

TOWNSHIP OF LOWER MAKEFIELD

Financial Statements
And
Supplementary Information
December 31, 2016

TOWNSHIP OF LOWER MAKEFIELD

Financial Statement and Supplementary Information December 31, 2016

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis (Unaudited) | 3-11 |
| Basic Financial Statements: | |
| Government Wide Financial Statements | |
| Statement of Net Position | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements | |
| Balance Sheet - Governmental Funds | 14 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 16 |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 17 |
| Statement of Net Position (Deficit) – Proprietary Funds | 18 |
| Statement of Revenues, Expenses, and Changes in Net Position (Deficit) - Proprietary Funds | 19 |
| Statement of Cash Flows - Proprietary Funds | 20-21 |
| Statement of Fiduciary Net Position | 22 |
| Statement of Changes in Fiduciary Net Position | 23 |
| Notes to the Basic Financial Statements | 24-54 |
| Required Supplementary Information | |
| Budgetary Comparison Statement - General Fund | 55 |
| Budgetary Comparison Statement - Debt Service Fund | 56 |
| Budgetary Comparison Statement - Capital Reserve Fund | 57 |
| Budgetary Comparison Statement - Special Project Fund | 58 |
| Notes to the Budgetary Comparison Statements | 59 |
| Trend Data on Infrastructure Condition | 60 |
| Schedule of Changes in the Net Pension Liability and Related Ratios - Police Pension Plan | 61 |
| Schedule of Contributions - Police Pension Plan | 62 |

| | |
|--|----|
| Schedule of Changes in the Net Pension Liability and Related Ratios - Non-Uniform Pension Plan | 63 |
| Schedule of Contributions - Non-Uniform Pension Plan | 64 |
| Schedule of Investment Returns - Pension Plans | 65 |
| Post-Retirement Health Benefits Funding Progress | 66 |
| Notes to the OPEB Plans | 67 |
| Supplementary Information | |
| Combining Balance Sheet - Other Governmental Funds | 68 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Other Governmental Funds | 69 |



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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
TOWNSHIP OF LOWER MAKEFIELD
Yardley, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the **Township of Lower Makefield** as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the **Township of Lower Makefield'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Township of Lower Makefield**, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required information on Pages 3 through 11 and 55 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Township of Lower Makefield's** basic financial statements. The supplementary information described in the table of contents on pages 68-69 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information described in the table of contents is the responsibility of management and was 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 supplementary information described in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



LOPEZ, TEODOSIO & LARKIN, LLC
Langhorne, Pennsylvania

July 28, 2017

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

Our discussion and analysis of the **Township of Lower Makefield's** financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Position.

FINANCIAL HIGHLIGHTS

- The General Fund year end fund balance has increased steadily since 2009, finishing 2016 with a fund balance of over \$2.6 million, or 24% of general fund revenues. This is substantially above the "Safe Harbor," which is 5-8% of General Fund revenues.
- The Real Estate Transfer Tax receipts continued to improve in 2016, reflecting a strong local housing market. The Township received over \$1.5 million last year. In 2012, the Township received just \$977,146.
- Sewer rates did not increase in 2016. The Sewer Fund receivables are stable, the allowance for bad debt is small by comparison (less than 1%) and no bad debt expense was recorded in 2016. The Sewer Fund began the creation of a capital reserve within its origins in 2010, and has set aside \$500,000 during each of the previous six years to fund capital needs. This has allowed for the financing of sewer capital projects on a pay-as-you-go basis. Over the next 4 years it is anticipated the Township will be required to participate in over \$8 million of capital improvements within the Yardley and Morrisville Sewer systems. The Morrisville Sewer Plant is in immediate need of significant renovations, which could cost in the neighborhood of \$80 to \$150 million.
- The Township Pool had an excellent 2016, and membership continues to grow. Family memberships increased by 54, and total memberships increased by 221 in 2016. Total 2016 revenues exceeded 2015 by approximately \$100,000.
- Makefield Highlands Golf Course completed its twelfth full year of operations since opening on July 1, 2004. Response to the Course continues to be extremely favorable and in 2016 rounds remain stable compared to prior years. Spirit Golf Management has been contracted to operate the course on behalf of the Township. At the end of 2015, the contract to manage the course was extended for another three-year term expiring at the end of 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Together, they provide a comprehensive financial look at the Township. The components of the report include the Independent Auditor's Report, Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements and Notes to the Basic Financial Statements. This report also contains other required and Supplementary Information in addition to the basic financial statements.

