

Penn Township

Financial Statements and
Supplementary Information

Year Ended December 31, 2017 with
Independent Auditor's Report

MaherDuessel

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PENN TOWNSHIP

YEAR ENDED DECEMBER 31, 2017

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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, 2017, 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, 2017, 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 38 and 39, 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.

Mahe Duessel

Harrisburg, Pennsylvania
May 15, 2018

PENN TOWNSHIP
LANCASTER COUNTY, PENNSYLVANIA

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 year ended December 31, 2017. As recommended by the Governmental Accounting Standards Board's (GASB) Statement No. 34, "Basic Financial Statements and Management's 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 year ended December 31, 2017 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 2017 Audit Report, the assets and net position of the Township on December 31, 2017 were \$7,640,703. The Township's assets and net position as of January 1, 2017 were \$7,202,717. Therefore, there was an increase in the Township's net position of \$437,986 for the year ended December 31, 2017 (6.1%). 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

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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.

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, 2017:

General Fund	\$	263,652	60.20%
Capital Improvements Fund		2,011	0.46%
Non-major governmental funds		(94,200)	-21.51%
Water and Sewer Fund		266,523	60.85%
		<u>\$ 437,986</u>	<u>100.00%</u>

	2016	2017
Net Position - January 1	\$6,741,759	\$7,202,717
Net Position - December 31	\$7,202,717	\$7,640,703
\$ Amount of Change	\$460,958	\$437,986
Percent Change	6.8%	6.1%

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FOR THE YEAR ENDED DECEMBER 31, 2017

For the years ended December 31, 2016 and 2017, receipts and disbursements of the primary government are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2017	2016	2017	2016	2017
Receipts						
PROGRAM RECEIPTS						
Charges for Services	\$ 662,512	\$ 409,071	\$ 2,513,155	\$ 1,850,796	\$ 3,175,667	\$ 2,259,867
Operating Grants and Contributions	456,540	461,379	-	-	456,540	461,379
GENERAL RECEIPTS						
Taxes	2,860,309	2,986,543	-	-	2,860,309	2,986,543
Other	1,652,882	5,094,744	3,649	5,556	1,656,531	5,100,300
Total Receipts	5,632,243	8,951,737	2,516,804	1,856,352	8,149,047	10,808,089
Disbursements						
Public Safety	1,909,531	1,967,806	-	-	1,909,531	1,967,806
Community Development	65,988	1,465	-	-	65,988	1,465
Public Works	3,402,354	1,153,960	-	-	3,402,354	1,153,960
Recreation and Cultural	93,686	79,151	-	-	93,686	79,151
Administration	498,770	603,013	-	-	498,770	603,013
Debt Service Payments	827,045	5,681,829	-	-	827,045	5,681,829
Water and Sewer	-	-	890,715	882,879	890,715	882,879
Total Disbursements	6,797,374	9,487,224	890,715	882,879	7,688,089	10,370,103
Change in net position before transfers	(1,165,131)	(535,487)	1,626,089	973,473	460,958	437,986
Transfers	1,007,025	706,950	(1,007,025)	(706,950)	-	-
Change in net position	(158,106)	171,463	619,064	266,523	460,958	437,986
Net position, beginning of year	4,721,976	4,563,870	2,019,783	2,638,847	6,741,759	7,202,717
Net position, end of year	\$ 4,563,870	\$ 4,735,333	\$ 2,638,847	\$ 2,905,370	\$ 7,202,717	\$ 7,640,703

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, 2017, the primary operating fund, the General Fund, had a fund balance of \$1,732,148 on January 1, 2017 and closed on December 31, 2017 with a fund balance of \$1,995,800 (+15.2%). The net change in General Fund balance was an increase of \$263,652. 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, and fines and forfeits, and less than anticipated disbursements from public safety and public works.

The other major governmental fund is the Capital Improvements Fund (consisting of the Agricultural Preservation Fund, the Capital Reserve Fund, the Street Improvements Fund, and the Streetscape Project Fund). The Capital Improvements Fund had a fund balance of \$2,520,483 on

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January 1, 2017 and closed on December 31, 2017 with a fund balance of \$2,522,494 (0.08%), resulting in a small \$2,011 increase in the Capital Improvements Fund.

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 \$225,231 on January 1, 2017 and closed on December 31, 2017 with a fund balance of \$151,348 (-32.8%). The Storm Water Management Fund had a fund balance of \$86,008 on January 1, 2017 and closed on December 31, 2017 with a fund balance of \$65,691 (-23.6%).

