police Department as of and for the year ended December 31, 2015, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pocono Mountain Regional Police Department, as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 7 to the financial statements, the Department adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pocono Mountain Regional Police Department's basic financial statements. The combining and individual fund financial statements on pages 26 and 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, on our consideration of the Pocono Mountain Regional Police Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pocono Mountain Regional Police Department's internal control over financial reporting and compliance.

BBD, LLP

Philadelphia, Pennsylvania
October 6, 2016

Management's discussion and analysis (***"MD&A"***) of the Pocono Mountain Regional Police Department (the ***"Department"***) provides an overview of the Department's financial performance for 2015. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Department's financial performance.

The Department is governed by The Pocono Mountain Regional Police Commission, formed in 1993 under the authority of the Commonwealth of Pennsylvania Intergovernmental Cooperation Law for the purpose of providing police services to its present and future member municipalities. Current member municipalities include the Townships of Barret, Coolbaugh, Tobyhanna and Tunkhannock and the Borough of Mount Pocono. The activities of the Department are accounted for as an enterprise fund of the proprietary fund type. An enterprise fund accounts for operations that are financed and operated in a manner similar to private enterprises when the intent is that the cost of providing goods and services be recovered through user charges and fees.

FINANCIAL HIGHLIGHTS

- Effective 2015, the Department was required to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The major impact of GASB Statement No. 68 is to present, on the Statement of Net Position, certain items related to the Department's liability from its defined benefit pension plan, which were not required to be presented in the past.

  Elements of GASB Statement No. 68 included within the Statement of Net Position include an actuarially determined liability for the police pension of $149,333 and deferred outflows of $849,282 (projected returns on pension assets over investment returns, to be recognized as a future pension expense).

- At December 31, 2015, the assets and deferred outflows of resources of the Department exceeded liabilities by $5,334,138. During 2015, the Department's net position increased by $802,359.

- Member municipalities are billed quarterly for their proportionate share of the adopted budget as determined by hours of services. Charges to the member municipalities for police protection services totaled $5,689,091 and were allocated as follows: Township of Coolbaugh 40%; Township of Tobyhanna 31%; Borough of Mount Pocono 13%; Township of Tunkhannock 12% and Township of Barrett 4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

BASIC FINANCIAL STATEMENTS

The *Statement of Net Position* presents information on all of the Department's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Department is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Department's net position changed during the year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statement of Cash Flows* presents the sources and uses of cash during the course of the year. The net effect of cash flows is reconciled to cash balances held by the Department at the beginning and end of the reporting period.

The basic financial statements can be found on Pages 7 through 9 of this report.

FIDUCIARY FUNDS

The Department is the trustee, or fiduciary, for its employees' pension plans. Fiduciary funds are not reflected in the basic financial statements because the Department cannot use these assets to finance its operations. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Department has two pension trust funds (Police and Non-Uniform).

The fiduciary fund financial statements can be found on pages 10 and 11 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The notes to the financial statements can be found on Pages 12 through 22 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of schedules concerning the Department's net pension liability and progress in funding its obligation to provide pension and other post-employment benefits, as well as additional analysis which consists of combining and individual fund financial statements.

The required supplementary information and additional analysis can be found on pages 23 through 27 of this report.

FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of an entity's financial condition. In the case of the Department, assets and deferred outflows exceeded liabilities and deferred inflows by $5,334,138 at December 31, 2015. A summary of the Statement of Net Position as of December 31, 2015 and 2014 is presented below.

Statement of Net Position

	2015	2014
Assets		
Current assets	$2,466,565	$1,809,928
Noncurrent assets	3,147,237	3,345,364
Total assets	5,613,802	5,155,292
Deferred outflows		
Deferred investment earnings - Pensions	849,282	-
Liabilities		
Current liabilities	252,690	211,911
Noncurrent liabilities	876,256	411,602
Total liabilities	1,128,946	623,513
Net position		
Net investment in capital assets	2,662,147	2,856,278
Restricted	600,264	597,017
Unrestricted	2,071,727	1,078,484
Total net position	$5,334,138	$4,531,779

The Department's total assets as of December 31, 2015 were $5,613,802 of which $2,166,803 or 38.60% consisted of cash and $2,735,707 or 48.73% consisted of the Department's investment in capital assets.

