

Penn Township

Financial Statements and Supplementary Information

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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PENN TOWNSHIP

YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

Board of Supervisors
Penn Township

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities, the business-type activity, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Penn Township (Township) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activity, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township, as of December 31, 2015, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The management's discussion and analysis and budgetary comparison information for the General Fund on pages i through ix and pages 34 and 35, respectively, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The management's discussion and analysis and budgetary comparison information for the General Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The combining and individual fund financial statements and budgetary comparison schedules 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 and budgetary comparison schedules 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 and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
March 29, 2016

**PENN TOWNSHIP
LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Overview of the Financial Statements

The Management's Discussion & Analysis (MD&A) of Penn Township's (Township) financial performance provides a brief overview of the Township's financial activities for the fiscal year that ended December 31, 2015. As recommended by the Governmental Accounting Standards Board's (GASB) Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for Local Governments," the following MD&A is an element in ensuring compliance with the statement's requirements. For comparative purposes, the MD&A will provide data from the previous fiscal year.

The accompanying financial statements for the Township for the fiscal year ended on December 31, 2015 present both government-wide and fund level financial statements using the modified cash basis of accounting. The government-wide financial statements show financial information concerning the activities of the Township as a whole and provide a longer-term view of the Township's finances through the Statement of Net Position and the Statement of Activities. Fund financial statements show how the Township finances its services in the short-term, as well as, the balances remaining for future spending. These statements also provide separate information for the Township's major governmental funds (General and Capital Improvements), non-major governmental funds (State Liquid Fuels and Storm Water Management), proprietary fund (Water and Sewer), and fiduciary fund (Non-Uniform Pension). It is important to note that the cash method of accounting is used for PennDOT reporting of the State Liquid Fuels Fund as required by the Commonwealth of Pennsylvania. The included Statement of Receipts, Disbursements, and Changes in Fund Net Position—Proprietary Fund provides financial information about the Township's daily operations of the Northwestern Lancaster County Authority's (Authority) public water and wastewater systems and billing and collection of water and wastewater service fees. The included Statement of Fiduciary Net Position provides financial information about the activities of the Township in which it acts as an agent for the benefit of its employees, retirees, and developers. These activities are excluded from the government-wide financial statements of the Township because these assets cannot be utilized to finance the operations of the Township.

Government-Wide Financial Statements

As reported on page 1 of the 2015 Audit Report, the assets and net position of the Township on December 31, 2015 were \$6,741,759. The Township's assets and net position as of January 1, 2015 were \$5,985,010. Therefore, there was an increase in the Township net position of \$756,749 for the year ended December 31, 2015 (12.6%). This increase in assets and net position can be largely attributable to higher than anticipated charges for services in the Water and Sewer Fund, due to new development within the Township. The increase in assets and net position is also attributable to higher than anticipated real estate tax, realty transfer tax, earned income tax, and local service tax revenues resulting from continued growth in the tax base, income tax base, and job market within the Township.

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LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

The following is an itemization of the increases and decreases in individual funds used to arrive at the change in net position of the Township as of December 31, 2015:

| | | |
|------------------------------|-------------------|----------------|
| General Fund | \$ 38,299 | 5.06% |
| Capital Improvements Fund | 324,177 | 42.84% |
| Non-major governmental funds | (9,253) | -1.22% |
| Water and Sewer Fund | 403,526 | 53.32% |
| | <u>\$ 756,749</u> | <u>100.00%</u> |

| | 2014 | 2015 |
|------------------------------|-------------|-------------|
| Net Position - January 1 | \$5,747,478 | \$5,985,010 |
| Net Position- December 31 | \$5,985,010 | \$6,741,759 |
| \$ Amount of Change | \$237,532 | \$756,749 |
| Percent Change | 4.13% | 12.6% |

**PENN TOWNSHIP
LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

For the years ended December 31, 2014 and 2015, receipts and disbursements of the primary government changed as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| <u>Receipts</u> | | | | | | |
| PROGRAM RECEIPTS | | | | | | |
| Charges for Services | \$ 608,306 | \$ 520,637 | \$ 1,597,358 | \$ 2,175,353 | \$ 2,205,664 | \$ 2,695,990 |
| Operating Grants and Contributions | 376,107 | 392,584 | - | - | 376,107 | 392,584 |
| GENERAL RECEIPTS | | | | | | |
| Taxes | 2,602,574 | 2,751,186 | - | - | 2,602,574 | 2,751,186 |
| Other | 465,692 | 389,788 | 675 | 2,005 | 466,367 | 391,793 |
| Total Receipts | <u>4,052,679</u> | <u>4,054,195</u> | <u>1,598,033</u> | <u>2,177,358</u> | <u>5,650,712</u> | <u>6,231,553</u> |
| <u>Disbursements</u> | | | | | | |
| Public Safety | 1,749,403 | 1,811,194 | - | - | 1,749,403 | 1,811,194 |
| Community Development | 55,203 | 10,365 | - | - | 55,203 | 10,365 |
| Public Works | 1,074,919 | 1,150,989 | - | - | 1,074,919 | 1,150,989 |
| Recreation and Cultural | 132,038 | 90,634 | - | - | 132,038 | 90,634 |
| Administration | 468,454 | 491,605 | - | - | 468,454 | 491,605 |
| Debt Service Payments | 848,313 | 913,687 | - | - | 848,313 | 913,687 |
| Water and Sewer | - | - | 1,084,850 | 1,006,330 | 1,084,850 | 1,006,330 |
| Total Disbursements | <u>4,328,330</u> | <u>4,468,474</u> | <u>1,084,850</u> | <u>1,006,330</u> | <u>5,413,180</u> | <u>5,474,804</u> |
| Change in net position before transfers | (275,651) | (414,279) | 513,183 | 1,171,028 | 237,532 | 756,749 |
| Transfers | <u>762,711</u> | <u>767,502</u> | <u>(762,711)</u> | <u>(767,502)</u> | - | - |
| Change in net position | 487,060 | 353,223 | (249,528) | 403,526 | 237,532 | 756,749 |
| Net position, beginning of year | <u>3,881,693</u> | <u>4,368,753</u> | <u>1,865,785</u> | <u>1,616,257</u> | <u>5,747,478</u> | <u>5,985,010</u> |
| Net position, end of year | <u>\$ 4,368,753</u> | <u>\$ 4,721,976</u> | <u>\$ 1,616,257</u> | <u>\$ 2,019,783</u> | <u>\$ 5,985,010</u> | <u>\$ 6,741,759</u> |

Fund Financial Statements

Most of the Township's basic services are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. As noted on page 4 of the financial statements for the year ended December 31, 2015, the primary operating fund, the General Fund, had a fund balance of \$884,278 on January 1, 2015 and closed on December 31, 2015 with a fund balance of \$922,577 (+4.33%). The net change in General Fund Balance was an increase of \$38,299. This increase in fund balance can be attributable to positive variances in a number of receipts including real estate tax, realty transfer tax, earned income tax, local service tax, licenses and permits, fines and forfeits, contributions, investment earnings, intergovernmental receipts, and charges for services and less than anticipated disbursements from recreation and cultural.

The other major governmental fund is the Capital Improvements Fund (consisting of the Agricultural Preservation Fund, the Capital Reserve Fund, the Street Improvement Fund, and the Streetscape Project Fund). The Capital Improvements Fund had a fund balance of \$3,262,468 on January 1, 2015 and closed on December 31, 2015 with a fund balance of \$3,586,645 (+9.94%). This increase in fund balance in the Capital Improvements Fund can be largely attributable to

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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

anticipated and supplemental interfund transfers that occurred in 2015, as well as less than anticipated disbursements from community development.

In addition to the two major governmental funds, the Township has two non-major governmental funds (State Liquid Fuels and Storm Water Management). The State Liquid Fuels Fund had a fund balance of \$185,681 on January 1, 2015 and closed on December 31, 2015 with a fund balance of \$162,785 (-12.33%). The Storm Water Management Fund had a fund balance of \$36,326 on January 1, 2015 and closed on December 31, 2015 with a fund balance of \$49,969 (+37.56%).

The Township operates and maintains the public water and wastewater systems of the Authority. Such arrangements are in accordance with the terms of the capital lease agreement that the Township entered into with the Authority on December 23, 2009 and subsequently amended and supplemented on February 26, 2013. Charges by the Township for water and sewer rentals and by the Authority for tapping and connection fees are deposited into the Water and Sewer Fund. Under the current lease, water and sewer revenues are deposited in the Water and Sewer Fund and pledged towards the systems' operating expenses and debt service payments relative to the wastewater treatment plant upgrade that was undertaken in 2003, the completed water treatment facility project, and ongoing water system improvements. In addition to the Water and Sewer Fund, the Township maintains a separate fund entitled Northwestern Lancaster County Authority Water Project Fund for the applicable bond proceeds from the issuance of General Obligation Bonds, Series of 2012, and General Obligation Bonds, Series of 2013, which advance refunded the outstanding balance of General Obligation Bonds, Series of 2009. The Authority maintains a separate checking account previously for the purpose of making debt service payments and for miscellaneous payments and deposits. The Authority's checking account continues to be maintained for miscellaneous purposes. The Township and Authority's proprietary activities are reported in a separate Combining Statement of Receipts, Disbursements, and Changes in Fund Net Position. As reported on pages 6, 42, and 43 of the financial statements for the year ended December 31, 2015, the net position of this proprietary fund increased by \$403,526 (24.97%). This increase in fund net position is attributable to higher than anticipated charges for services due to new development within the Township.

The Township acts as a trustee or fiduciary for its employees' pension plan. The Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. As reported on page 8 of the financial statements for the year ended December 31, 2015, the net position of the Non-Uniform Pension Fund increased by \$27,327 (+2.16%). The increase in the plan net position for the Non-Uniform Pension Fund largely resulted from a net appreciation in the fair value of investments and employer and employee contributions. It is important to note that the Non-Uniform Pension Fund is fully funded as of the most recent actuarial valuation dated January 1, 2015.