The Independent Auditors' Report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

Management's Discussion and Analysis (MD&A), prepared by Township management, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The basic financial statements include the Statement of Net Position, Statement of Activities, Fund Financial Statements and Notes to the Basic Financial Statements. The Statements of Net Position and Activities focus on entity wide presentation using the accrual basis of accounting. They are designed to be more corporate like in that all activities are consolidated into a total for the Township.

- The Statement of Net Position focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.
- The Statement of Activities focuses on gross and net costs of Township programs and the extent to which such programs rely upon taxes and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other sources.
- Fund Financial Statements focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column "Other Governmental Funds." Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net position, revenues, expenses and changes in net position and cash flows. The Proprietary Funds represent the Township's Sewer, Pool, and Golf Funds and can be found in more detail beginning with the Statement of Net Position, Proprietary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

Other Required Supplementary Information (RSI) is additional information consisting of budgetary comparisons for the General Fund and Debt Service Fund, trend data on infrastructure condition, and pension plan funding progress.

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net position and Statement of Activities

Our analysis of the Township as a whole begins with the Statement of Net Position. One of the most important questions asked about the Township's finances is "What is the Township's overall financial condition as compared to the previous year?" The Statement of Net Positions and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. In these statements, we divide the Township into two kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including police, public works, planning and zoning, library, parks and recreation, and administration. Real estate and business taxes, fees and charges and grants finance most of these activities

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

- Business Type Activities - The Township charges a fee to customers to help it cover most of the cost of certain services it provides. The Township's sewer system, pool and golf course are reported here.

| | Governmental Activities | | Business-Type Activities | | Total Government | |
|---------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 20,403,380 | \$ 7,392,841 | \$ 1,602,091 | \$ 3,302,734 | \$ 22,005,471 | \$ 7,695,575 |
| Other Assets | 494,474 | 971,943 | 3,971,168 | 1,856,224 | 4,465,642 | 2,828,167 |
| Capital Assets | 83,644,002 | 78,536,292 | 34,329,199 | 34,653,856 | 117,982,561 | 113,190,148 |
| Total Assets | <u>104,541,856</u> | <u>86,901,076</u> | <u>39,902,458</u> | <u>39,812,814</u> | <u>144,453,674</u> | <u>123,713,890</u> |
| Deferred Outflows of Resources | | | | | | |
| Deferred Pension Outflow | 1,287,112 | 1,281,744 | 100,126 | 11,280 | 1,387,238 | 1,382,024 |
| Deferred Charges | - | - | 142,318 | 169,602 | 142,318 | 169,602 |
| Total Deferred Outflows of Resources | <u>1,287,112</u> | <u>1,281,744</u> | <u>242,444</u> | <u>180,882</u> | <u>1,529,556</u> | <u>1,551,626</u> |
| Liabilities | | | | | | |
| Other Liabilities | 8,215,122 | 1,561,623 | 2,594,929 | 2,562,432 | 10,810,051 | 4,124,055 |
| Long-Term Liabilities | 23,573,008 | 16,959,855 | 31,627,936 | 23,931,950 | 55,200,944 | 40,891,805 |
| Total Liabilities | <u>31,788,130</u> | <u>18,521,478</u> | <u>34,222,865</u> | <u>26,494,382</u> | <u>66,010,995</u> | <u>45,015,860</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred Revenue | - | - | 343,267 | 278,908 | 343,267 | 278,908 |
| Total Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>343,267</u> | <u>278,908</u> | <u>343,267</u> | <u>278,908</u> |
| Net Position | | | | | | |
| Invested in Capital Assets | 67,931,627 | 69,046,340 | 3,164,065 | 11,422,325 | 71,095,692 | 80,468,665 |
| Restricted | 9,952,750 | 1,047,766 | - | - | 9,952,750 | 1,047,766 |
| Unrestricted | (3,843,539) | (3,432,764) | 2,424,065 | 1,887,081 | (1,419,474) | (1,545,683) |
| Total Net Position | <u>\$ 74,040,838</u> | <u>\$ 66,661,342</u> | <u>\$ 5,588,130</u> | <u>\$ 13,309,406</u> | <u>\$ 79,628,968</u> | <u>\$ 79,970,748</u> |