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. In 2017 the Township refunded the remainder of the General Obligation Bonds, Series of 2012 and refunded the remainder of the outstanding General Obligation Note, Series of 2014 with a General Obligation Note, Series of 2017 in the amount of \$4,760,000. 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, 46, and 47 of the financial statements for the year ended December 31, 2017, the net position of this proprietary fund increased by \$266,523 (10.1%). 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 a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. As reported on page 8 of the financial statements for the year ended December 31, 2017, the net position of the Non-Uniform Pension Fund increased by \$280,511 (21.3%). The increase in the plan net position for the Non-Uniform

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Pension Fund largely resulted from a net appreciation in the fair value of investments. It is important to note that the Non-Uniform Pension Fund is fully funded as of the most recent actuarial valuation dated January 1, 2017.

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

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, 2017, the Township had an outstanding long term debt of \$11,415,000. Such debt was incurred by the issuance of General Obligation Bonds, Series of 2013, which advance refunded the Series of 2009, and the General Obligation Note, Series of 2017 in the amount of \$4,760,000, which currently refunded the General Obligation Bonds, Series of 2012, and the General Obligation Note, Series of 2014. The debt is anticipated to be paid in full by May 15, 2033. Of this \$11,415,000 - \$9,870,000 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

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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. During 2017, the Operator changed its name to Inframark. 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 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 the consumer price index for all urban consumers (CPI-U) 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.

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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 2017, based on the CPI-U adjustment, the Operator's annual base compensation was increased to \$401,604. For the year ended December 31, 2017, the Township paid the Operator \$564,343 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 retains 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 (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 Power 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

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MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017, the Township paid the Rec Center \$15,000 under this agreement.

Lease Commitments

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.

On July 15, 2016, 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.

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

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FOR THE YEAR ENDED DECEMBER 31, 2017

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 to 2017. In July 2014, the initial term of Intermunicipal Charter Agreement was extended until December 31, 2021; however, the 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, 2017

Assets	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Penn Industrial Development Authority
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,987,466	\$ 2,592,810	\$ 6,580,276	\$ 44,505
Investments	747,867	-	747,867	-
Restricted investments	-	312,560	312,560	-
Total Assets	4,735,333	2,905,370	7,640,703	44,505
Net Position				
Restricted for:				
Public works	511,338	-	511,338	-
Capital projects	-	312,560	312,560	-
Unrestricted	4,223,995	2,592,810	6,816,805	44,505
Total Net Position	\$ 4,735,333	\$ 2,905,370	\$ 7,640,703	\$ 44,505

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

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STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2017

Functions/Programs:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activity	Total	
Primary Government:							
Governmental activities:							
Public safety	\$ 1,967,806	\$ 308,541	\$ 61,202	\$ (1,598,063)	\$ -	\$ (1,598,063)	\$ -
Community development	1,465	380	-	(1,085)	-	(1,085)	-
Public works	1,153,960	22,227	389,450	(742,283)	-	(742,283)	-
Recreation and cultural	79,151	-	-	(79,151)	-	(79,151)	-
Administration	603,013	77,923	10,727	(514,363)	-	(514,363)	-
Debt service payments	5,681,829	-	-	(5,681,829)	-	(5,681,829)	-
Total governmental activities	9,487,224	409,071	461,379	(8,616,774)	-	(8,616,774)	-
Business-type activity:							
Water and sewer	882,879	1,850,796	-	-	967,917	967,917	-
Total Primary Government	\$ 10,370,103	\$ 2,259,867	\$ 461,379	(8,616,774)	967,917	(7,648,857)	-
Component Unit:							
Penn Industrial Development Authority	\$ 21,868	\$ 34,075	\$ -	-	-	-	12,207
General receipts:							
Real estate taxes				1,196,165	-	1,196,165	-
Real estate transfer taxes				270,106	-	270,106	-
Earned income taxes				1,182,639	-	1,182,639	-
Local services taxes				222,330	-	222,330	-
Franchise taxes				115,303	-	115,303	-
Investment earnings				14,141	5,556	19,697	35
Intergovernmental revenue and contributions (not restricted to a specific purpose)				320,603	-	320,603	-
Proceeds from issuance of debt				4,760,000	-	4,760,000	-
Transfers				706,950	(706,950)	-	-
Total general receipts and transfers				8,788,237	(701,394)	8,086,843	35
Change in Net Position				171,463	266,523	437,986	12,242
Net Position:							
Beginning of year				4,563,870	2,638,847	7,202,717	32,263
End of year				<u>\$ 4,735,333</u>	<u>\$ 2,905,370</u>	<u>\$ 7,640,703</u>	<u>\$ 44,505</u>

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

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BALANCE SHEET - MODIFIED CASH BASIS GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	<u>General</u>	<u>Capital Improvements</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,995,800	\$ 1,925,975	\$ 65,691	\$ 3,987,466
Investments	-	596,519	151,348	747,867
Total Assets	<u>\$ 1,995,800</u>	<u>\$ 2,522,494</u>	<u>\$ 217,039</u>	<u>\$ 4,735,333</u>
Fund Balance				
Restricted for:				
Public works	\$ -	\$ 359,990	\$ 151,348	\$ 511,338
Committed for:				
Community development	-	596,548	-	596,548
Public works	-	490,688	65,691	556,379
Assigned for:				
Capital projects	-	1,075,268	-	1,075,268
Unassigned	<u>1,995,800</u>	<u>-</u>	<u>-</u>	<u>1,995,800</u>
Total Fund Balance	<u>\$ 1,995,800</u>	<u>\$ 2,522,494</u>	<u>\$ 217,039</u>	<u>\$ 4,735,333</u>