Deferred outflows of resources as of December 31, 2015 consisted solely of the unamortized difference between projected and actual earnings on police pension investments.

Of the Department's total net position at December 31, 2015, $2,071,727 is unrestricted and may be used to meet the Department's ongoing operational needs.

As of December 31, 2015, the largest portion of the Department's net position in the amount of $2,662,147 reflects its net investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to provide services; consequently, these assets are not available for future spending. For the year ended December 31, 2015, the Department's net investment in capital assets decreased by $194,131.

During 2015, the Department's net position increased by $802,359. A summary of the Statement of Revenues, Expenses and Changes in Net Position for the years ending December 31, 2015 and 2014 is presented below.

Statement of Revenues, Expenses and Changes in Net Position

	2015	2014
Operating revenues	$6,718,553	$6,006,989
Operating expenses	6,108,644	6,151,747
Operating income (loss)	609,909	(144,758)
Nonoperating revenues (expenses)		
Interest income	853	332
Intergovernmental grant revenue	84,565	80,000
Capital contributions	112,045	-
Loss on sale of capital assets	(5,013)	-
Total nonoperating revenues (expenses)	192,450	80,332
Change in net position	$ 802,359	$ (64,426)

The Department's operating revenues consisted primarily of charges for services ($5,689,091 or 83.28%) for police services and operating contributions for building and pension obligation ($933,787 or 13.67%). The Department's operating expenses for 2015 consisted primarily of salaries and fringe benefits ($4,400,251 or 72.03%). Contribution revenues in 2015 and 2014 consisted primarily of funding from participating municipalities for debt obligations and pension contributions. The Department is a service entity and as such is labor intensive.

CAPITAL ASSETS

The Department's investment in capital assets as of December 31, 2015 amounted to $2,735,707 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, vehicles, police equipment and office equipment. The total net decrease in the Department's investment in capital assets for 2015 was $120,571 or 4.22%. The decrease was the result of current year depreciation and disposals in excess of additions and transfers.

Current year capital additions were $110,717, net transfers from Barrett Township were $112,045, disposals were $12,252 and depreciation expense was $331,081.

Capital additions for the current year were for police vehicles and transfers from Barrett Township including police equipment and vehicles.

NONCURRENT LIABILITIES

In 2015, the Department reported for the first time its defined benefit unfunded benefit obligation on its statement of net position. As noted earlier this reporting is being required by GASB Statement No. 68 and has been reported retroactively in the accompanying financial statements. The Department's net pension liability is an actuarially determined estimate of the pension plan obligation which totaled $149,333 as of December 31, 2015. The Department's net pension liability increased by $225,400 during the fiscal year. Other noncurrent liabilities consist of the Department's liabilities for capital leases, compensated absences and its net obligation for post-employment benefits which totaled $726,923. These liabilities increased by $315,321 during the fiscal year.

SUBSIDY AGREEMENT

The Department has a subsidy agreement with the Townships of Coolbaugh, Tobyhanna and Tunkhannock and the Borough of Mount Pocono to finance the construction of the Central Headquarters for the Department. The subsidy agreement requires the participating municipalities in the subsidy agreement to make debt service payments sufficient to retire the debt issued through annual appropriations in the Department's budget. The balance of the note payable at December 31, 2015 was $866,449.

FACTORS BEARING ON THE DEPARTMENT'S FUTURE

As of the audit report date, management was not aware of the existing circumstances that could significantly affect the future financial position and results of operations of the Department.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Pocono Mountain Regional Police Department, 2454 Route 940, Pocono Summit, Pennsylvania 18346.