Assets in the business type activity column reflect the Township's investment in its sewer system, community pool and golf course. The Township operates and maintains thirteen pump stations and approximately 230 miles of sewer lines. The community pool consists of four swimming pools, a snack bar area and bathhouse. The golf course is an 18-hole upscale affordable municipal course with practice facility, clubhouse, maintenance building and historic manor house.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|-------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 1,636,171 | \$ 1,591,706 | \$ 9,979,694 | \$ 9,440,686 | \$ 11,615,865 | \$ 11,032,392 |
| Operating Grants and Contributions | 3,368,450 | 2,561,929 | - | - | 3,368,450 | 2,561,929 |
| Capital Grants and Contributions | - | 356,692 | - | - | - | 356,692 |
| General Revenues | | | | | | |
| Property Taxes | 7,873,377 | 7,760,747 | - | - | 7,873,377 | 7,760,747 |
| Real Estate Transfer Tax | 1,589,238 | 1,616,099 | - | - | 1,589,238 | 1,616,099 |
| Local Services Taxes and Per-Capita Taxes | 514,548 | 513,649 | - | - | 514,548 | 513,649 |
| Public Utility Taxes | 11,218 | 11,209 | - | - | 11,218 | 11,209 |
| Franchise Taxes | 806,267 | 774,994 | - | - | 806,267 | 774,994 |
| Investment Earnings | 17,448 | 16,623 | 7,056 | 9,930 | 24,504 | 26,553 |
| Miscellaneous | 172,624 | 416,772 | - | - | 172,624 | 416,772 |
| Total Revenues | 15,989,341 | 15,620,420 | 9,986,750 | 9,450,616 | 25,976,091 | 25,071,036 |
| Expenses | | | | | | |
| General Government | 2,769,552 | 2,549,208 | - | - | 2,769,552 | 2,549,208 |
| Public Safety | 9,041,131 | 8,228,234 | - | - | 9,041,131 | 8,228,234 |
| Highways and Streets | 2,960,560 | 3,047,365 | - | - | 2,960,560 | 3,047,365 |
| Culture and Recreation | 1,456,326 | 1,127,793 | - | - | 1,456,326 | 1,127,793 |
| Community Development | 70,748 | 448,113 | - | - | 70,748 | 448,113 |
| Bond Issuance Costs | 52,866 | 32,320 | - | - | 52,866 | 32,320 |
| Interest on Long-Term Debt | 227,215 | 248,533 | - | - | 227,215 | 248,533 |
| (Gain) on Disposal of Capital Assets | (1,050,000) | (5,105) | - | - | (1,050,000) | (5,105) |
| Sewer | - | - | 7,071,374 | 5,972,153 | 7,071,374 | 5,972,153 |
| Community Pool | - | - | 870,212 | 838,697 | 870,212 | 838,697 |
| Golf Course | - | - | 2,847,887 | 2,852,433 | 2,847,887 | 2,852,433 |
| Total Expenses | 15,528,398 | 15,676,461 | 10,789,473 | 9,663,283 | 26,317,871 | 25,339,744 |
| Excess Before Transfers | 460,943 | (56,041) | (802,723) | (212,667) | (341,780) | (268,708) |
| Transfers | | | | | | |
| Transfers In | 14,751,401 | 726,191 | 3,859,176 | - | 18,610,577 | 726,191 |
| Transfers Out | (7,832,848) | (422,683) | (10,777,729) | (303,508) | (18,610,577) | (726,191) |
| Change in Net Position | 7,379,496 | 247,467 | (7,221,276) | (516,175) | (341,780) | (268,708) |
| Net Position - Beginning of the Year | 66,661,342 | 66,413,875 | 13,309,406 | 13,825,581 | 79,970,748 | 80,239,456 |
| Net Position - End of the Year | \$ 74,040,838 | \$ 66,661,342 | \$ 5,588,130 | \$ 13,309,406 | \$ 79,628,968 | \$ 79,970,748 |

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Statement of Net Position and Statement of Activities (Continued)

For the **Township of Lower Makefield's** governmental activities, total revenues exceeded total expenses by \$460,943 in 2016. In 2016, there was a .04 mill increase in the Hydrant Tax. Revenues increased in 2016 by \$829,864, or 2.3%, expenses decreased by \$148,063, or 1.1%.