No restrictions, commitments, or other limitations are anticipated to significantly affect the availability of fund resources for future use.

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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Discretely Presented Component Unit

The Penn Industrial Development Authority (IDA) is reported as a discretely presented component unit in a separate column in the government-wide financial statements to emphasize that the IDA is legally separate from the Township. Separate financial statements of the IDA can be obtained by contacting the Township.

The IDA was established on December 9, 2013, under the provisions of the Economic Development Financing Law, to enhance the economic development of Lancaster County and the Township, and to promote and assist in the growth and development of business and industry therein, including small business concerns, through the issuance of conduit debt. However, the activities of the Authority shall not be limited to Lancaster County nor the Township and shall only be limited by applicable law. The term of existence of the Authority is fifty years from its date of incorporation. The surplus assets of the IDA not reasonably required to meet or provide for the obligations or operations of the IDA are to be transferred upon the written direction of the Township, to the Township from time to time. The IDA is governed by a Board consisting of five members appointed by the Township Board of Supervisors.

Debt Administration

As of December 31, 2015, the Township had an outstanding long term debt of \$11,245,000. Such debt was incurred by the issuance of General Obligation Bonds, Series of 2012, General Obligation Bonds, Series of 2013, which advance refunded the Series of 2009, and the General Obligation Note, Series of 2014. The debt is anticipated to be paid in full by May 15, 2033. Of this \$11,245,000, \$10,685,000 is attributable to the Authority's public water and wastewater systems and has been determined and approved to be self-liquidating under the provisions of Section 8026 of the Local Government Unit Debt Act by the Pennsylvania Department of Community and Economic Development.

Guaranty Commitments

Water and Wastewater Operation and Maintenance Agreement

In September 2008, the Township entered into a three-year agreement with Severn Trent Environmental Services, Inc. (Operator) for the operations and maintenance of the water treatment plant, wastewater treatment plant, sewer pumping stations, and all associated facilities owned by the Authority. The agreement shall be automatically renewed for successive three-year periods unless cancelled in writing by either party.

Per the agreement, in 2009, the operator's annual base compensation was \$272,741 payable in equal monthly installments. The base compensation is adjusted each year on July 1st based on the Consumer Price Index (CPI) published in April. In addition to the base compensation, the original agreement required the Township to pay an Annual Repairs and Maintenance Budget payable in monthly installments of \$2,500; an Annual Process Residue Budget payable in

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LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

monthly installments of \$4,167; an Annual Chemical Budget payable in monthly installments of \$1,453; and an Annual Electric Power Budget payable in monthly installments of \$6,667. The budgeted allowances are to be reviewed and, if necessary, adjusted annually based on prior year expenditures and anticipated expenditures in the subsequent year contingent upon the mutual agreement of the Township and the Operator.

In December 2009, the operations and maintenance agreement was amended, with an effective date of October 1, 2009. The amendment increased the monthly installment for the Annual Repairs and Maintenance Budget to \$3,000; increased the monthly installment for the Annual Chemical Budget to \$2,000; decreased the monthly installment for the Annual Process Residue Budget to \$3,000; and deleted the Annual Electric Power Budget.

In November 2010, a second amendment was made to the operations and maintenance agreement, with an effective date of December 1, 2010. The amendment increased the operator's annual base compensation to \$320,492 payable in equal monthly installments; changed the annual adjustment date of base compensation to January 1st based on CPI published in September; added the responsibilities of meter reading and repair and industrial wastewater monitoring to the Operator's scope of provided services; increased the number of facilities that the Operator is responsible to operate and maintain; extended the term of the agreement through December 31, 2016; increased the monthly installment for the Annual Repairs and Maintenance Budget to \$4,500; increased the monthly installment for the Annual Chemical Budget to \$4,000; and increased the monthly installment for the Annual Process Residue Budget to \$3,750.

On February 9, 2015, the Township and Operator entered into an agreement, which amended and restated the terms and conditions of the original agreement between the parties. In addition to changing the compensation and methods used to calculate future compensation of the Operator, the amended and restated agreement extends the terms of the agreement through December 31, 2019.

In January 2015, based on the CPI adjustment, the operator's annual base compensation was increased to \$371,726. In addition, the Annual Repairs and Maintenance Budget was decreased by \$6,000. For the year ended December 31, 2015, the Township paid the Operator \$507,074 for operations and maintenance costs.

Solar Energy Power Service Agreement

On February 14, 2011, the Township entered into a Solar Energy Power Service Agreement (Power Agreement) with Solar Properties—Penn Township I, LLC (Solar Properties). The term of the Power Agreement is 20 years unless otherwise terminated in accordance with the provisions of the agreement. The Power Agreement required Solar Properties to construct, at its sole cost, a 200 kilowatt ground-mounted solar PV system on lands owned by the Authority. During the term of the Power Agreement, the Township shall pay a fixed amount of \$53,000 annually to Solar Properties. In exchange for this annual payment, the Township retains ownership of all electricity generated by the system and all Solar Renewable Energy Credits

**PENN TOWNSHIP
LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

(SRECs), which are generated as a result of system production. Under the terms of the Power Agreement, Solar Properties pledges a minimum annual system output of 150,000 kilowatt hours (kWh). On February 22, 2011, the Authority joined in the execution of the Power Agreement as the owner of the property on which the system was built. The Power Agreement also provides the Township with the option of purchasing the system at the conclusion of the 7th year, 10th year, 15th year, and end of the term for the fair market value of the system, as determined in accordance with the provisions of the agreement upon written notice provided at least 180 days prior to the conclusion of the 7th year, 10th year, 15th year, and end of the term.

Waiver and Consent Agreement - Solar Properties' Financing

On April 11, 2011, the Township entered into a Waiver and Consent Agreement with the Authority, Solar Properties, and Metro Bank (Bank). Under the terms of the Waiver and Consent Agreement, the parties each acknowledge and agree that, if applicable, upon Solar Properties' default under any of the loan documents between Solar Properties and the Bank, the Township is hereby authorized and directed to remit payments under the Power Agreement directly to the Bank until Solar Properties' obligations to the Bank are paid in full. So long as the Township is not in default under the terms of the Power Agreement and is making the payments to the bank as required by the Waiver and Consent Agreement, the Bank agrees that the Township shall be entitled to the continued use of the equipment on the premises in accordance with the terms of the Power Agreement.

Lititz Rec Center Agreement

On January 27, 2015, the Township entered into an agreement with Elizabeth Township, Lititz Borough, and Warwick Township to make cash contributions to the Lititz Rec Center (Rec Center) to be used for capital improvements necessary to expand and maintain the Rec Center. Each municipal participant shall make its required annual payment to the Rec Center in four equal installments by the last day of March, June, September, and December each year. The agreement shall be for an initial term of January 1, 2015 through December 31, 2018 with the option to extend for additional four-year terms with the consent of each municipality. During the term of the agreement, the Township shall pay a fixed amount of \$15,000 annually to the Rec Center. For the year ended December 31, 2015, the Township paid the Rec Center \$15,000 under this agreement.

Other Commitments

The Township has committed \$250,000 from the Capital Improvements Fund to signalize the intersection of Lancaster Road and Bucknoll Road.

The Township entered into a construction contract related to the North Penryn Road Culvert Project. The outstanding commitment under the contract at December 31, 2015 was \$182,000. The project is being financed with funds from the Capital Improvements Fund.

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LANCASTER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

The Township entered into a construction contract related to the Doe Run Road and Penryn Road Improvement Project. The outstanding commitment under the contract at December 31, 2015 was \$1,930,605. The project is being financed with funds from the Capital Improvements Fund.

Lease Commitments

On November 28, 2011, the Township entered into a 60 month Municipal Lease Agreement with Advantage Financial Services, LLC for a docStar Workgroup Pro System (document management solution) and docStar Duplex Scanner. The monthly lease payment is \$433.

On September 18, 2013, the Township entered into a 63 month Fair Market Value Lease Agreement with Toshiba Business Solutions for a Toshiba eStudio 2550C multi-function machine (networked printer, copier, fax, and scanner). The monthly lease payment is \$161.

On December 10, 2013, the Township entered into a 63 month MailFinance Lease Agreement with Neopost Priority Systems for an IS-350 Postage Machine. The monthly lease payment is \$64.

Labor Contracts

None

Abolishment of the Penn Township Police Department and Formation of the Northern Lancaster County Regional Police Department

In September 2011, the Township Board of Supervisors passed Ordinance 2011-06, which authorized the Township to enter into an Intermunicipal Charter Agreement with Clay and Warwick townships to provide for the formation of the Northern Lancaster County Regional Police Department and the Northern Lancaster County Regional Police Commission. The Intermunicipal Charter Agreement was executed by the three parties in September 2011. Subsequent to this action, in December 2011, the Township Board of Supervisors enacted Resolution 2011-28, which dissolved and disbanded the Penn Township Police Department, transferred police property and equipment to the Northern Lancaster County Regional Police Commission, and authorized all other action necessary for the Northern Lancaster County Regional Police Department to become operational. On January 1, 2012, the Northern Lancaster County Regional Police Commission became operational. As a result, the Township's previous OPEB liability relative to current uniformed employees was transferred to the Northern Lancaster County Regional Police Commission as was the Township's sole collective bargaining unit. All cost of the Regional Department for police services, including employee payroll and benefits and vehicle and headquarter operating expenses, are apportioned to each participating municipality on the basis of purchased Police Protection Units. In 2012 and 2013, Penn Township purchased 41% of the available Police Protection Units. There has been no change in the percentage of available Police Protection Units in 2014 or 2015. In July 2014, the initial term of Intermunicipal Charter Agreement was extended until December 31, 2021; however, the

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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Agreement renews automatically from year to year thereafter unless terminated in accordance with the termination provisions outlined in the agreement.