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, 2017

	General	Capital Improvements	Non-Major Funds	Total Governmental Funds
Receipts:				
Real estate tax	\$ 1,196,165	\$ -	\$ -	\$ 1,196,165
Realty transfer tax	270,106	-	-	270,106
Earned income tax	1,182,639	-	-	1,182,639
Local service tax	222,330	-	-	222,330
State liquid fuels tax	-	-	358,865	358,865
Licenses and permits	115,683	-	-	115,683
Fines and forfeits	31,047	-	-	31,047
Contributions	273,753	-	-	273,753
Investment earnings	2,659	8,508	2,974	14,141
Intergovernmental receipts	125,261	-	18,720	143,981
Miscellaneous receipts	43,687	-	5,383	49,070
Charges for services	310,965	-	22,407	333,372
Total receipts	3,774,295	8,508	408,349	4,191,152
Disbursements:				
Current:				
Public safety	1,902,360	-	-	1,902,360
Community development	1,343	122	-	1,465
Public works	570,819	80,592	502,549	1,153,960
Recreation and cultural	79,151	-	-	79,151
Administration	595,636	7,377	-	603,013
Debt service:				
Principal	5,312,830	-	-	5,312,830
Interest and fiscal charges	368,999	-	-	368,999
Total disbursements	8,831,138	88,091	502,549	9,421,778
Deficiency of Receipts Under Disbursements	(5,056,843)	(79,583)	(94,200)	(5,230,626)
Other Financing Sources (Uses):				
Sale of general capital assets	585	-	-	585
Note issuance	4,760,000	-	-	4,760,000
Refund of prior year revenues	(65,446)	-	-	(65,446)
Transfers in	1,071,690	446,334	-	1,518,024
Transfers out	(446,334)	(364,740)	-	(811,074)
Total other financing sources (uses)	5,320,495	81,594	-	5,402,089
Net Change in Fund Balance	263,652	2,011	(94,200)	171,463
Fund Balance:				
Beginning of year	1,732,148	2,520,483	311,239	4,563,870
End of year	\$ 1,995,800	\$ 2,522,494	\$ 217,039	\$ 4,735,333

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

PENN TOWNSHIP
 BALANCE SHEET - MODIFIED CASH BASIS
 PROPRIETARY FUND
 DECEMBER 31, 2017

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,592,810
Restricted investments	312,560
Total Assets	\$ 2,905,370
Net Position	
Restricted for capital projects	\$ 312,560
Unrestricted	2,592,810
Total Net Position	\$ 2,905,370

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, 2017

	<u>Water and Sewer Fund</u>
Operating Receipts:	
Charges for services	\$ 1,573,491
Miscellaneous receipts	<u>15,435</u>
Total operating receipts	<u>1,588,926</u>
Operating Disbursements:	
Operation and administration	840,948
Materials and supplies	<u>41,831</u>
Total operating disbursements	<u>882,779</u>
Operating Income	<u>706,147</u>
Nonoperating Receipts (Disbursements):	
Tapping fees	261,870
Investment earnings	5,556
Interest and fiscal charges	<u>(100)</u>
Total nonoperating receipts (disbursements)	<u>267,326</u>
Change in net position before transfers	973,473
Transfers out	<u>(706,950)</u>
Change in Net Position	266,523
Net Position:	
Beginning of year	<u>2,638,847</u>
End of year	<u><u>\$ 2,905,370</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, 2017

	Pension Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 21	\$ 187,765
Investments, at fair value:		
Money market funds	38,653	-
Common stocks	732,577	-
Exchange-traded funds	289,792	-
U.S. government bonds and notes	197,704	-
Corporate bonds	309,234	-
Other fixed income	31,993	-
Total investments	1,599,953	-
Total Assets	1,599,974	187,765
Net Position		
Restricted for employees' pension benefits	1,599,974	-
Held in escrow for developers	-	187,765
Total Net Position	\$ 1,599,974	\$ 187,765

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, 2017

Additions:

Contributions:

Employer contributions
Employee contributions

\$ 118,514
7,379

Total contributions

125,893

Investment income:

Net appreciation in fair value of investments

220,996

Total additions

346,889

Deductions:

Benefits
Administrative expenses

43,206
23,172

Total deductions

66,378

Change in Plan Net Position

280,511

Net Position:

Beginning of year

1,319,463

End of year

\$ 1,599,974

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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 Municipality 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.

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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017, the Township paid the Department \$1,536,419 for its share of police services. Residual assets upon dissolution of the Commission 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

- Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least five 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.