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

STATEMENT OF NET POSITION

December 31, 2015

ASSETS	
CURRENT ASSETS	
Cash	$ 2,166,803
Accounts receivable	238,891
Prepaid expenses	60,871
Total current assets	2,466,565
NONCURRENT ASSETS	
Restricted cash	411,530
Capital assets, net	2,735,707
Total noncurrent assets	3,147,237
Total assets	5,613,802
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	849,282
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	54,089
Accrual payroll and related liabilities	116,542
Evidence escrow	82,059
Total current liabilities	252,690
NONCURRENT LIABILITIES	
Due within one year -	
Capital leases payable	55,161
Due in more than one year -	
Capital leases payable	18,399
Accrued compensated absences	441,481
Post-employment benefits	211,882
Net pension liability	149,333
Total noncurrent liabilities	876,256
Total liabilities	1,128,946
NET POSITION	
Net investment in capital assets	2,662,147
Restricted	
Capital projects	270,793
Asset forfeiture	329,471
Unrestricted	2,071,727
Total net position	$ 5,334,138

See accompanying notes

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended December 31, 2015

OPERATING REVENUES	
Charges for services	$ 5,689,091
Operating contributions	821,742
Fines, fees and forfeitures	117,860
Other	89,860
Total operating revenues	6,718,553
OPERATING EXPENSES	
Salaries and fringe benefits	4,400,251
Contracted services	262,933
Depreciation	331,081
Insurance	352,391
Occupancy	212,521
Operating and administrative expenses	274,475
Professional fees	122,520
Repairs and maintenance	152,472
Total operating expenses	6,108,644
OPERATING INCOME	609,909
NONOPERATING REVENUES (EXPENSES)	
Interest income	853
Intergovernmental grant revenues	84,565
Capital contributions	112,045
Loss on sale of capital assets	(5,013)
Total nonoperating revenues (expenses)	192,450
CHANGE IN NET POSITION	802,359
NET POSITION	
Beginning of year, restated	4,531,779
End of year	$ 5,334,138

See accompanying notes

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

STATEMENT OF CASH FLOWS

Year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from charges for services	$ 5,734,960
Cash received from operating contributions	821,742
Cash payments to suppliers for goods and services	(1,418,110)
Cash payments to employees for services	(4,753,185)
Other receipts	207,720
Net cash provided by operating activities	593,127
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental grant revenue	76,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(110,717)
Proceeds from sale of capital assets	7,239
Proceeds from capital lease payable	110,717
Repayment of capital lease payable	(37,157)
Net cash used by capital and related related activities	(29,918)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	853
Net increase in cash	640,146
CASH	
Beginning of year	1,938,187
End of year	$ 2,578,333
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating loss	$ 609,909
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities	
Depreciation	331,081
(Increase) decrease in	
Accounts receivable	45,869
Prepaid expenses	(60,871)
Deferred outflows - pensions	(849,282)
Increase (decrease) in	
Accounts payable and accrued expenses	16,623
Accrued payroll and related liabilities	29,187
Evidence escrow	3,450
Post-employment benefits	211,882
Net pension liability	225,400
Compensated absences	29,879
Net cash provided by operating activities	$ 593,127
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Contributed capital assets	$ 112,045
RECONCILIATION OF CASH REPORTED ON STATEMENT OF NET POSITION	
Cash	$ 2,166,803
Restricted cash	411,530
	$ 2,578,333

See accompanying notes

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2015

	Pension Trust Funds
ASSETS	
Investments	$ 17,958,177
NET POSITION	
Assets held in trust for pension benefits	$ 17,958,177

See accompanying notes

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year ended December 31, 2015

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer contributions	$ 662,871
Member contributions	148,373
Transfers from other municipalities	3,156,295
Total contributions	3,967,539
Investment income	
Interest, dividends and investment income	89,101
Total additions	4,056,640
DEDUCTIONS	
Benefits paid	461,922
Refunds of member contributions	28,888
Administrative expenses	89,924
Total deductions	580,734
CHANGE IN NET POSITION	3,475,906
NET POSITION	
Beginning of year	14,482,271
End of year	$ 17,958,177