PENN TOWNSHIP

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

DECEMBER 31, 2015

| Assets | Primary Government | | | Component Unit |
|---------------------------|----------------------------|-----------------------------|---------------------|---|
| | Governmental Activities | Business-type Activities | Total | Penn Industrial Development Authority |
| <hr/> | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 4,129,856 | \$ 1,679,619 | \$ 5,809,475 | \$ 10,032 |
| Investments | 162,785 | - | 162,785 | - |
| Restricted investments | 429,335 | 340,164 | 769,499 | - |
| | Total Assets | 2,019,783 | 6,741,759 | 10,032 |
| <hr/> | | | | |
| Net Position | | | | |
| <hr/> | | | | |
| Restricted for: | | | | |
| Public works | 592,120 | - | 592,120 | - |
| Capital projects | - | 340,164 | 340,164 | - |
| Unrestricted | 4,129,856 | 1,679,619 | 5,809,475 | 10,032 |
| | Total Net Position | \$ 2,019,783 | \$ 6,741,759 | \$ 10,032 |
| | \$ 4,721,976 | \$ 2,019,783 | \$ 6,741,759 | \$ 10,032 |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

| Functions/Programs: | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Net Position | | | Component Unit |
|--|---------------|----------------------|------------------------------------|--|------------------------|----------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Primary Government | | |
| | | | | | Business-type Activity | Total | |
| Primary Government: | | | | | | | |
| Governmental activities: | | | | | | | |
| Public safety | \$ 1,811,194 | \$ 437,517 | \$ 64,124 | \$ (1,309,553) | \$ - | \$ (1,309,553) | \$ - |
| Community development | 10,365 | 2,855 | - | (7,510) | - | (7,510) | - |
| Public works | 1,150,989 | 16,042 | 312,525 | (822,422) | - | (822,422) | - |
| Recreational and cultural Administration | 90,634 | - | - | (90,634) | - | (90,634) | - |
| Administration | 491,605 | 64,223 | 15,935 | (411,447) | - | (411,447) | - |
| Debt service payments | 913,687 | - | - | (913,687) | - | (913,687) | - |
| Total governmental activities | 4,468,474 | 520,637 | 392,584 | (3,555,253) | - | (3,555,253) | - |
| Business-type activity: | | | | | | | |
| Water and sewer | 1,006,330 | 2,175,353 | - | - | 1,169,023 | 1,169,023 | - |
| Total Primary Government | \$ 5,474,804 | \$ 2,695,990 | \$ 392,584 | (3,555,253) | 1,169,023 | (2,386,230) | - |
| Component Unit: | | | | | | | |
| Penn Industrial Development Authority | \$ 25,004 | \$ 27,210 | \$ - | - | - | - | 2,206 |
| General receipts: | | | | | | | |
| Real estate taxes | | | | 1,126,884 | - | 1,126,884 | - |
| Real estate transfer taxes | | | | 229,023 | - | 229,023 | - |
| Earned income taxes | | | | 1,084,703 | - | 1,084,703 | - |
| Local services taxes | | | | 202,878 | - | 202,878 | - |
| Franchise taxes | | | | 104,686 | - | 104,686 | - |
| Public utility realty tax | | | | 3,012 | - | 3,012 | - |
| Investment earnings | | | | 12,018 | 2,005 | 14,023 | 12 |
| Intergovernmental revenue and contributions (not restricted to a specific purpose) | | | | 377,770 | - | 377,770 | - |
| Transfers | | | | 767,502 | (767,502) | - | - |
| Total general receipts and transfers | | | | 3,908,476 | (765,497) | 3,142,979 | 12 |
| Change in Net Position | | | | 353,223 | 403,526 | 756,749 | 2,218 |
| Net Position: | | | | | | | |
| Beginning of year | | | | 4,368,753 | 1,616,257 | 5,985,010 | 7,814 |
| End of year | | | | \$ 4,721,976 | \$ 2,019,783 | \$ 6,741,759 | \$ 10,032 |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

BALANCE SHEET - MODIFIED CASH BASIS GOVERNMENTAL FUNDS

DECEMBER 31, 2015

| | <u>General</u> | <u>Capital Improvements</u> | <u>Non-Major Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------|-------------------|---------------------------------|----------------------------|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 922,577 | \$ 3,157,310 | \$ 49,969 | \$ 4,129,856 |
| Investments | - | - | 162,785 | 162,785 |
| Restricted investments | - | 429,335 | - | 429,335 |
| Total Assets | \$ 922,577 | \$ 3,586,645 | \$ 212,754 | \$ 4,721,976 |
| Fund Balance | | | | |
| Restricted for: | | | | |
| Public works | \$ - | \$ 429,335 | \$ 162,785 | \$ 592,120 |
| Committed for: | | | | |
| Community development | - | 637,082 | - | 637,082 |
| Public works | - | 1,519,299 | 49,969 | 1,569,268 |
| Assigned for: | | | | |
| Capital projects | - | 1,000,929 | - | 1,000,929 |
| Unassigned | 922,577 | - | - | 922,577 |
| Total Fund Balance | \$ 922,577 | \$ 3,586,645 | \$ 212,754 | \$ 4,721,976 |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

| | General | Capital Improvements | Non-Major Funds | Total Governmental Funds |
|---|--------------|-------------------------|--------------------|--------------------------------|
| Receipts: | | | | |
| Real estate tax | \$ 1,126,884 | \$ - | \$ - | \$ 1,126,884 |
| Realty transfer tax | 229,023 | - | - | 229,023 |
| Earned income tax | 1,084,703 | - | - | 1,084,703 |
| Local service tax | 202,878 | - | - | 202,878 |
| Public utility realty tax | 3,012 | - | - | 3,012 |
| State liquid fuels tax | - | - | 293,805 | 293,805 |
| Licenses and permits | 107,541 | - | - | 107,541 |
| Fines and forfeits | 29,784 | - | - | 29,784 |
| Contributions | 263,862 | - | - | 263,862 |
| Investment earnings | 1,716 | 10,059 | 243 | 12,018 |
| Intergovernmental receipts | 194,567 | - | 18,720 | 213,287 |
| Miscellaneous receipts | 22,335 | - | - | 22,335 |
| Charges for services | 448,836 | - | 16,042 | 464,878 |
| Total receipts | 3,715,141 | 10,059 | 328,810 | 4,054,010 |
| Disbursements: | | | | |
| Current: | | | | |
| Public safety | 1,811,194 | - | - | 1,811,194 |
| Community development | 9,365 | - | 1,000 | 10,365 |
| Public works | 626,794 | 187,132 | 337,063 | 1,150,989 |
| Recreation and cultural | 90,634 | - | - | 90,634 |
| Administration | 491,605 | - | - | 491,605 |
| Debt service: | | | | |
| Principal | 602,922 | - | - | 602,922 |
| Interest and fiscal charges | 310,765 | - | - | 310,765 |
| Total disbursements | 3,943,279 | 187,132 | 338,063 | 4,468,474 |
| Deficiency of Receipts Under Disbursements | (228,138) | (177,073) | (9,253) | (414,464) |
| Other Financing Sources (Uses): | | | | |
| Sale of general capital assets | 185 | - | - | 185 |
| Transfers in | 767,502 | 501,250 | - | 1,268,752 |
| Transfers out | (501,250) | - | - | (501,250) |
| Total other financing sources | 266,437 | 501,250 | - | 767,687 |
| Net Change in Fund Balance | 38,299 | 324,177 | (9,253) | 353,223 |
| Fund Balance: | | | | |
| Beginning of year | 884,278 | 3,262,468 | 222,007 | 4,368,753 |
| End of year | \$ 922,577 | \$ 3,586,645 | \$ 212,754 | \$ 4,721,976 |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUND
DECEMBER 31, 2015

| | <u>Water and Sewer Fund</u> |
|---------------------------------|-----------------------------------|
| Assets | |
| <hr/> | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,679,619 |
| Restricted investments | <u>340,164</u> |
| Total Assets | <u><u>\$ 2,019,783</u></u> |
| Net Position | |
| <hr/> | |
| Restricted for capital projects | \$ 340,164 |
| Unrestricted | <u>1,679,619</u> |
| Total Net Position | <u><u>\$ 2,019,783</u></u> |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2015

| | <u>Water and Sewer Fund</u> |
|---|---------------------------------|
| Operating Receipts: | |
| Charges for services | \$ 2,153,465 |
| Miscellaneous receipts | 21,888 |
| Total operating receipts | <u>2,175,353</u> |
| Operating Disbursements: | |
| Operation and administration | 962,392 |
| Materials and supplies | 42,938 |
| Total operating disbursements | <u>1,005,330</u> |
| Operating Income | <u>1,170,023</u> |
| Nonoperating Receipts (Disbursements): | |
| Investment earnings | 2,005 |
| Interest and fiscal charges | <u>(1,000)</u> |
| Total nonoperating receipts | <u>1,005</u> |
| Change in net position before transfers | 1,171,028 |
| Transfers out | <u>(767,502)</u> |
| Change in Net Position | 403,526 |
| Net Position: | |
| Beginning of year | <u>1,616,257</u> |
| End of year | <u><u>\$ 2,019,783</u></u> |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS FIDUCIARY FUNDS

DECEMBER 31, 2015

| | Pension Trust Fund | Agency Fund |
|--|--------------------------|-------------------|
| <hr/> Assets <hr/> | | |
| Cash and cash equivalents | \$ 15 | \$ - |
| Restricted cash and cash equivalents | - | 240,007 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents | 15 | 240,007 |
| Investments, at fair value: | | |
| Money market funds | 48,551 | - |
| U.S. government bond and notes | 300,412 | - |
| Corporate bonds | 127,235 | - |
| Equities | 817,373 | - |
| | <hr/> | <hr/> |
| Total investments | 1,293,571 | - |
| | <hr/> | <hr/> |
| Total Assets | 1,293,586 | 240,007 |
| <hr/> Net Position <hr/> | | |
| Restricted for employees' pension benefits | 1,293,586 | - |
| Held in escrow for developers | - | 240,007 |
| | <hr/> | <hr/> |
| Total Net Position | \$ 1,293,586 | \$ 240,007 |
| | <hr/> <hr/> | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS PENSION TRUST FUND

YEAR ENDED DECEMBER 31, 2015

Additions:

Contributions:

Employer contributions
Employee contributions

\$ 46,489
2,733

Total contributions

49,222

Investment income:

Net appreciation in fair value of investments

37,839

Total additions

87,061

Deductions:

Benefits
Administrative expenses

38,485
21,249

Total deductions

59,734

Net Increase in Plan Net Position

27,327

Net Position:

Beginning of year

1,266,259

End of year

\$ 1,293,586

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

1. NATURE OF ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Penn Township (Township), Lancaster County, Pennsylvania, was formed in 1846. The Township operates under a form of government which is comprised of an elected Board of Supervisors (five members) under the administration of an appointed Township Manager.