For the **Township of Lower Makefield's** business-type activities, there was an operating loss of \$384,458 in 2016 as a result of the operating losses in the Sewer Fund; the operating income in 2015 was \$172,028. The 2016 budget included a 10% sewer rate increase.

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities in 2016 was \$15,989,341; 2015 was \$15,620,420; and 2014 was \$15,268,651. Revenues by source are as follows:

| <u>Revenue</u> | <u>Amount</u> | | <u>% of Total</u> | |
|---|----------------------|----------------------|-------------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Property Taxes | \$ 7,873,377 | \$ 7,760,747 | 49.24% | 49.73% |
| Real Estate Transfer Tax | 1,589,238 | 1,616,099 | 9.93% | 10.34% |
| Local Services Taxes and Per-Capita Taxes | 514,548 | 513,649 | 3.21% | 3.28% |
| Public Utility Taxes | 11,218 | 11,209 | 0.07% | 0.07% |
| Franchise Taxes | 806,267 | 774,994 | 5.04% | 4.96% |
| Investment Earnings | 17,448 | 16,623 | 0.11% | 0.10% |
| Miscellaneous | 172,624 | 416,772 | 1.07% | 2.66% |
| Charges for Services | 1,636,171 | 1,591,706 | 10.23% | 10.18% |
| Operating Grants and Contributions | 3,368,450 | 2,561,929 | 21.10% | 16.40% |
| Capital Grants and Contributions | - | 356,692 | - % | 2.28% |
| | <u>\$ 15,989,341</u> | <u>\$ 15,620,420</u> | <u>100.00%</u> | <u>100.00%</u> |

As seen above, revenues increased when comparing 2016 and 2015, by \$368,921 or 2.3%. Real estate transfer taxes remain stable. In December of 2010, the Township approved the enactment of a Local Services Tax, or LST at the legally allowed maximum of \$52 per annum for all people working within the Township borders earning more than \$12,000 per annum. This revenue source yielded over \$301,113 in 2016; \$301,355 in 2015; and \$303,000 in 2014.

Investment income, which is comprised of bank interest on the five Township interest bearing accounts, remained at a historic low in 2016 as interest rates decreased from a high of 5.01% during 2007 to a low of less than ¼ of 1% during 2016. The Township did switch banks during fiscal 2012 and as such did realize higher interest revenue on funds. With the fed rates at or near 0%, we expect interest income to remain at or below their current levels for the near future and certainly throughout 2017.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

REPORTING THE TOWNSHIP AS A WHOLE (Continued)

Governmental Activities (Continued)

The Township's governmental programs consist of various operating departments, including police, public works, planning and zoning, park and recreation and several administrative departments. Total expenditures for fiscal 2016 were \$15,528,398; 2015 were \$15,676,461; and \$15,339,305 in 2014. Expenditures by source were as follows:

| <u>Expenses</u> | <u>Amount</u> | | <u>% of Total</u> | |
|--------------------------------------|----------------------|----------------------|-------------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| General Government | \$ 2,769,552 | \$ 2,549,208 | 17.84% | 16.27% |
| Public Safety | 9,041,131 | 8,228,234 | 58.22% | 52.49% |
| Highways and Streets | 2,960,560 | 3,047,365 | 19.07% | 19.44% |
| Culture and Recreation | 1,456,326 | 1,127,793 | 9.38% | 7.19% |
| Community Development | 70,748 | 448,113 | 0.46% | 2.86% |
| Bond Issuance Costs | 52,866 | 32,320 | 0.34% | 0.21% |
| Interest on Long-Term Debt | 227,215 | 248,533 | 1.46% | 1.59% |
| (Gain) on Disposal of Capital Assets | (1,050,000) | (5,105) | (6.77)% | (0.05)% |
| | <u>\$ 15,528,398</u> | <u>\$ 15,676,461</u> | <u>100.00%</u> | <u>100.00%</u> |

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund, one fund in the Governmental Activities report, had an operating deficit in 2016 of \$33,692 which was better than the budgeted operating deficit of \$368,575. The General Fund outperformed the budget in 2016 by approximately \$334,883. There are several reasons for this high performance, most notably on the revenue side. Property taxes continue to be collected at a high percentage, real estate transfer taxes are stable and we saw an increase in Franchise taxes, Charges for Services as well as Grants and Contributions. This reflects a very strong and vibrant local economy and a solid tax base.