See accompanying notes

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pocono Mountain Regional Police Department (the ***"Department"***) have been prepared in conformity with generally accepted accounting principles (***"GAAP"***) as applied to governmental units. The Governmental Accounting Standards Board (***"GASB"***) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards. The significant accounting principles and policies utilized by the Department are described below:

Organization and Reporting Entity

The Pocono Mountain Regional Police Department is a police department governed by the Pocono Mountain Regional Police Commission formed in 1993 under the authority of the Commonwealth of Pennsylvania Intergovernmental Cooperation Law for the purpose of providing police services to its present and future member municipalities. The Department commenced operations in 1994. Current member municipalities include the Townships of Barret, Coolbaugh, Tobyhanna and Tunkhannock and the Borough of Mount Pocono.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. All assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the Department are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The net position of the Department represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the Department is reported as restricted when constraints placed on net position use is 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. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position". When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Capital Assets

Capital assets of the Department are recorded at cost. Donated assets are valued at their estimated fair value on the donated date. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements – 40 years; vehicles – 5 - 7 years and police and office equipment – 5 - 15 years. Major additions and betterments are capitalized while expenses for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Impairment of Long-Lived Assets

The Department reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no asset impairments to be recognized at December 31, 2015.

Accounts Receivable

Accounts receivable are stated at the amount the Department expects to collect from balances outstanding at year end. The Department provides an allowance for doubtful accounts that is based on management's assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivables. There was no allowance necessary at December 31, 2015.

Prepaid Items

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

Compensated Absences

Department policies permit employees to accumulate earned but unused vacation and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the financial statements.

Revenues and Expenses

Revenues and expenses are segregated into operating and nonoperating items. Operating revenues generally result from providing service in connection with the Department's principal ongoing operations. The principal operating revenues of the Department is police services income. Operating expenses include the costs associated with the operation and administration of the department and depreciation expense on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

Effective January 1, 2015, the Department adopted the provisions of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27",* GASB Statement No. 69, *"Government Combinations and Disposals of Government Operations",* GASB Statement No. 70, *"Accounting and Financial Reporting for Non-Exchange Financial Guarantees"* and GASB Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68"*.

GASB Statement No. 68 improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures and identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 71 is required to be applied simultaneously with the provisions of GASB Statement No. 68 and addresses an issue regarding application of the transitions provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

GASB Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The implementation of GASB Statement No. 69 had no impact on the financial statements of the Department for the year ended December 31, 2015.

GASB Statement No. 70 provides accounting and financial reporting guidance to a governmental financial reporting entity that offers nonexchange financial guarantees and for governmental entities that receive guarantees on their obligations. The implementation of GASB Statement No. 70 had no impact on the financial statements of the Department for the year ended December 31, 2015.

New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application* will be effective for the Department for the year ended December 31, 2016. GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76*, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"* will be effective for the Department for the year ended December 31, 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"* will be effective for the Department for the year ended December 31, 2016. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria.

GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants"* will be effective for the Department for the year ended December 31, 2016. The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

(2) DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Department does not have a policy for custodial credit risk on deposits. The Department is required by statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. At December 31, 2015, the carrying amount of the Department's deposits was $2,578,333 and the bank balance was $2,644,511. Of the bank balance, $500,000 was covered by federal depository insurance and $626,965 was collateralized by the Department's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the Department are in the Pennsylvania Local Government Investment Trust (***"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, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of December 31, 2015, PLGIT was rated AAA by a nationally recognized statistical rating agency.