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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 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.

Major and Non-major Funds

The funds are classified as major or non-major. 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 financial statements 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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.

Basis of Accounting

The 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 special purpose framework 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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.

Restricted Assets

Restricted assets represent monies required to be restricted under the terms of bond indentures.

Investments

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

- a. U.S. Treasury bills.
- b. Short-term U.S. government obligations.
- c. Short-term commercial paper issued by a public corporation.
- d. Banker's acceptances.
- e. Insured or collateralized time deposits.
- f. Shares of mutual funds whose investments are restricted to the above categories.

The statutes also allow pooling of a government's funds for investment purposes. 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The Township's investment in the external investment pool is valued at amortized cost, which approximates fair value. All other Township investments are valued at fair value. The Township categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

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 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 financial statements. In the governmental funds, debt proceeds are reported as other financing sources 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 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Equity Classification

Government-Wide Financial 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 financial statements.

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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.

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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Disbursements

In the government-wide financial statements, disbursements 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.”

J. Pending GASB Pronouncements

GASB has issued the following Statements that will become effective in future years as shown below. Management has not yet determined the impact of these Statements on the Township’s financial statements.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

In January of 2017, the GASB issued Statement No. 84, *"Fiduciary Activities."* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the Township's December 31, 2019 financial statements.

In June of 2017, the GASB issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Township's December 31, 2020 financial statements.

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, 2017, the Township's book balance was \$6,768,062 and the bank balance was \$7,004,313. Of the bank balance, \$286,645 was covered by federal depository insurance and \$6,717,668 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	\$ 3,987,466
Business-type activities	2,592,810
Fiduciary funds	187,786
	<u>6,768,062</u>
	<u>\$ 6,768,062</u>

As of December 31, 2017, the IDA's book and bank balances were \$44,505 and \$44,526, respectively. The IDA's bank balance was covered by federal depository insurance.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

3. Investments

The fair value of the Township's investments at December 31, 2017 was:

	<u>Fair Value</u>
Money market funds	\$ 38,653
External investment pool	1,060,427
Common stocks:	
U.S. large cap growth	232,064
U.S. large cap value	240,024
International	260,489
Exchange-traded funds:	
U.S. large cap	162,251
U.S. mid cap growth	63,939
U.S. small cap value	63,602
Debt securities:	
U.S. government bonds and notes	197,704
Corporate bonds	309,234
Other fixed income	31,993
	<u>\$ 2,660,380</u>
Investments:	
Governmental activities	\$ 747,867
Business-type activities	312,560
Fiduciary funds	1,599,953
	<u>\$ 2,660,380</u>

The money market funds, common stocks, and exchange-traded funds are valued using quoted market prices (Level 1 inputs).

Debt securities are valued by a third party as of the latest trade date (Level 2 inputs).

The Township uses Pennsylvania Local Government Investment Trust (PLGIT), an external investment pool, to ensure safety and maximize efficiency, liquidity, and yield for Township funds. PLGIT was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth of

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Pennsylvania (Commonwealth). PLGIT's investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT issues separately audited financial statements that are available to the public. Further information regarding PLGIT and its investment strategies can be found at www.plgit.com.

The fair value of the Township's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool. These funds totaling \$1,060,427 are invested by PLGIT. The Township is invested \$669,895, \$129, \$77,843, and \$312,560 in PLGIT-Class shares, PLGIT/I-Class shares, PLGIT/PRIME shares, and PLGIT/ARM shares, respectively.

The PLGIT-Class shares require no minimum balance, no minimum initial investment, and have a one-day minimum investment period. The PLGIT/I-Class shares require a minimum initial investment of \$50,000 and limit redemptions or exchanges to two per calendar month. However, there is no minimum investment period. The PLGIT/PRIME is a variable rate investment portfolio which requires no minimum balance, no minimum initial investment, and limits redemptions or exchanges to two per calendar month. The PLGIT/ARM shares require no minimum initial investment and have a minimum investment period of one day.

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.

Concentration of Credit Risk. The Township places no limit on the amount the Township may invest in any one issuer. At December 31, 2017, there were no investments held by the Township that exceeded five percent of the Township's total portfolio.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Credit Risk. The following is each investment type's credit quality rating for securities with credit exposure as of December 31, 2017. The Township does not have a formal policy stating an acceptable credit quality rating for its investments.