The Governmental Accounting Standards Board (GASB) requires that the reporting entity include the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in the governmental accounting standards has been considered. The component units, as determined under the above criteria and as discussed below, are included in the Township's reporting entity.

Blended Component Unit

The Northwestern Lancaster County Authority (Authority) is a financing authority organized under the Municipal Authority Act of 1945, as amended. The Authority owns the water and sewer systems of the Township, which it leases to the Township, who is responsible for operation and use of the water and sewer system. The Authority is governed by a Board of Directors consisting of five members appointed by the Township Board of Supervisors. The Authority is reported as a blended component unit of the proprietary fund.

Discretely Presented Component Unit

The Penn Industrial Development Authority (IDA) is an authority organized under the Economic Development Financing Law, as amended. The IDA's purposes are to enhance the economic development of Lancaster County and the Township, and to promote and assist in the growth and development of business and industry therein, including small business concerns, through the issuance of conduit debt. However, the activities of the Authority shall not be limited to Lancaster County nor the Township and shall only be limited by applicable law. The surplus assets of the IDA not reasonably required to meet or provide for the obligations or operations of the IDA are to be transferred, upon the written direction of the Township, to the Township from time to time. The IDA is governed by a Board of Directors consisting of five members appointed by the Township Board of Supervisors.

The discretely presented component unit is reported as a separate column in the government-wide financial statements to emphasize that the IDA is legally separate from the Township. Separate financial statements of the IDA can be obtained by contacting the Township.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Joint Venture

On September 21, 2011, the Township entered into a charter agreement with Clay Township and Warwick Township for the formation of the Northern Lancaster County Regional Police Department (Department) for the purpose of providing comprehensive, quality police protection for its participating municipalities in the most efficient manner. The Department is under the direction and control of the Northern Lancaster County Regional Police Commission (Commission), which is the governing body of the Department. The Commission consists of two representatives from the Township, Clay Township, and Warwick Township, one of which must be a member of each Township's Board of Supervisors. The Township contributed certain assets, including vehicles, firearms, and equipment, to the formation of the Department. All costs of the Department for police services, including employee payroll and benefits and vehicle and headquarter operating expenses, are to be apportioned to each participating municipality using a police protection unit (unit) basis.

The Township may withdraw from the agreement provided that notice to withdraw is provided to the Commission at least 15 months prior to the effective date of the withdrawal. In the event of withdrawal, the Township would be responsible for paying the following amounts to the Commission as full and complete payment of its withdrawal liability: (1) within three months after the effective date of separation, 50% of the units purchased in the last calendar year of full participation; (2) within 15 months after the effective date of separation, 25% of the units purchased in the last calendar year of full participation; and (3) within 27 months after the effective date of separation, 25% of the units purchased in the last calendar year of full participation. In addition, upon withdrawal, the Township would be responsible for paying, over a 24-month period after the effective date of withdrawal, 100% of the Township's share based on units purchased of the unfunded actuarially accrued liability for the police pension, if any, on the effective date of withdrawal.

The agreement was amended in July 2014 to change the withdrawal date for any participating township and to change the termination date of the agreement from December 31, 2016 to December 31, 2021. In addition, the amendment provides that the participating townships will not reduce the units of service purchased during the prior fiscal year by more than five percent.

The agreement will renew automatically from year to year thereafter, subject to the dissolution provisions outlined in the agreement.

During the year ended December 31, 2015, the Township paid the Department \$1,383,917 for its share of police services. In addition, during the year ended December 31, 2015, the Township paid the Department \$80,377 and \$390 for police pension contributions and state dog law enforcement costs, respectively. Residual assets upon dissolution of the Commission

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

would be distributed equitably among the remaining member municipalities. Separate financial statements were issued by the Department and can be obtained by contacting the Township.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, receipts, and disbursements. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund – established to account for resources devoted to financing the general services that the Township provides and always classified as a major fund. General tax receipts and other receipts used to finance the fundamental operations of the Township are recorded in this fund. The fund is charged with all costs of operating the Township for which there is not a separate fund.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Special Revenue Funds – are used to account for proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

State Liquid Fuels Fund – is used to account for the proceeds from the State Motor License Fund. Under the Act of June 1, 1956, P.L. 1944, No. 145, this fund must be kept separate from all other funds and no other funds shall be commingled with this fund. Cash disbursements are legally restricted for highway purposes in accordance with Department of Transportation regulations.

Storm Water Management Fund – is used to account for the fees charged by the Township committed for the inspection, repair, and maintenance of the existing storm water management facilities or for the construction and installation of new storm water facilities.

Capital Improvements Fund – is used to account for the acquisition, construction, and improvement of major capital assets.

Proprietary Fund

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily through user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The major enterprise fund is the Water and Sewer Fund.

Fiduciary Funds

Pension Trust Funds – are established to provide pension benefits for Township employees. The principal receipt sources for these funds are employer and employee contributions and returns on investments.

Township Pension Fund – provides post-retirement pension benefits to all non-uniform employees who have provided certain levels of service.

Agency Fund – is custodial in nature (assets equal net position) and does not involve the measurement of results of operations and does not have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. The developer's escrow fund is used to account for funds received from certain developers pursuant to security agreements.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Major and Nonmajor Funds

The funds are classified as major or nonmajor. The General Fund, Capital Improvements Fund, and Water and Sewer Fund are considered major funds. The State Liquid Fuels and Storm Water Management Funds are considered non-major funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

If the Township utilized the measurement focus recognized as generally accepted, the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities, would have been presented using the “economic resources” measurement focus as defined below. Additionally, the fund financial statements would have been presented using the “current financial resources” measurement focus or the “economic resources” measurement focus, as appropriate.

- All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available financial resources during a given period. These funds use fund balance as their measure of available financial resources at the end of the period.
- The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.
- The pension trust fund utilizes an “income determination” measurement focus. Accordingly, all assets and liabilities arising from cash transactions are included on the balance sheet, and the fund equity reflects the economic net worth of the fund. The operating statement reflects the change in total economic net worth for the period presented through the additions and deductions of the fund.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the modified cash basis of accounting. This basis recognizes assets, net position/fund equity, receipts, and disbursements when they result from cash transactions, except that:

- Investment assets are recorded at fair value and changes in fair value are recognized as a component of receipts.

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for the governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and the fund financial statements for the proprietary fund types and pension trust fund would use the accrual basis of accounting.

Modified Accrual Basis – Revenues would be recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) would be recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

Accrual Basis – Revenues would be recognized when earned. Expenses (including depreciation and amortization) would be recorded when the liability was incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions would be recognized when the exchange took place.

D. Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Township considers amounts held in checking, savings, and certificates of deposit to be cash and cash equivalents.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Restricted Assets

Restricted assets represent monies required to be restricted under the terms of bond indentures, employees' pension benefits, and monies received from developers for various projects within the Township.

Investments

The Township is authorized by state statute to deposit governmental funds in the following:

- a. U.S. Treasury bills.
- b. Short-term obligations of the U.S. Government and Federal agencies.
- c. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.
- d. General obligation bonds of the Federal Government, the Commonwealth of Pennsylvania or any State agency, or of any Pennsylvania political subdivision.
- e. Shares of mutual funds whose investments are restricted to the above categories.

When making investments, the Township can combine monies from more than one fund under the Township's control for the purchase of a single investment, and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Pension trust funds are not restricted to the above requirements and may invest in other financial instruments.

The Township's investments are valued at fair value.

Capital Assets

As a result of the use of the modified cash basis of accounting, capital assets are recorded as disbursements, upon acquisition, in the government-wide and fund financial statements. Disbursements for infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are recorded as disbursements in the fund types expending the funds.

Long-Term Debt

As a result of the use of the modified cash basis of accounting, long-term debt arising from cash transactions is not reported as a liability in the government-wide or fund financial statements. In the governmental funds, debt proceeds are reported as other financing sources

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

and the payment of principal and interest are reported as disbursements. Additionally, debt issuance costs are recognized during the period of issuance.

Compensated Absences

Vacation days are granted to employees in various amounts, depending on years of service. Vacation days for non-uniform employees may be accumulated and carried over to the next year, up to a defined maximum number of accrual days, based on years of service. In the event of voluntary termination with the Township, an employee is entitled to payment of earned vacation days that remain unused for that current year. If the Township terminates an employee for just cause, he/she will not be entitled to the payment of their unused/unearned vacation time for the current year.

Sick days are accrued at a rate of 2.5 hours per pay period. Employees may accumulate up to a total of 400 hours each year and are not paid for unused accrued sick leave at termination.

Equity Classification

Government-Wide Statements:

Equity is classified as net position and displayed in two components:

- Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that does not meet the definition of “restricted.”