(3) CAPITAL ASSETS

A summary of the changes in the Department's capital assets for 2015 is as follows:

	Balance January 1, 2015	Additions	Deletions	Transfers	Balance December 31, 2015
Capital assets not being depreciated					
Land	$ 250,000	$ -	$ -	$ -	$ 250,000
Capital assets being depreciated					
Buildings and improvements	2,271,057	-	-	-	2,271,057
Vehicles	1,274,359	110,717	32,549	134,000	1,486,527
Police equipment	322,693	-	-	91,090	413,783
Office equipment	313,832	-	-	-	313,832
Total capital assets being depreciated	4,181,941	110,717	32,549	225,090	4,485,199
Less accumulated depreciation for					
Buildings and improvements	921,233	58,184	-	-	979,417
Vehicles	20,297	270,505	20,297	67,500	338,005
Police equipment	322,693	-	-	45,545	368,238
Office equipment	311,440	2,392	-	-	313,832
Total accumulated depreciation	1,575,663	331,081	20,297	113,045	1,999,492
Total capital assets being depreciated, net	2,606,278	(220,364)	12,252	112,045	2,485,707
Total capital assets, net	$2,856,278	$(220,364)	$12,252	$112,045	$2,735,707

(4) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended December 31, 2015:

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015	Amount Due Within One Year
Capital leases	$ -	$ 110,717	$ 37,157	$ 73,560	$ 55,161
Compensated absences	411,602	29,879	-	441,481	-
OPEB obligation	-	251,276	39,394	211,882	-
Net pension (asset) liability ***(See Note 6)***	(76,067)	225,400	-	149,333	-
Total noncurrent liabilities	$ 335,535	$ 617,272	$ 76,551	$ 876,256	$ 55,161

Capital Leases

The Department has entered into a lease agreement for the financing of new police vehicles. Payments are due monthly. This capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. The capital assets acquired through capital leases are as follows:

Vehicles	$ 110,717
Less: accumulated depreciation	(22,143)
	$ 88,574

The future lease payments under the capital lease at December 31, 2015 are as follows:

Year Ending December 31,	
2016	$ 57,380
2017	18,578
Less amount representing interest	(2,398)
	$ 73,560

Other Post-Employment Benefits

The Department's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to certain eligible retired or service disabled police officers and their spouses and dependents. In addition, in the event a police officer is killed in the line of duty, the Department will provide medical insurance to the surviving spouse and dependents for a period of five years. The Police Commission has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The Department's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the Police Commission.

Annual OPEB Cost and Net OPEB Obligation

The Department's annual other post-employment benefits cost (expense) is calculated based on the annual required contribution of the employer (***"ARC"***), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Department's OPEB cost for the year, the amount actually contributed by the Department and changes in the Department's net OPEB obligation:

Annual required contribution	$ 251,276
Estimated interest on net OPEB obligation	-
Estimated adjustment to annual required contribution	-
Annual OPEB cost (expense)	251,276
Contributions made	(39,394)
Increase in net OPEB obligation	211,882
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	$ 211,882

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was $2,159,109, all of which was unfunded. The covered payroll (annual payroll of active employees) was $3,148,102 and the ratio of the unfunded actuarial accrued liability (***"UUAAL"***) to the covered payroll was 68.58%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the Department are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive benefits (the benefits as understood by the Department and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Department and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.00% in 2015 and 5.50% in 2016 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized based on the level dollar, 30-year open period.

(5) SUBSIDY AGREEMENT

On August 31, 2001, the Townships of Coolbaugh, Tobyhanna and Tunkhannock and the Borough of Mount Pocono entered into a subsidy agreement with the Department to finance the construction of the Central Headquarters. In conjunction with the subsidy agreement the participating municipalities issued a General Obligation Note (the ***"Note"***) in the amount of $2,000,000 to finance the project. On March 31, 2015 the Note was subsequently refinanced in order to reduce interest costs. Each participating municipality is required to subsidize its portion of the debt service requirements sufficient to retire the debt issued through annual appropriations in the Department’s budget. The Note is payable is due in monthly installments of $12,240 through June 2022 and bears interest payable monthly at 3%. The balance of the note payable at December 31, 2015 was $866,449.