It is the Township's policy that unused appropriations lapse at the close of the fiscal year. The Township does not "carry over" surpluses into the New Year and maintains budgetary control at the fund level.

As mentioned in the Financial Highlights section, the General Fund balance remains well above the "Safe Harbor" range.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The **Township of Lower Makefield's** investment in capital assets for its governmental and business-type activities as of December 31, 2016, total \$117,973,201 and were \$113,190,148 in 2015 (net of accumulated depreciation). Township investment in capital assets includes land and land improvements, building improvements, equipment, vehicles and infrastructure (see Table 3). Infrastructure includes roadways, bike paths, curbing and sidewalks, storm sewers, basins, bridges and culverts, easements, streetlights and signs.

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Additions to capital assets, land and improvements during 2016 include:

| | |
|---|------------|
| Sewer Capital Contribution - Morrisville | \$ 993,466 |
| Sewer Equipment and Capital Repairs | \$ 165,045 |
| Construction in Progress - Community Center | \$ 227,540 |
| Construction in Progress - Library | \$ 89,622 |
| Police and Public Works Vehicles | \$ 184,327 |
| Quiet Zone | \$ 622,308 |
| Land Improvements | \$ 126,514 |
| Land | \$ 231,017 |
| Police and Public Works Equipment | \$ 416,695 |
| Golf Course Equipment | \$ 5,000 |
| Pool Furniture and Fixtures | \$ 44,812 |

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Government</u> | |
|----------------------------|--------------------------------|----------------------|---------------------------------|----------------------|-------------------------|-----------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Land* | \$ 23,387,951 | \$ 19,468,701 | \$ 7,765,999 | \$ 7,765,999 | \$ 31,153,950 | \$ 27,234,700 |
| Construction in Progress | 1,304,663 | 365,193 | 37,037 | 37,037 | 1,341,700 | 402,230 |
| Infrastructure | 49,524,483 | 49,524,483 | - | - | 49,524,483 | 49,524,483 |
| Total Capital Assets | | | | | | |
| Not Depreciated | <u>74,217,097</u> | <u>69,358,377</u> | <u>7,803,036</u> | <u>7,803,036</u> | <u>82,020,133</u> | <u>77,161,413</u> |
| Land Improvements | 9,213,290 | 9,086,774 | 8,120,764 | 8,120,764 | 17,334,054 | 17,207,538 |
| Plant and Pools | 1,308,418 | 1,308,418 | 45,060,500 | 44,022,220 | 46,368,918 | 45,330,638 |
| Buildings and Improvements | 6,921,626 | 6,913,421 | 3,397,254 | 3,397,254 | 10,318,880 | 10,310,675 |
| Furniture and Equipment | 3,750,820 | 3,330,653 | 1,860,039 | 1,689,995 | 5,610,859 | 5,020,648 |
| Vehicles | 6,029,599 | 5,557,935 | - | - | 6,029,599 | 5,557,935 |
| Total Capital Assets | | | | | | |
| Depreciated | <u>27,223,753</u> | <u>26,197,201</u> | <u>58,438,557</u> | <u>57,230,233</u> | <u>85,662,310</u> | <u>83,427,434</u> |
| Accumulated Depreciation | <u>(17,796,848)</u> | <u>(17,019,286)</u> | <u>(31,903,034)</u> | <u>(30,379,413)</u> | <u>(49,699,882)</u> | <u>(47,398,699)</u> |
| Total Capital Assets | <u>\$ 83,644,002</u> | <u>\$ 78,536,292</u> | <u>\$ 34,338,559</u> | <u>\$ 34,653,856</u> | <u>\$ 117,982,561</u> | <u>\$ 113,190,148</u> |

*Land is recorded at historical cost; market values are significantly higher.