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Fund Balance:

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraint placed upon the funds. These levels are as follows:

- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are limited in use due to the constraints on purpose and circumstances of spending imposed by the Board of Supervisors (Board). Such commitment is made via a Board resolution and must be made prior to the end of the calendar year. Removal of the commitment requires a Board resolution.
- Assigned – This category represents intentions of the Township Manager to use the funds for specific purposes. Through a resolution of the Board, the Township Manager or his/her designee has been delegated the responsibility to assign funds.
- Unassigned – This category represents all other funds not otherwise defined.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any component of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is applied first and assigned fund balance is applied second. Unassigned fund balance is applied last.

E. Receipts and Disbursements

Property Taxes

The Township's real estate taxes are based on assessed values established by Lancaster County's Board of Assessments. The taxes are collected by the Treasurer's Office of Lancaster County. Real estate taxes attach an enforceable lien on property when levied on March 1. A discount of 2% is applied to payments made prior to April 30. A penalty of 10% is added to the face amount of taxes paid after June 30. The Lancaster County Tax Collection Bureau collects delinquent real estate taxes on behalf of itself and other taxing authorities.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Township's taxpayers are reported as program receipts. The Township has the following program receipts in each activity:

Public Safety – Police services and building and zoning permits.

Community Development – Miscellaneous fees.

Public Works – Road improvement grants; commercial vehicle and gasoline excise tax shared by the State.

Administration – Engineering and review and miscellaneous fees.

All other governmental receipts are reported as general.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the component unit are those that result from providing services and producing and delivering goods and/or services.

Disbursements

In the government-wide financial statements, disbursements are reported on the cash basis and are classified by function for both governmental and business-type activities. There have been certain allocations of indirect expenses to functions in the statement of activities. In the fund financial statements, disbursements are classified as follows:

Governmental Funds – By Character: Current (further classified by activity)
Debt Service

Proprietary Fund – By Operating and Non-Operating

F. Interfund Activities

Interfund transfers represent the flow of assets from one fund to another where repayment is not expected. In the fund financial statements, these transactions are reported as “transfers in/out.” Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as “Transfers.”

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

G. Pending GASB Statements

In February of 2015, the GASB issued Statement No. 72, "*Fair Value Measurement and Application.*" This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the Township's December 31, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the Township's December 31, 2016 financial statements.

In December of 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants.*" This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The provisions of GASB Statement No. 79 are effective for the Township's December 31, 2016 financial statements.

The effect of implementation of these Statements has not yet been determined.

2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township and IDA do not have a formal deposit policy for custodial credit risk.

As of December 31, 2015, the Township's book balance was \$6,049,497 and the bank balance was \$6,124,618. Of the bank balance, \$243,050 was covered by federal depository insurance and \$5,881,568 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

| | |
|--------------------------|--------------|
| Deposits: | |
| Governmental activities | \$ 4,129,856 |
| Business-type activities | 1,679,619 |
| Fiduciary funds | 240,022 |
| | <hr/> |
| | \$ 6,049,497 |
| | <hr/> |

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

As of December 31, 2015, the IDA's book balance was \$10,032 and the bank balance was \$15,202. The IDA's bank balance was covered by federal depository insurance.

3. INVESTMENTS

The fair value of the Township's investments at December 31, 2015 was:

| | <u>Fair Value</u> |
|--------------------------------|---------------------|
| Money market funds | \$ 48,551 |
| External investment pool | 932,284 |
| U.S. government bond and notes | 300,412 |
| Corporate bonds | 127,235 |
| Equities | 817,373 |
| | <u>\$ 2,225,855</u> |
| Investments: | |
| Governmental activities | \$ 592,120 |
| Business-type activities | 340,164 |
| Fiduciary funds | 1,293,571 |
| | <u>\$ 2,225,855</u> |

The Township uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Township funds. These funds totaling \$932,284 are invested by the Pennsylvania Local Government Investment Trust, which separately issues audited financial statements that are available to the public. The fair value of the Township's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides oversight for the external investment pool.

Custodial Credit Risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Township does not have an investment policy for custodial credit risk. All investments in the Township's pension plan are held by the financial institution's trust department, in the pension plan's name. The remaining investments of the Township are not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Concentration of Credit Risk. The Township places no limit on the amount the pension plan may invest in any one issuer. At December 31, 2015, there were no investments held by the Township that exceeded 5 percent of the Township's total portfolio.

Credit Risk. The following is each investment type's credit quality distribution of securities with credit exposure as of December 31, 2015. The Township does not have a formal policy stating an acceptable credit quality rating for its investments.

| | Fair Value | Rating |
|--------------------------|------------|---------|
| Money market funds | \$ 48,551 | Unrated |
| External investment pool | 932,284 | AAA |
| U.S. government notes | 290,344 | AAA |
| U.S. government bond | 10,068 | AA+ |
| Corporate bonds | 9,989 | AA+ |
| Corporate bonds | 36,832 | A |
| Corporate bonds | 26,324 | A- |
| Corporate bonds | 28,903 | BBB+ |
| Corporate bonds | 25,187 | BBB |

Interest Rate Risk. The Township does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates. The following is each investment type's average maturity as of December 31, 2015:

| Investment Type | Fair Value | Investment Maturity | | | |
|--------------------------------|--------------|---------------------|-------------|-------------|-------------------|
| | | 2016 | 2017 - 2021 | 2022 - 2026 | 2027 and later |
| Money market funds | \$ 48,551 | \$ 48,551 | \$ - | \$ - | \$ - |
| External investment pool | 932,284 | 932,284 | - | - | - |
| U.S. government bond and notes | 300,412 | 8,999 | 249,704 | 41,709 | - |
| Corporate bonds | 127,235 | 18,286 | 54,747 | 45,878 | 8,324 |
| Total | \$ 1,408,482 | \$ 1,008,120 | \$ 304,451 | \$ 87,587 | \$ 8,324 |

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

4. TRANSFERS

The composition of interfund transfers for the year ended December 31, 2015 is as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|---------------------------|---------------------|----------------------|
| Governmental Funds: | | |
| General Fund | \$ 767,502 | \$ 501,250 |
| Capital Improvements Fund | 501,250 | - |
| Enterprise Funds: | | |
| Water and Sewer Fund | - | 767,502 |
| | <u>\$ 1,268,752</u> | <u>\$ 1,268,752</u> |

Interfund transfers were made primarily to fund capital improvements and debt service payments.

5. LONG-TERM DEBT

In May 2014, the Township issued General Obligation Note, Series of 2014 (2014 Note), in the amount of \$1,500,000. The proceeds of the 2014 Note will be used for planning, designing, acquiring, and constructing public roadway and pedestrian projects. As of December 31, 2015, the total amount drawn down from the 2014 Note was \$97,922.

The 2014 Note bears interest of 2.71% and is due in monthly installments on the fifteenth calendar day of each month with final maturity to occur on or before April 15, 2024. Once the Note is fully drawn down, a debt service schedule will be established. The debt service will be paid from the General Fund.

Principal and interest payments for the 2014 Note amounted to \$97,922 and \$1,025, respectively, for the year ended December 31, 2015 and were paid from the General Fund. Interest payments will vary from year to year, as interest is calculated on the total amount drawn down on the note.

In February 2013, the Township issued General Obligation Bonds, Series of 2013, in the amount of \$8,940,000. The proceeds of the Series of 2013 bonds were used to advance refund the outstanding General Obligation Bonds, Series of 2009, and to pay related costs and expenses, including the costs of issuing and insuring the bonds.

The General Obligation Bonds, Series of 2013, bear interest from 0.35% to 3.00% and are due in semi-annual installments. Principal payments are due in annual installments ranging

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

from \$260,000 to \$690,000 from May 15, 2013 through May 15, 2028. The debt service is to be paid from the General Fund and the Water and Sewer Fund.

Principal and interest payments for the General Obligation Bonds, Series of 2013, for the year ended December 31, 2015 were allocated and funded from the following funds:

| | Principal | Interest | Total |
|---------------------------------|------------|------------|------------|
| General Fund | \$ 60,000 | \$ 13,575 | \$ 73,575 |
| Water and Sewer Fund | 440,000 | 175,400 | 615,400 |
| Total debt service expenditures | \$ 500,000 | \$ 188,975 | \$ 688,975 |

The General Obligation Bonds, Series of 2013, annual debt service requirements are as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------|-------------------------|-----------|--------------------------|--------------|--------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 65,000 | \$ 12,325 | \$ 445,000 | \$ 166,550 | \$ 510,000 | \$ 178,875 |
| 2017 | 65,000 | 10,700 | 460,000 | 155,200 | 525,000 | 165,900 |
| 2018 | 65,000 | 8,750 | 470,000 | 141,250 | 535,000 | 150,000 |
| 2019 | 70,000 | 6,725 | 490,000 | 126,850 | 560,000 | 133,575 |
| 2020 | 70,000 | 5,106 | 500,000 | 115,438 | 570,000 | 120,544 |
| 2021-2025 | 225,000 | 7,069 | 2,845,000 | 419,662 | 3,070,000 | 426,731 |
| 2026-2028 | - | - | 1,920,000 | 72,810 | 1,920,000 | 72,810 |
| | \$ 560,000 | \$ 50,675 | \$ 7,130,000 | \$ 1,197,760 | \$ 7,690,000 | \$ 1,248,435 |

In February 2012, the Township issued General Obligation Bonds, Series of 2012, in the amount of \$3,570,000. The proceeds of the Series of 2012 bonds were used to provide funds for and toward payment of the costs of a capital project that consists of planning, designing, acquiring, and constructing a new water treatment plant, a new well and water line extension as part of the public water supply system owned by the Authority and leased to the Township for operation and use, and to pay related costs and expenses, including the cost of issuing the bonds.

The General Obligation Bonds, Series of 2012, bear interest from .55% to 3.65% and are due in semi-annual installments. Principal payments are due in annual installments ranging from \$5,000 to \$815,000 from May 15, 2013 through May 15, 2033. The debt service is to be paid from the Water and Sewer Fund.