(6) EMPLOYEE RETIREMENT PLANS

Police Pension Plan

The Pocono Mountain Regional Police Plan is a single-employer defined benefit pension plan (the ***"Police Pension Plan"***) established to provide a retirement income to supplement the benefits payable under Social Security.

Barrett Township assets and liabilities transferred into plan in 2015. Benefits for the five former Barrett Township active officers are based on 50% of average pay. They are entitled to the Act 600 COLA. They do not contribute to the plan.

Plan Membership

Membership in the Police Pension Plan consisted of the following at December 31, 2015:

Active employees	40
Inactive members or beneficiaries currently receiving benefits	18
Inactive members entitled to but not yet receiving benefits	4
Total	62

Benefit Provisions

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

Basis of Accounting

The Police Pension Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period when due and benefits and refunds are recognized when due and payable.

Method Used to Value Investments

Investments in the Police Pension Plan are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Contributions

Annual contributions to the Police Pension Plan are based upon the minimum municipal obligation (the ***"MMO"***). The MMO is derived from the Police Pension Plan's biennial actuarial valuation. Members in the Police Pension Plan are required to contribute 5.00% of total compensation. The Commonwealth of Pennsylvania provides an allocation of funds which must be used for pension funding. Any funding requirements established by the MMO in excess of employee and state contributions must be funded by the Department. The Department's 2015 MMO contribution totaled $610,732 and employee contributions totaled $148,373.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the Police Pension Plan and funded through investment income.

Annual Pension Cost

The annual required contribution was determined as part of the December 31, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 7.50% percent investment rate of return (net of administrative costs) and (b) 3.0% inflation and age related scale for merit/seniority for salary projections. The unfunded actuarial accrued liability is being amortized on the level dollar closed basis over 7.00 years.

Discount Rate

The discount rate used to measure the total pension liability is 7.50%. The projection of cash flows used to determine the discount rate assumes that the employer will continue the historical and legally required practice of contributing to the plan based on an actuarially determined contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining unfunded actuarial liability as a level dollar amount over a closed period. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Rate of Return

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities	42%	5.50% - 7.50%
International Equities	18%	4.50% - 6.50%
Fixed Income	37%	1.00% - 3.00%
Real Estate	0%	4.50% - 6.50%
Cash	3%	0.00% - 1.00%
Total Portfolio	100%	

Net Pension Liability

The Department's net pension liability has been measured as of December 31, 2015. The total pension liability was determined by an actuarial valuation as of December 31, 2015, calculated based on the discount rate and actuarial assumptions. There have been no significant changes between the valuation date and the fiscal year end. The net pension liability is $149,333 measured as the difference between the total pension liability of $17,983,737 and the fiduciary net position of $17,834,404.

The Department's change in total pension liability, plan fiduciary net position, and net pension liability for the year ended December 31, 2015 were as follows:

	Plan Fiduciary Total Pension Liability (A)	Net Position Position (B)	Net Pension Liability (A) – (B)
Balances as of December 31, 2014	$14,303,000	$14,379,067	$ (76,067)
Changes for the year:			
Service cost	507,224	-	507,224
Interest on total pension liability	1,092,361	-	1,092,361
Differences between expected and actual experience	-	-	-
Employer contributions	-	610,732	(610,732)
Member contributions	-	136,573	(136,573)
Net investment income	-	25,441	(25,441)
Benefit payments	(490,810)	(490,810)	-
Administrative expense	-	(26,790)	26,790
Transfers in	2,571,962	3,200,191	(628,229)
Net changes	3,680,737	3,455,337	225,400
Balances as of December 31, 2015	$17,983,737	$17,834,404	$ 149,333

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

The following presents the net pension liability of the Department calculated using the discount rate 7.50%, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability (Asset)	$2,615,894	$149,333	$(1,911,676)

Pension Expense and Deferred Outflows of Related to Pension

For the year ended December 31, 2015, the Department recognized net negative pension expense of $623,882. At December 31, 2015 the Department reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	$849,282

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

Year ended December 31:	
2016	$212,321
2017	212,321
2018	212,321
2019	212,319
	$849,282

Actuarial Methods and Significant Assumptions

- Investment return – 5.50%
- Discount rate – 5.50%
- Inflation – 3.00%
- Salary increases – age related scale with merit and inflation component
- Cost of living adjustments – 3.00% for those eligible for a COLA
- Pre-retirement mortality – Males – RP 2000 with 1 year set back; Females – RP 2000 with 5 year set back.
- Post-retirement mortality – Sex distinct – RP 2000 combined healthy mortality.