	Fair Value	Rating
Money market funds	\$ 38,653	Unrated
External investment pool	1,060,427	AAA
U.S. government notes	167,595	AAA
U.S. government bonds	8,761	AAA
U.S. government bonds	21,348	AA+
Corporate bonds	9,940	AA+
Corporate bonds	10,209	A
Corporate bonds	57,464	A-
Corporate bonds	18,979	AA-
Corporate bonds	98,343	BBB+
Corporate bonds	92,968	BBB
Corporate bonds	21,331	BBB-
Other fixed income	31,993	AAA

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, 2017:

Investment Type	Fair Value	Investment Maturity			
		2018	2019-2023	2024-2028	2029+
Money market funds	\$ 38,653	\$ 38,653	\$ -	\$ -	\$ -
External investment pool	1,060,427	1,060,427	-	-	-
U.S. government bonds and notes	197,704	-	140,546	35,810	21,348
Corporate bonds	309,234	31,136	211,724	66,374	-
Other fixed income	31,993	-	31,993	-	-
Total	\$ 1,638,011	\$ 1,130,216	\$ 384,263	\$ 102,184	\$ 21,348

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

4. Transfers

The composition of interfund transfers for the year ended December 31, 2017 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 1,071,690	\$ 446,334
Capital Improvements Fund	446,334	364,740
Enterprise Funds:		
Water and Sewer Fund	-	706,950
	<u>\$ 1,518,024</u>	<u>\$ 1,518,024</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 were used for planning, designing, acquiring, and constructing public roadway and pedestrian projects. The 2014 Note was currently refunded with the General Obligation Note, Series of 2017 (2017 Note).

The 2014 Note bore interest of 2.71% and was due in monthly installments on the fifteenth calendar day of each month. Principal payments were due in monthly installments on the fifteenth calendar day of each month ranging from \$13,000 to \$16,000 with final maturity to occur on or before March 15, 2024. The debt service was paid from the General Fund.

Principal and interest payments for the 2014 Note amounted to \$104,000 and \$22,359, respectively, for the year ended December 31, 2017 and were paid from the General Fund.

In February 2013, the Township issued General Obligation Bonds, Series of 2013 (2013 Bonds), in the amount of \$8,940,000. The proceeds of the 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The 2013 Bonds bear interest from 0.35% to 3.00% and are due in semi-annual installments. Principal payments are due in annual installments ranging 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 2013 Bonds for the year ended December 31, 2017 were allocated and funded from the following funds:

	Principal	Interest	Total
General Fund	\$ 65,000	\$ 10,700	\$ 75,700
Water and Sewer Fund	460,000	155,201	615,201
Total debt service expenditures	\$ 525,000	\$ 165,901	\$ 690,901

The 2013 Bonds annual debt service requirements are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	75,000	3,844	505,000	106,703	580,000	110,547
2022	75,000	2,400	515,000	96,882	590,000	99,282
2023-2027	75,000	825	3,190,000	281,395	3,265,000	282,220
2028	-	-	555,000	7,492	555,000	7,492
	\$ 430,000	\$ 27,650	\$ 6,225,000	\$ 876,010	\$ 6,655,000	\$ 903,660

In February 2012, the Township issued General Obligation Bonds, Series of 2012 (2012 Bonds), in the amount of \$3,570,000. The proceeds of the 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 2012 Bonds were currently refunded with the 2017 Note.

The 2012 Bonds bore interest from .55% to 3.65% and were due in semi-annual installments. Principal payments were due in annual installments ranging from \$5,000 to

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

\$815,000 from May 15, 2013 through May 15, 2033. The debt service was to be paid from the Water and Sewer Fund.

Principal and interest payments for the 2012 Bonds for the year ended December 31, 2017, amounted to \$5,000 and \$60,338, respectively.

In August 2017, the Township issued the 2017 Note, in the amount of \$4,760,000. The proceeds of the 2017 Note were used for 1) the current refunding of the outstanding portion of the 2014 Note, (2) the current refunding of the outstanding portion of the 2012 Bonds, and (3) the costs of issuance of the note.

The 2017 Note bears interest ranging between 2.15% and 3.50% and is due in semi-annual installments on the fifteenth calendar day of May and November. Principal payments are due annually on the fifteenth calendar day of May ranging from \$15,000 to \$805,000 with final maturity to occur on or before May 15, 2033. The debt service will be paid from the General Fund and the Water and Sewer Fund.

Principal payments for the 2017 Note amounted to \$0 for the year ended December 31, 2017. Interest payments for the year ended December 31, 2017 were funded from the following funds:

General Fund	\$ 5,394
Water and Sewer Fund	<u>20,913</u>
	<u>\$ 26,307</u>

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The 2017 Note annual debt service requirements are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 165,000	\$ 22,199	\$ 20,000	\$ 92,693	\$ 185,000	\$ 114,892
2019	165,000	18,652	20,000	92,183	185,000	110,835
2020	175,000	14,997	20,000	91,673	195,000	106,670
2021	175,000	11,234	20,000	91,163	195,000	102,397
2022	180,000	7,417	20,000	90,653	200,000	98,070
2023-2027	255,000	4,139	115,000	452,294	370,000	456,433
2028-2032	-	-	3,210,000	367,329	3,210,000	367,329
2033	-	-	220,000	3,850	220,000	3,850
	<u>\$ 1,115,000</u>	<u>\$ 78,638</u>	<u>\$ 3,645,000</u>	<u>\$ 1,281,838</u>	<u>\$ 4,760,000</u>	<u>\$ 1,360,476</u>