Principal and interest payments for the General Obligation Bonds, Series of 2012, for the year ended December 31, 2015, amounted to \$5,000 and \$120,765, respectively.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The General Obligation Bonds, Series of 2012, annual debt service requirements are as follows:

| | Total | |
|-----------|---------------------|---------------------|
| | Principal | Interest |
| 2016 | \$ 5,000 | \$ 120,706 |
| 2017 | 5,000 | 120,640 |
| 2018 | 5,000 | 120,564 |
| 2019 | 5,000 | 120,474 |
| 2020 | 5,000 | 120,368 |
| 2021-2025 | 25,000 | 599,887 |
| 2026-2030 | 1,670,000 | 534,967 |
| 2031-2033 | 1,835,000 | 78,014 |
| | <u>\$ 3,555,000</u> | <u>\$ 1,815,620</u> |

Changes in Long-Term Debt

During the year ended December 31, 2015, the following changes occurred in the long-term debt of the Township:

| | Balance January 1, 2015 | Additions | Reductions | Balance December 31, 2015 |
|--------------------------------|-------------------------------|-------------|---------------------|---------------------------------|
| Governmental activities: | | | | |
| General obligation bonds | \$ 620,000 | \$ - | \$ (60,000) | \$ 560,000 |
| General obligation note | <u>97,922</u> | <u>-</u> | <u>(97,922)</u> | <u>-</u> |
| Total governmental activities | <u>\$ 717,922</u> | <u>\$ -</u> | <u>\$ (157,922)</u> | <u>\$ 560,000</u> |
| Business-type activities: | | | | |
| General obligation bonds | <u>\$ 11,130,000</u> | <u>\$ -</u> | <u>\$ (445,000)</u> | <u>\$ 10,685,000</u> |
| Total business-type activities | <u>\$ 11,130,000</u> | <u>\$ -</u> | <u>\$ (445,000)</u> | <u>\$ 10,685,000</u> |

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

6. RETIREMENT PLAN

Description and Administration

The Penn Township Non-Uniform Pension Plan (pension plan) is a single-employer defined benefit pension plan controlled by the provisions of the Township Ordinance 2008-01. The pension plan is governed by a Pension Committee (committee), as appointed by the Township's Board of Supervisors. The committee consists of two duly appointed Township representatives and one Non-Uniformed Employee Pension Plan Member. The committee may amend pension plan provisions within the scope of its authority, subject to approval by the Township's Board of Supervisors. The Township has delegated the authority to manage certain plan assets to Morgan Stanley. The pension plan does not issue a separate report.

Benefit Provisions

The Township Pension Plan benefit provisions were as follows:

| | |
|--------------------------|---|
| Eligibility requirements | All full-time employees working a minimum of 35 hours and as of date of hire |
| Normal retirement | Attained age 65 |
| Early retirement | Attained age 55 with 6 years of vesting service |
| Vesting | If hired before February 22, 2010, 20% after two years of service plus 20% each year thereafter, up to 100%. If hired on or after February 22, 2010, 100% after six years. |
| Retirement benefit | 1.6% of average monthly compensation multiplied by years of service to date of determination. Average monthly compensation is the monthly average of total pay over the last 36 months of employment. |
| Survivor benefit | Payable if the Member was married for at least one year and at least partially vested at the time of death. The benefit equals the amount payable had the Member terminated employment on the date of death, survived to early retirement age, retired with a Joint and 50% Survival annuity, and then died the next day. If the Member passes away after having retired, the benefit to be received by the surviving spouse will be determined by the form of annuity in effect. |
| Disability benefits | None |

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Contributions

Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Each active participant shall make required bi-weekly contributions of up to 0.5% of compensation. The participant's required contribution account is 100% vested at all times. The Township may, on an annual basis, by resolution, reduce or eliminate required contributions. The employee contributions are currently at 0.5% of pay. During the year ended December 31, 2015, the Township made their required contribution of \$46,489 to the plan based upon the MMO.

Investments

As described in Note 3, investments of the pension plan are reported at fair value.

In order to meet its needs, the investment strategy of the pension plan is to responsibly and prudently maximize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Allowable investments include cash equivalents (U.S. Treasury bills and money market funds), fixed income securities, equity securities, and mutual funds. Aggregate fund asset allocation guidelines of the pension plan are as follows:

| <u>Asset Class</u> | <u>Minimum</u> | <u>Maximum</u> | <u>Preferred</u> |
|--------------------|----------------|----------------|------------------|
| Equities | 60% | 70% | 65% |
| Fixed income | 30% | 40% | 35% |
| Cash equivalents | 0% | 5% | 0% |

The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2015, the annual money-weighted rate of return on plan investments, net of investment expense was 1.74%

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Actuarial Assumptions

The Township Pension Plan's actuarial valuation at January 1, 2015, the most recently filed actuarial valuation report, was based upon the entry age normal cost method and the following significant actuarial assumptions:

| | |
|---------------------------|---|
| Actuarial Assumptions: | |
| Investment rate of return | 6.5% |
| Inflation rate | 3.0% |
| Salary increases | 3.5% |
| Cost of living adjustment | None |
| Mortality: | |
| Pre-retirement | None |
| Post-retirement | 1994 Group Annuity Reserve Mortality Table |

Change in Actuarial Assumptions

The actuarial accrued liability increased by approximately \$158,000 in the January 1, 2015 actuarial valuation primarily from adjustments to assumed life expectancies as a result of adopting the 1994 Group Annuity Reserve Mortality Table for purposes of developing mortality rates. In prior years, those assumptions were based on the UP1984 Table.

The Township's funded status and related information for the plan as of the latest actuarial valuation date, January 1, 2015, under Act 205, is as follows:

| (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------------|---|---|-----------------|------------------------------|---|
| Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded (Assets in Excess of) Actuarial Accrued Liability | Funded Ratio | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percent of Payroll |
| <u>Assets</u> | <u>Liability (AAL)</u> | <u>(2)-(1)</u> | <u>(1)/(2)</u> | <u>Payroll</u> | <u>(3)/(5)</u> |
| \$ 1,266,259 | \$ 1,239,109 | \$ (27,150) | 102.19% | \$ 555,869 | -4.88% |

7. RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township is covered from significant losses through fully-insured commercial insurance

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

policies except medical insurance, property and general liability insurance, and worker's compensation insurance for which the Township retains some levels of risk through its participation in a number of intergovernmental, self-insured, insurance cooperatives. There were no significant reductions in insurance coverage in 2015. Settlement amounts have not exceeded insurance coverage of the current year or the three prior years.

8. MUNICIPAL HOST AGREEMENT

Recognizing the impact of the Manheim Auto Auction's (Auto Auction) operations on the infrastructure of the Township, on police services and police protection, and on the residents of the Township, the Auto Auction has agreed to pay the Township an annual host municipality fee for each year the Auto Auction's facility is in operation in the Township. The fee for calendar year December 31, 2015 was \$247,927. This fee will be adjusted upwards annually by three percent. The increase is cumulative. In the event that the Auto Auction can verify, to the satisfaction of the Township, that in any year the number of motor vehicles sold at the Auto Auction has decreased by more than ten percent in comparison to the number of motor vehicles sold during 1995, the fee will be reduced on a pro rata basis for that particular year based on the percentage decrease for that year in comparison to 1995.

9. COMMITMENTS, GUARANTEES, AND CONTINGENCIES

Water and Wastewater Operation and Maintenance Agreement

In September 2008, the Township entered into a three-year agreement with Severn Trent Environmental Services, Inc. (Operator) for the operations and maintenance of the water treatment plant, wastewater treatment plant, sewer pumping stations, and all associated facilities owned by the Authority. The agreement shall be automatically renewed for successive three-year periods unless cancelled in writing by either party.

Per the agreement, in 2009, the Township is to pay the Operator an annual base compensation of \$272,741 payable in equal monthly installments. The base compensation is to be adjusted each year based on the consumer price index in effect for April of the current agreement year. In addition to the base compensation, the Township is required to pay an Annual Repairs and Maintenance Budget payable in monthly installments of \$2,500, an Annual Process Residue Budget payable in monthly installments of \$4,167, an Annual Chemical Budget payable in monthly installments of \$1,453; and an Annual Electric Power Budget payable in monthly installments of \$6,667. The budgeted allowances are to be reviewed and, if necessary, adjusted annually based on prior year expenditures and anticipated expenditures in the subsequent year contingent upon the mutual agreement of the Township and the Operator.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

In December 2009, the operations and maintenance agreement was amended, with an effective date of October 1, 2009. The amendment increased the monthly installment for the Annual Repairs and Maintenance Budget to \$3,000, increased the monthly installment for the Annual Chemical Budget to \$2,000, decreased the monthly installment for the Annual Process Residue Budget to \$3,000, and deleted the Annual Electric Power Budget.

In November 2010, a second amendment was made to the operations and maintenance agreement, with an effective date of December 1, 2010. The amendment increased the operator's annual base compensation to \$320,492 payable in equal monthly installments; changed the annual adjustment date of base compensation to January 1st based on CPI published in September; added the responsibilities of meter reading and repair and industrial wastewater monitoring to the Operator's scope of provided services; increased the number of facilities that the Operator is responsible to operate and maintain; extended the term of the agreement through December 31, 2016; increased the monthly installment for the Annual Repairs and Maintenance Budget to \$4,500, increased the monthly installment for the Annual Chemical Budget to \$4,000, and increased the monthly installment for the Annual Process Residue Budget to \$3,750.

On February 9, 2015, the Township and Operator entered into an agreement, which amended and restated the terms and conditions of the original agreement between the parties. In addition to changing the compensation and methods used to calculate future compensation of the Operator, the amended and restated agreement extends the terms of the agreement through December 31, 2019.

In January 2015, based on the CPI adjustment, the operator's annual base compensation was increased to \$371,726. In addition, the Annual Repairs and Maintenance Budget was decreased by \$6,000. For the year ended December 31, 2015, the Township paid the Operator \$507,074 for operations and maintenance costs.