Non-Uniform Pension Plan

The Pocono Mountain Regional Non-Uniformed Pension Plan is a single-employer defined contribution pension plan established to provide a retirement income to supplement the benefits payable under Social Security.

Eligibility

All full-time non-uniformed employees join the Plan on the first day of the month following completion of 12 months of employment, or on the December 31 following completion of six months of employment, if earlier.

Contributions

The Department contributes 4.0% of W-2 pay for eligible employees. To receive a contribution, the participant must be employed as a full-time non-uniformed employee on December 31. The Department's contributions totaled $8,243 for 2015.

Normal Retirement

A participant's full account is payable upon retirement at age 65 and completion of ten years of service.

Disability

If a participant becomes disabled and is unable to continue working, he will be 100% vested in his account, regardless of the number of years of service completed.

Death Benefits

If a participant dies while an active member of the Plan, his account will be 100% vested and payable to the designated beneficiary or beneficiaries.

Vesting

If a participant's membership in the Plan terminates other than by retirement, disability or death, the percentage of his Employer Contribution Account to which he will be entitled depends upon the number of year of credited service. The vesting account is as follows:

Years of Service	Vesting Percentage
0-6 Years	0%
7	50%
8	60%
9	70%
10	80%
11	90%
12 or More Years	100%

A participant is credited with a year of service for each complete 12-month period commencing with the participant's date of hire and ending on the date of separation from service.

For this purpose, participants in the Plan as of January 1, 1995, shall be credited with service from their date of hire at the Township of Tobyhanna.

Forfeiture

When a participant terminates before becoming 100% vested, the portion of his account to which he is not entitled is used to reduce future Department contributions to the Plan. There were no forfeitures for 2015.

(7) RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverage during 2015. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Department participates in a consortium with other Pennsylvania municipalities to provide self-insurance programs for health and prescription insurance coverage and related expenses for eligible employees, spouses and dependents. Accordingly benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims.

(8) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 68, the Department made a prior period adjustment to record its net pension asset (liability). This prior period adjustment and its effect on net position at January 1, 2015 are summarized in the following table:

Net position at January 1, 2015, as previously reported	$4,455,712
Prior period adjustment to record net pension asset	76,067
Net position at January 1, 2015, as restated	$4,531,779

(9) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 6, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Year ended December 31, 2015

	Police Pension Fund
TOTAL PENSION LIABILITY	
Service cost	$ 507,224
Interest on total pension liability	1,092,361
Benefit payments, including refunds of member contributions	(490,810)
Transfers in	2,571,962
Net change in total pension liability	3,680,737
Total pension liability, beginning	14,303,000
Total pension liability, ending	$ 17,983,737
PLAN FIDUCIARY NET POSITION	
Employer contributions	$ 610,732
Member contributions	136,573
Net investment income	25,441
Benefit payments	(490,810)
Administrative expense	(26,790)
Transfers in	3,200,191
Net change in plan fiduciary net position	3,455,337
Fiduciary net position, beginning	14,379,067
Fiduciary net position, ending	$ 17,834,404
Net pension liability, ending	$ 149,333
Fiduciary net position as a % of total pension liability	99.17%
Covered payroll	3,113,787
Net pension liability as a % of covered payroll	4.80%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