Changes in Long-Term Debt

During the year ended December 31, 2017, the following changes occurred in the long-term debt of the Township:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Governmental activities:				
General obligation notes	\$ 1,237,830	\$ 1,115,000	\$ (1,237,830)	\$ 1,115,000
General obligation bonds	495,000	-	(65,000)	430,000
Total governmental activities	<u>\$ 1,732,830</u>	<u>\$ 1,115,000</u>	<u>\$ (1,302,830)</u>	<u>\$ 1,545,000</u>
Business-type activities:				
General obligation notes	\$ -	\$ 3,645,000	\$ -	\$ 3,645,000
General obligation bonds	10,235,000	-	(4,010,000)	6,225,000
Total business-type activities	<u>\$ 10,235,000</u>	<u>\$ 3,645,000</u>	<u>\$ (4,010,000)</u>	<u>\$ 9,870,000</u>

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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. 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. The Township has delegated the authority to manage certain plan assets to Morgan Stanley. The pension plan does not issue a separate report.

Plan Membership

At January 1, 2017, the Township Pension Plan's membership consisted of:

Active members	10
Inactive members or beneficiaries currently receiving benefits	4
Inactive members entitled to but not yet receiving benefits	8
Total	<u>22</u>

Benefit Provisions

The Township Pension Plan benefit provisions are as follows:

Eligibility requirements	All full-time employees 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Survivor benefit	If a vested participant dies before beginning to receive pension benefits, the surviving spouse will receive a 50% survivor benefit, if they have been married for at least one year. Payment will begin on the date which the participant would have been eligible for retirement. The amount of the survivor benefit is equal to the 50% survivor benefit payable under the joint and 50% survivor pension option, based upon the pension accrued to the date of death and reduced for early commencement of benefits.
Disability benefits	None

Contributions

Act 205 requires that annual contributions to the pension plan be based upon the pension plan's Minimum Municipal Obligation (MMO), which is based on the pension plan's biennial actuarial valuation. The pension 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, 2017, the Township made their required contribution of \$50,556 for the year ended December 31, 2017 and \$67,958 for the year ended December 31, 2016 to the pension plan based upon the MMO.

Investments

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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017, the annual money-weighted rate of return on plan investments, net of investment expense was 14.86%.

Actuarial Assumptions

The Township Pension Plan's actuarial valuation at January 1, 2017, 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	Moderate inflation based on long-term historical average rates
Salary increases	3.5%
Cost-of-living adjustment	None
Mortality:	
Pre-retirement	None
Post-retirement	IRS 2017 Static Combined Table for Small Plans

Change in Actuarial Assumptions

The actuarial accrued liability increased by approximately \$10,000 in the January 1, 2017 actuarial valuation primarily from adjustments to assumed life expectancies as a result of

PENN TOWNSHIP

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YEAR ENDED DECEMBER 31, 2017

adopting the IRS 2017 Static Combined Table for Small Plans Mortality Table for purposes of developing mortality rates. In prior years, those assumptions were based on the 1994 Group Annuity Reserve Mortality Table.

The Township's funded status and related information for the plan as of the latest actuarial valuation date, January 1, 2017, under Act 205, is as follows:

(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Assets in Excess of Actuarial Accrued Liability as a Percent of Payroll (3)/(5)
\$ 1,387,314	\$ 1,174,657	\$ (212,657)	118.10%	\$ 535,841	-39.69%

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 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 2017. 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, 2017 was \$263,026. 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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 decreases 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. During 2017, the Operator changed its name to Inframark. 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.

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 the

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

consumer price index for all urban consumers (CPI-U) 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 2017, based on the CPI-U adjustment, the operator's annual base compensation was increased to \$401,604. For the year ended December 31, 2017, the Township paid the Operator \$564,343 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 execution of this power agreement as the owner of the property on which the system was built. For the year ended December 31, 2017, the 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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 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, 2017, the Township paid the Rec Center \$15,000 under this agreement.

Other Commitments

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.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 2017, the Township did not make any payments 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	\$ 121,703
Reimbursement received	75,174
Claims paid	<u>(280,651)</u>
Deficit for benefits	<u>\$ (83,774)</u>

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, 2017) 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

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

recommended by an actuarial study. The Township's portion of the total 2017 member contributions for SMT was \$13,049. This amount is available for benefits for the year ended December 31, 2017, 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, 2017, the Township received \$2,108 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, 2017, 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 2017 member contributions for PLT was \$96,718. Of this amount, \$45,357 and \$51,361 was paid during the years ended December 31, 2016 and 2017, respectively.

The following is a reconciliation of changes in estimated claims for property and liability costs for the current fiscal year.

Township funding	\$ 51,361
Claims paid	<u>-</u>
Available for benefits	<u>\$ 51,361</u>

During the year ended December 31, 2017, the Township received \$14,700 in dividend distributions from the trust.