Solar Energy Power Service Agreement

On February 14, 2011, the Township entered into a Solar Energy Power Service Agreement (power agreement) with Solar Properties—Penn Township I, LLC (Solar Properties). The term of the power agreement is 20 years unless otherwise terminated in accordance with the provisions of the power agreement. The power agreement required Solar Properties to construct, at its sole cost, a 200 kilowatt ground-mounted solar PV system on lands owned by the Authority. During the term of the power agreement, the Township shall pay a fixed amount of \$53,000 annually to Solar Properties. In exchange for this annual payment, the Township shall retain ownership of all electricity generated by the system and all Solar Renewable Energy Credits (SRECs), which are generated as a result of system production. Under the terms of the power agreement, Solar Properties pledges a minimum annual system output of 150,000 kilowatt hours. On February 22, 2011, the Authority joined in the

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

execution of this power agreement as the owner of the property on which the system was built. For the year ended December 31, 2015, Township paid \$53,000 under this agreement. The power agreement also provides the Township with the option of purchasing the system at the conclusion of the 7th year, 10th year, 15th year, and end of the term for the fair market value of the system, as determined in accordance with the provisions of the agreement upon written notice provided at least 180 days prior to the conclusion of the 7th year, 10th year, 15th year, and end of the term.

Waiver and Consent Agreement - Solar Properties' Financing

On April 11, 2011, the Township entered into a waiver and consent agreement with the Authority, Solar Properties, and Metro Bank (bank). Under the terms of the waiver and consent agreement, the parties each acknowledge and agree that, if applicable, upon the Solar Properties' default under any of the loan documents between Solar Properties and the bank, the Township is hereby authorized and directed to remit payments under the power agreement directly to the bank until Solar Properties obligations to the bank are paid in full. So long as the Township is not in default under the terms of the power agreement and is making the payments to the bank as required by the waiver and consent agreement, the bank agrees that the Township shall be entitled to the continued use of the equipment on the premises in accordance with to the terms of the power agreement.

Lititz Rec Center Agreement

On January 27, 2015, the Township entered into an agreement with Elizabeth Township, Lititz Borough, and Warwick Township to make cash contributions to the Lititz Rec Center (Rec Center) to be used for capital improvements necessary to expand and maintain the Rec Center. Each municipal participant shall make its required annual payment to the Rec Center in four equal installments by the last day of March, June, September, and December each year. The agreement shall be for an initial term of January 1, 2015 through December 31, 2018 with the option to extend for additional four-year terms with the consent of each municipality. During the term of the agreement, the Township shall pay a fixed amount of \$15,000 annually to the Rec Center. For the year ended December 31, 2015, the Township paid the Rec Center \$15,000 under this agreement.

Other Commitments

The Township has committed \$250,000 from the Capital Improvements Fund to signalize the intersection of Lancaster Road and Bucknoll Road.

The Township entered into a construction contract related to the North Penryn Road Culvert Project. The outstanding commitment under the contract at December 31, 2015 was \$182,000. The project is being financed with funds from the Capital Improvements Fund.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The Township entered into a construction contract related to the Doe Run Road and Penryn Road Improvement Project. The outstanding commitment under the contract at December 31, 2015 was \$1,930,605. The project is being financed with funds from the Capital Improvements Fund.

In the opinion of management, the Township is not a defendant in any lawsuit, where the ultimate disposition of such will have a materially adverse effect on the Township's net position.

10. INSURANCE COOPERATIVES

The Township entered into an intergovernmental cooperation agreement with other local municipalities for the purpose of selecting and contracting with a common insurance carrier to realize certain economies of scale in providing for the various types of insurance required to be maintained by the Township.

Health and welfare benefits

The Township participates in the Intergovernmental Insurance Cooperative (IIC). The IIC is a public entity risk pool established by certain units of local government in Pennsylvania to provide health and welfare plan benefits directly to eligible employees, their families, and dependents.

The agreement has a perpetual duration and shall continue until terminated pursuant to terms and conditions as defined therein. The contract with the insurance carrier includes a \$35,000 maximum loss per occurrence per policy year. The Township pays premiums for reinsurance, as there is an overall plan loss limitation, which is recalculated annually. The Township is responsible for its share of cross recovery of all municipalities. In 2015, the Township paid approximately \$25 towards the cost of cross recovery.

The IIC receives, processes, and pays such claims as may come within the benefit program of each member. Management consists of a Board of Directors comprised of seven representatives from seven member municipalities.

The following is a reconciliation of changes in estimated claims for health and welfare plan costs for the current fiscal year.

| | |
|------------------------|----------------------|
| Township funding | \$ 101,542 |
| Claims paid | (110,779) |
| Reimbursement received | <u>10,124</u> |
| Available for benefits | <u><u>\$ 887</u></u> |

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Worker's compensation

The Township is a member of the Susquehanna Municipal Trust (SMT). The trust provides coverage for workers' compensation insurance. The workers' compensation limit is at the level required by the Pennsylvania's workers' compensation statutes and supporting regulations. The trust retains responsibility for the payment of claims within the self-insured aggregate loss retention limit of \$1,000,000 (at December 31, 2015) prior to the application of coverage provided by its reinsurance contract.

SMT's Board of Trustees is made up of representatives from seven member municipalities. All member municipalities are entitled to vote for Board members. The operating policies are set by the Board of Trustees. Annual member contributions are based on amounts recommended by an actuarial study. The Township's portion of the total 2015 member contributions for SMT was \$16,924. This amount is available for benefits for the year ended December 31, 2015, as there were no estimated claims for worker's compensation costs during the current year.

SMT covers all medical and indemnity costs for the member in any plan year. The Township is not responsible for additional funding beyond the actuarial determined amount regardless of the amount of claims incurred.

During the year ended December 31, 2015, the Township received \$2,174 in dividend distributions from the trust.

Property and Liability

The Township is a member of the Municipal Risk Management (MRM) Property and Liability Trust (PLT). The trust provides coverage for property and liability insurance. Liability limits are \$1,000,000 per loss. The trust retains responsibility for the payment of claims up to \$250,000 per loss. For losses that exceed the retention, reinsurance is purchased. As of December 31, 2015, reinsurance was provided by Philadelphia Insurance Company.

PLT's Board of Trustees is made up of representatives from member municipalities. All member municipalities are entitled to vote for Board members. The operating policies are set by the Board of Trustees. The Township's portion of the total 2015 member contributions for PLT was \$42,584. This amount is available for benefits for the year ended December 31, 2015, as there were no reserves or claims paid for property and liability costs during the current year.

During the year ended December 31, 2015, the Township received \$13,633 in dividend distributions from the trust.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

11. RELATED PARTY TRANSACTIONS

The chairman of the Board of Supervisors is also the owner of Rohrer's Quarry, Inc. in Lititz, Pennsylvania. During the year ended December 31, 2015, the Township paid \$26,493 to Rohrer's Quarry, Inc. for roadway project materials and supplies.

12. NON-RECOURSE DEBT ISSUES

The IDA participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the IDA serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the IDA is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the IDA in the case of default. As such, the corresponding debt is not reported in the IDA's financial statement. At December 31, 2015, the balance of the outstanding conduit debt was \$14,344,839.

Other Information

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS GENERAL FUND

YEAR ENDED DECEMBER 31, 2015

| | Budget | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|---------------------|-------------------|---|
| | Original | Final | | |
| Receipts: | | | | |
| Real estate tax | \$ 1,088,500 | \$ 1,088,500 | \$ 1,126,884 | \$ 38,384 |
| Realty transfer tax | 145,000 | 145,000 | 229,023 | 84,023 |
| Earned income tax | 1,030,000 | 1,030,000 | 1,084,703 | 54,703 |
| Local service tax | 180,000 | 180,000 | 202,878 | 22,878 |
| Public utility realty tax | 25,418 | 25,418 | 3,012 | (22,406) |
| Licenses and permits | 100,550 | 100,550 | 107,541 | 6,991 |
| Fines and forfeits | 23,900 | 23,900 | 29,784 | 5,884 |
| Contributions | 258,544 | 258,544 | 263,862 | 5,318 |
| Investment earnings | 660 | 660 | 1,716 | 1,056 |
| Intergovernmental receipts | 189,477 | 189,477 | 194,567 | 5,090 |
| Miscellaneous receipts | 26,700 | 26,700 | 22,335 | (4,365) |
| Charges for services | 355,317 | 355,317 | 448,836 | 93,519 |
| Total receipts | 3,424,066 | 3,424,066 | 3,715,141 | 291,075 |
| Disbursements: | | | | |
| Current: | | | | |
| Public safety | 1,815,048 | 1,815,048 | 1,811,194 | 3,854 |
| Community development | 9,365 | 9,365 | 9,365 | - |
| Public works | 636,247 | 636,247 | 626,794 | 9,453 |
| Recreation and cultural | 123,570 | 123,570 | 90,634 | 32,936 |
| Administration | 573,612 | 573,612 | 491,605 | 82,007 |
| Debt service: | | | | |
| Principal | 649,000 | 649,000 | 602,922 | 46,078 |
| Interest and fiscal charges | 240,601 | 240,601 | 310,765 | (70,164) |
| Total disbursements | 4,047,443 | 4,047,443 | 3,943,279 | 104,164 |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | (623,377) | (623,377) | (228,138) | 395,239 |
| Other Financing Sources (Uses): | | | | |
| Sale of general capital assets | 500 | 500 | 185 | (315) |
| Transfers in | 852,630 | 852,630 | 767,502 | (85,128) |
| Transfers out | (236,955) | (517,209) | (501,250) | 15,959 |
| Total other financing sources (uses) | 616,175 | 335,921 | 266,437 | (69,484) |
| Net Change in Fund Balance | \$ (7,202) | \$ (287,456) | \$ 38,299 | \$ 325,755 |

See accompanying notes to other information - budgetary comparison schedule.