SCHEDULE OF DEPARTMENT PENSION CONTRIBUTIONS

Year ended December 31, 2015

Police Pension Fund

Fiscal Year Ended December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2015	$ 610,732	$ 610,732	$ -	$ 3,113,787	19.61%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended December 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Percentage Funded (a/b)	Unfunded AAL (UAAL) (b – a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
01/01/2015	$ -	$2,159,109	0.00%	$2,159,109	$3,148,102	68.58%

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2015

	Police Pension Fund	Non-Uniform Pension Fund	Total
ASSETS			
Investments	$ 17,834,404	$ 123,773	$ 17,958,177
NET POSITION			
Assets held in trust for pension benefits	$ 17,834,404	$ 123,773	$ 17,958,177

POCONO MOUNTAIN REGIONAL POLICE DEPARTMENT

COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year ended December 31, 2015

	Police Pension Fund	Non-Uniform Pension Fund	Total
ADDITIONS			
Contributions			
Employer contributions	$ 654,628	$ 8,243	$ 662,871
Member contributions	148,373	-	148,373
Transfers from other muncipalities	3,156,295	-	3,156,295
Total contributions	3,959,296	8,243	3,967,539
Investment income			
Interest, dividends and investment income	88,574	527	89,101
Total additions	4,047,870	8,770	4,056,640
DEDUCTIONS			
Benefits paid	461,922	-	461,922
Refunds of member contributions	28,888	-	28,888
Administrative expenses	89,924	-	89,924
Total deductions	580,734	-	580,734
CHANGE IN NET POSITION	3,467,136	8,770	3,475,906
NET POSITION			
Beginning of year	14,367,268	115,003	14,482,271
End of year	$ 17,834,404	$ 123,773	$ 17,958,177

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Police Commission
Pocono Mountain Regional Police Department
Pocono Summit, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pocono Mountain Regional Police Department (the ***"Department"***), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 6, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness ***(See Finding 2015-01)***.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pocono Mountain Regional Police Department's Response to Findings

The Pocono Mountain Regional Police Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Pocono Mountain Regional Police Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BBD, LLP

Philadelphia, Pennsylvania
October 6, 2016

2015-01 – CAPITAL ASSET MANAGEMENT

Condition

Currently, the Department's capital asset inventory and depreciation records are maintained in a manner that is not consistent with any type of policy and lacks the level of detail that is needed to effectively manage and update capital asset records on an on-going basis. In addition, the Department does not have a policy that establishes policies and procedures surrounding the management of capital assets.

Criteria

Capital assets represent the Department's most significant investment. Over time, purchases of building improvements and equipment result in the accumulation of millions of dollars of long-term assets. Hence, it is important that the Department's capital assets are actively managed to ensure proper reporting of capital assets in accordance with generally accepted accounting principles to satisfy reporting requirements of State and local agencies, debt underwriters and other creditors.

Effect

Errors and/or fraud surrounding financial reporting can occur and not be detected and corrected on a timely basis.

Recommendation

We recommend that the Police Commission and management develop a capital asset policy that at a minimum addresses asset categories, a capitalization threshold, estimated useful lives of asset categories, depreciation methods to be utilized and the maintenance of capital asset records for financial reporting purposes. In addition, the policy should address assets that fall below the capitalization threshold that may require control due to the risk of theft. Upon completion of the Department policy for the management of capital assets, we recommend that the Department contract with a third party to conduct an appraisal of the Department's capital assets consistent with Department policy. The establishment of updated capital asset records through a third party appraisal will assist the Department in developing a means to accurately track capital assets and keep these records up to date. We recommend that the Department track its capital asset records through the use of a capital asset module which will allow the Department to calculate and update depreciation schedules as additions and disposals are made.

Views of Responsible Officials and Corrective Actions

Management will develop for review and adoption by the Police Commission a capital asset policy that addresses asset categories, capitalization threshold, estimated useful lives by category, depreciation methods, and maintenance of capital asset records. Management also agrees to contract for a third party appraisal of Department capital assets to assist in tracking/updating such assets and a capital asset module for calculating/updating depreciation schedules.