PENN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

11. 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, 2017, the balance of the outstanding conduit debt was \$34,329,226.

OTHER INFORMATION

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS GENERAL FUND

YEAR ENDED DECEMBER 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Receipts:			
Real estate tax	\$ 1,064,310	\$ 1,196,165	\$ 131,855
Realty transfer tax	189,145	270,106	80,961
Earned income tax	1,072,060	1,182,639	110,579
Local service tax	204,088	222,330	18,242
Public utility realty tax	26,012	-	(26,012)
Licenses and permits	104,550	115,683	11,133
Fines and forfeits	22,620	31,047	8,427
Contributions	273,840	273,753	(87)
Investment earnings	1,560	2,659	1,099
Intergovernmental receipts	212,443	125,261	(87,182)
Miscellaneous receipts	15,000	43,687	28,687
Charges for services	342,531	310,965	(31,566)
Total receipts	<u>3,528,159</u>	<u>3,774,295</u>	<u>246,136</u>
Disbursements:			
Current:			
Public safety	1,960,356	1,902,360	57,996
Community development	1,343	1,343	-
Public works	667,923	570,819	97,104
Recreation and cultural	82,103	79,151	2,952
Administration	597,691	595,636	2,055
Debt service:			
Principal	530,000	5,312,830	(4,782,830)
Interest and fiscal charges	286,541	368,999	(82,458)
Total disbursements	<u>4,125,957</u>	<u>8,831,138</u>	<u>(4,705,181)</u>
Deficiency of Receipts Under Disbursements	<u>(597,798)</u>	<u>(5,056,843)</u>	<u>(4,459,045)</u>
Other Financing Sources (Uses):			
Sale of general capital assets	500	585	85
Note issuance	-	4,760,000	4,760,000
Refund of prior year revenues	-	(65,446)	(65,446)
Transfers in	785,506	1,071,690	286,184
Transfers out	(525,275)	(446,334)	78,941
Total other financing sources (uses)	<u>260,731</u>	<u>5,320,495</u>	<u>5,059,764</u>
Net Change in Fund Balance	<u>\$ (337,067)</u>	<u>\$ 263,652</u>	<u>\$ 600,719</u>

See accompanying notes to other information - budgetary comparison schedule.

PENN TOWNSHIP

NOTES TO OTHER INFORMATION BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2017

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, 2016 and the cash received for the year ended December 31, 2017.

SUPPLEMENTARY INFORMATION

GOVERNMENTAL FUNDS

PENN TOWNSHIP

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

DECEMBER 31, 2017

Assets	Special Revenue		Total
	State Liquid Fuels	Storm Water Management	
Cash and cash equivalents	\$ -	\$ 65,691	\$ 65,691
Investments	151,348	-	151,348
Total Assets	\$ 151,348	\$ 65,691	\$ 217,039
Fund Balance			
Restricted	\$ 151,348	\$ -	\$ 151,348
Committed	-	65,691	65,691
Total Fund Balance	\$ 151,348	\$ 65,691	\$ 217,039

PENN TOWNSHIP

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

YEAR ENDED DECEMBER 31, 2017

	Special Revenue		Total
	State Liquid Fuels	Storm Water Management	
Receipts:			
State liquid fuels tax	\$ 358,865	\$ -	\$ 358,865
Investment earnings	2,774	200	2,974
Intergovernmental receipts	18,720	-	18,720
Miscellaneous receipts	5,383	-	5,383
Charges for services	-	22,407	22,407
	385,742	22,607	408,349
Disbursements:			
Current:			
Public works	459,625	42,924	502,549
	459,625	42,924	502,549
Net Change in Fund Balance	(73,883)	(20,317)	(94,200)
Fund Balance:			
Beginning of year	225,231	86,008	311,239
End of year	\$ 151,348	\$ 65,691	\$ 217,039

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS STATE LIQUID FUELS

YEAR ENDED DECEMBER 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts:			
State liquid fuels tax	\$ 352,660	\$ 358,865	\$ 6,205
Investment earnings	500	2,774	2,274
Intergovernmental receipts	18,720	18,720	-
Miscellaneous receipts	-	5,383	5,383
	<u>371,880</u>	<u>385,742</u>	<u>13,862</u>
Disbursements:			
Current:			
Public works	<u>568,220</u>	<u>459,625</u>	<u>108,595</u>
Net Change in Fund Balance	<u>\$ (196,340)</u>	<u>\$ (73,883)</u>	<u>\$ 122,457</u>

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS STORM WATER MANAGEMENT

YEAR ENDED DECEMBER 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget
Receipts:			
Investment earnings	\$ 100	\$ 200	\$ 100
Charges for services	18,610	22,407	3,797
Total receipts	18,710	22,607	3,897
Disbursements:			
Current:			
Community development	1,000	-	1,000
Public works	97,500	42,924	54,576
Total disbursements	98,500	42,924	55,576
Net Change in Fund Balance	\$ (79,790)	\$ (20,317)	\$ 59,473