PENN TOWNSHIP

NOTES TO OTHER INFORMATION BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2015

1. BUDGETARY ACCOUNTING

The Township prepares its budget for the General Fund on the modified cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements.

2. BUDGET MATTERS

The Township Board of Supervisors annually adopts a budget for the General Fund, State Liquid Fuels Fund, Storm Water Management Fund, Capital Improvements Fund, and the Water and Sewer Fund. Budgetary control is legally maintained at the fund level. No budget is adopted for the fiduciary funds.

Appropriations, except open project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Disbursements Over Appropriations

No individual fund, which was budgeted, contained an excess of disbursements over appropriations that was not covered by the cash balance at December 31, 2014 and the cash received for the year ended December 31, 2015.

Supplementary Information

Governmental Funds

PENN TOWNSHIP

COMBINING BALANCE SHEET - MODIFIED CASH BASIS NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2015

| | Special Revenue | | Total |
|---------------------------------|-----------------------|---------------------------|-------------------|
| | State Liquid Fuels | Storm Water Management | |
| <hr/> Assets <hr/> | | | |
| Cash and cash equivalents | \$ - | \$ 49,969 | \$ 49,969 |
| Investments | 162,785 | - | 162,785 |
| Total Assets | <u>\$ 162,785</u> | <u>\$ 49,969</u> | <u>\$ 212,754</u> |
| | | | |
| <hr/> Fund Balance <hr/> | | | |
| Restricted | \$ 162,785 | \$ - | \$ 162,785 |
| Committed | - | 49,969 | 49,969 |
| Total Fund Balance | <u>\$ 162,785</u> | <u>\$ 49,969</u> | <u>\$ 212,754</u> |

PENN TOWNSHIP

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS NON-MAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

| | Special Revenue | | Total |
|-----------------------------------|-----------------------|---------------------------|------------|
| | State Liquid Fuels | Storm Water Management | |
| Receipts: | | | |
| State liquid fuels tax | \$ 293,805 | \$ - | \$ 293,805 |
| Investment earnings | 126 | 117 | 243 |
| Intergovernmental receipts | 18,720 | - | 18,720 |
| Charges for services | - | 16,042 | 16,042 |
| | | | |
| Total receipts | 312,651 | 16,159 | 328,810 |
| Disbursements: | | | |
| Current: | | | |
| Community development | - | 1,000 | 1,000 |
| Public works | 335,547 | 1,516 | 337,063 |
| | | | |
| Total disbursements | 335,547 | 2,516 | 338,063 |
| Net Change in Fund Balance | (22,896) | 13,643 | (9,253) |
| Fund Balance: | | | |
| Beginning of year | 185,681 | 36,326 | 222,007 |
| End of year | \$ 162,785 | \$ 49,969 | \$ 212,754 |

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS STATE LIQUID FUELS

YEAR ENDED DECEMBER 31, 2015

| | <u>Original and Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|--|---------------------------|---------------------------------------|
| Receipts: | | | |
| State liquid fuels tax | \$ 284,326 | \$ 293,805 | \$ 9,479 |
| Investment earnings | 75 | 126 | 51 |
| Intergovernmental receipts | 18,720 | 18,720 | - |
| Total receipts | <u>303,121</u> | <u>312,651</u> | <u>9,530</u> |
| Disbursements: | | | |
| Current: | | | |
| Public works | 478,466 | 335,547 | 142,919 |
| Net Change in Fund Balance | <u>\$ (175,345)</u> | <u>\$ (22,896)</u> | <u>\$ 152,449</u> |

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS STORM WATER MANAGEMENT

YEAR ENDED DECEMBER 31, 2015

| | Original and Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|-----------------------------------|---------------------------------|-------------------|---|
| Receipts: | | | |
| Charges for services | \$ 10,850 | \$ 16,042 | \$ 5,192 |
| Investment earnings | 50 | 117 | 67 |
| Total receipts | 10,900 | 16,159 | 5,259 |
| Disbursements: | | | |
| Current: | | | |
| Community development | 1,000 | 1,000 | - |
| Public works | 27,500 | 1,516 | 25,984 |
| Total disbursements | 28,500 | 2,516 | 25,984 |
| Net Change in Fund Balance | \$ (17,600) | \$ 13,643 | \$ 31,243 |

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS CAPITAL IMPROVEMENTS FUND

YEAR ENDED DECEMBER 31, 2015

| | Budget | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|-------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Receipts: | | | | |
| Investment earnings | \$ 7,500 | \$ 7,500 | \$ 10,059 | \$ 2,559 |
| Miscellaneous receipts | 3,000 | 3,000 | - | (3,000) |
| Total receipts | <u>10,500</u> | <u>10,500</u> | <u>10,059</u> | <u>(441)</u> |
| Disbursements: | | | | |
| Current: | | | | |
| Community development | 100,000 | 100,000 | - | 100,000 |
| Public works | 709,488 | 709,488 | 187,132 | 522,356 |
| Total disbursements | <u>809,488</u> | <u>809,488</u> | <u>187,132</u> | <u>622,356</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | <u>(798,988)</u> | <u>(798,988)</u> | <u>(177,073)</u> | <u>621,915</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 220,996 | 501,250 | 501,250 | - |
| Transfer out | (21,000) | (21,000) | - | 21,000 |
| Total other financing sources | <u>199,996</u> | <u>480,250</u> | <u>501,250</u> | <u>21,000</u> |
| Net Change in Fund Balance | <u>\$ (598,992)</u> | <u>\$ (318,738)</u> | <u>\$ 324,177</u> | <u>\$ 642,915</u> |

Proprietary Fund

PENN TOWNSHIP

COMBINING BALANCE SHEET - MODIFIED CASH BASIS PROPRIETARY FUND

DECEMBER 31, 2015

| | Water and Sewer Fund | Northwestern Lancaster County Authority Water Project Fund | Northwestern Lancaster County Authority | Total |
|---------------------------------|-------------------------|---|--|---------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,677,792 | \$ - | \$ 1,827 | \$ 1,679,619 |
| Restricted investments | - | 340,164 | - | 340,164 |
| Total Assets | \$ 1,677,792 | \$ 340,164 | \$ 1,827 | \$ 2,019,783 |
| Net Position | | | | |
| Restricted for capital projects | \$ - | \$ 340,164 | \$ - | \$ 340,164 |
| Unrestricted | 1,677,792 | - | 1,827 | 1,679,619 |
| Total Net Position | \$ 1,677,792 | \$ 340,164 | \$ 1,827 | \$ 2,019,783 |

PENN TOWNSHIP

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS - PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2015

| | Water and Sewer Fund | Northwestern Lancaster County Authority Water Project Fund | Northwestern Lancaster County Authority | Total |
|---|-------------------------|---|--|---------------------|
| Operating Receipts: | | | | |
| Charges for services | \$ 2,153,465 | \$ - | \$ - | \$ 2,153,465 |
| Miscellaneous receipts | 21,787 | - | 101 | 21,888 |
| Total operating receipts | <u>2,175,252</u> | <u>-</u> | <u>101</u> | <u>2,175,353</u> |
| Operating Disbursements: | | | | |
| Operation and administration | 955,194 | 7,160 | 38 | 962,392 |
| Materials and supplies | 42,938 | - | - | 42,938 |
| Total operating disbursements | <u>998,132</u> | <u>7,160</u> | <u>38</u> | <u>1,005,330</u> |
| Operating Income (Loss) | <u>1,177,120</u> | <u>(7,160)</u> | <u>63</u> | <u>1,170,023</u> |
| Nonoperating Receipts (Disbursements): | | | | |
| Investment earnings | 1,833 | 170 | 2 | 2,005 |
| Interest and fiscal charges | (1,000) | - | - | (1,000) |
| Total nonoperating receipts | <u>833</u> | <u>170</u> | <u>2</u> | <u>1,005</u> |
| Change in net position before transfers | 1,177,953 | (6,990) | 65 | 1,171,028 |
| Transfers out | (767,502) | - | - | (767,502) |
| Change in Net Position | 410,451 | (6,990) | 65 | 403,526 |
| Net Position: | | | | |
| Beginning of year | 1,267,341 | 347,154 | 1,762 | 1,616,257 |
| End of year | <u>\$ 1,677,792</u> | <u>\$ 340,164</u> | <u>\$ 1,827</u> | <u>\$ 2,019,783</u> |

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS WATER AND SEWER FUND

YEAR ENDED DECEMBER 31, 2015

| | Original and Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------------------|-------------------|---|
| Operating Receipts: | | | |
| Charges for services | \$ 1,493,821 | \$ 2,153,465 | \$ 659,644 |
| Miscellaneous receipts | 7,900 | 21,787 | 13,887 |
| Total operating receipts | 1,501,721 | 2,175,252 | 673,531 |
| Operating Disbursements: | | | |
| Operation and administration | 1,394,895 | 955,194 | 439,701 |
| Materials and supplies | 48,000 | 42,938 | 5,062 |
| Total operating disbursements | 1,442,895 | 998,132 | 444,763 |
| Operating Income | 58,826 | 1,177,120 | 1,118,294 |
| Nonoperating Receipts (Disbursements): | | | |
| Investment earnings | 750 | 1,833 | 1,083 |
| Interest and fiscal charges | - | (1,000) | (1,000) |
| Total nonoperating receipts | 750 | 833 | 83 |
| Change in net position before transfers | 59,576 | 1,177,953 | 1,118,377 |
| Transfers out | (763,665) | (767,502) | (3,837) |
| Change in Net Position | \$ (704,089) | \$ 410,451 | \$ 1,114,540 |
| Change in Net Position - Water and Sewer Fund: | | | |
| Water and Sewer Fund | | \$ 410,451 | |
| Northwestern Lancaster County Authority Water Project Fund | | (6,990) | |
| Northwestern Lancaster County Authority | | 65 | |
| Total Change in Net Position - Proprietary Fund | | \$ 403,526 | |