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS CAPITAL IMPROVEMENTS FUND

YEAR ENDED DECEMBER 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Receipts:			
Investment earnings	\$ 8,500	\$ 8,508	\$ 8
Total receipts	8,500	8,508	8
Disbursements:			
Current:			
Community development	50,523	122	50,401
Public works	1,006,998	80,592	926,406
Administration	-	7,377	(7,377)
Total disbursements	1,057,521	88,091	969,430
Excess (Deficiency) of Receipts over (Under) Disbursements	(1,049,021)	(79,583)	969,438
Other Financing Sources (Uses):			
Transfers in	446,335	446,334	(1)
Transfers out	-	(364,740)	(364,740)
Total other financing sources (uses)	446,335	81,594	(364,741)
Net Change in Fund Balance	\$ (602,686)	\$ 2,011	\$ 604,697

PROPRIETARY FUND

PENN TOWNSHIP

COMBINING BALANCE SHEET - MODIFIED CASH BASIS PROPRIETARY FUND

DECEMBER 31, 2017

	Water and Sewer Fund	Northwestern Lancaster County Authority Water Project Fund	Northwestern Lancaster County Authority	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,590,979	\$ -	\$ 1,831	\$ 2,592,810
Restricted investments	-	312,560	-	312,560
Total Assets	\$ 2,590,979	\$ 312,560	\$ 1,831	\$ 2,905,370
Net Position				
Restricted for capital projects	\$ -	\$ 312,560	\$ -	\$ 312,560
Unrestricted	2,590,979	-	1,831	2,592,810
Total Net Position	\$ 2,590,979	\$ 312,560	\$ 1,831	\$ 2,905,370

PENN TOWNSHIP

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

YEAR ENDED DECEMBER 31, 2017

	Water and Sewer Fund	Northwestern Lancaster County Authority Water Project Fund	Northwestern Lancaster County Authority	Total
Operating Receipts:				
Charges for services	\$ 1,573,491	\$ -	\$ -	\$ 1,573,491
Miscellaneous receipts	15,435	-	-	15,435
Total operating receipts	<u>1,588,926</u>	<u>-</u>	<u>-</u>	<u>1,588,926</u>
Operating Disbursements:				
Operation and administration	840,898	50	-	840,948
Materials and supplies	41,831	-	-	41,831
Total operating disbursements	<u>882,729</u>	<u>50</u>	<u>-</u>	<u>882,779</u>
Operating Income (Loss)	<u>706,197</u>	<u>(50)</u>	<u>-</u>	<u>706,147</u>
Nonoperating Receipts (Disbursements):				
Tapping fees	261,870	-	-	261,870
Investment earnings	3,061	2,493	2	5,556
Interest and fiscal charges	(100)	-	-	(100)
Total nonoperating receipts (disbursements)	<u>264,831</u>	<u>2,493</u>	<u>2</u>	<u>267,326</u>
Change in net position before transfers	971,028	2,443	2	973,473
Transfers out	(706,950)	-	-	(706,950)
Change in Net Position	264,078	2,443	2	266,523
Net Position:				
Beginning of year	2,326,901	310,117	1,829	2,638,847
End of year	<u>\$ 2,590,979</u>	<u>\$ 312,560</u>	<u>\$ 1,831</u>	<u>\$ 2,905,370</u>

PENN TOWNSHIP

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS WATER AND SEWER FUND

YEAR ENDED DECEMBER 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Operating Receipts:			
Charges for services	\$ 1,429,195	\$ 1,573,491	\$ 144,296
Miscellaneous receipts	10,000	15,435	5,435
Total operating receipts	1,439,195	1,588,926	149,731
Operating Disbursements:			
Operation and administration	1,815,250	840,898	974,352
Materials and supplies	48,000	41,831	6,169
Total operating disbursements	1,863,250	882,729	980,521
Operating Income (Loss)	(424,055)	706,197	1,130,252
Nonoperating Receipts (Disbursements):			
Tapping fees	298,970	261,870	(37,100)
Investment earnings	1,000	3,061	2,061
Debt service:			
Debt issuance	313,041	-	(313,041)
Interest and fiscal charges	-	(100)	(100)
Total nonoperating receipts (disbursements)	613,011	264,831	(348,180)
Change in net position before transfers	188,956	971,028	782,072
Transfers out	(766,091)	(706,950)	59,141
Change in Net Position	\$ (577,135)	\$ 264,078	\$ 841,213
Change in Net Position - Water and Sewer Fund:			
Water and Sewer Fund		\$ 264,078	
Northwestern Lancaster County Authority Water Project Fund		2,443	
Northwestern Lancaster County Authority		2	
Total Change in Net Position - Proprietary Fund		\$ 266,523	