Depreciable capital assets are depreciated using the straight-line method. Useful lives are as follows:

| | <u>Years</u> |
|------------------------------------|--------------|
| Infrastructure | 20 |
| Land Improvements | 5-40 |
| Plant and Pools | 4-40 |
| Building and Building Improvements | 40 |
| Furniture and Equipment | 5 |
| Vehicles | 3-10 |

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

In the case of road, curb, sidewalk and bike path infrastructure, the Township has elected to use the modified approach. Please see Page 56 in Required Supplementary Information section of the financial statements for a more detailed description of the method. Additional information on the Township's capital assets can be found in Notes A and E in the financial statements.

Total Liabilities

At the end of 2016, the Township had \$44,871,781 in outstanding principal for all Note Payables and Bonds. Net of premiums, discounts and amortization, the total amount is \$46,886,869. Total Long-Term Liabilities at the end of 2016 were \$55,200,944, which includes OPEB and Pension liabilities and Accrued Sick Time.

In September 2016, a new issue of a \$21.7 million General Obligation Bond was given an AA1 rating by Moody's Investor Services. During the process of issuing the Series A and Series B of 2010 General Obligation Bonds, the Township went through the normal rating process and Moody's Investor Services upgraded the Township from AA2 rating to AA1 rating. This was based on 2010 audited financial statements and unaudited statements. The Township continues to meet the requirements of the rating agencies through quarterly and annual reporting, and by exercising strong fiduciary stewardship.

Debt

Outstanding debt at year end (net of premiums, discounts, and amortization) for the years ended December 31, 2016 and 2015 is as follows:

| <u>Government Activities</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------|----------------------|----------------------|
| General Obligation Bonds | | |
| Series of 2011 | \$ - | \$ 634,197 |
| Series A of 2010 | 1,205,395 | 1,869,553 |
| Series B of 2013 | 803,616 | 803,616 |
| Series of 2015 | 3,766,178 | 4,133,302 |
| Series of 2016 | 7,733,939 | - |
| General Obligation Notes | | |
| Series of 2004 | 1,895,000 | 2,016,000 |
| Notes Payable | | |
| PEMA | 22,709 | 33,284 |
| Bucks County | 285,538 | - |
| | <u>\$ 15,712,375</u> | <u>\$ 9,489,952</u> |
| | | |
| <u>Business Type Activities</u> | | |
| General Obligation Bonds | | |
| Series of 2011 | \$ - | \$ 7,022,754 |
| Series A of 2013 | 1,978,905 | 1,986,292 |
| Series B of 2013 | 1,988,918 | 1,988,918 |
| Series of 2015 | 3,351,820 | 3,997,449 |
| Series of 2016 | 15,348,851 | - |
| General Obligation Notes | | |
| Series A of 2002 | 3,470,000 | 3,470,000 |
| Series B of 2002 | 5,036,000 | 5,036,000 |
| | <u>31,174,494</u> | <u>23,501,413</u> |
| Net OPEB Obligation | 592,321 | 556,439 |
| Net Pension Liability | 6,967,457 | 6,577,667 |
| Compensated Absences | 754,297 | 766,334 |
| Total Long-Term Liabilities | <u>\$ 55,200,944</u> | <u>\$ 40,891,805</u> |

TOWNSHIP OF LOWER MAKEFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

The **Township of Lower Makefield** services an area of seventeen square miles and a population of 32,559 (2010 United States Census). The Township is located in the southeastern portion of Bucks County, just across the river from Trenton, New Jersey and twenty-five miles northeast of Philadelphia. Economically, the Township is largely residential in nature, with some agricultural activity. Commercial development can be found on a limited basis, most of which support the residential community. With the recent development of land into office buildings, more employment opportunities can be found within the Township than in prior years.

As shown in the data below, the **Township of Lower Makefield** is considerably wealthier than Bucks County as a whole. Both Bucks County and the **Township of Lower Makefield** are substantially wealthier than the Commonwealth of Pennsylvania and the nation. Several factors that create this wealth are the higher educational levels of our residents and the Township's ideal location for commuting to New York and Philadelphia, where higher paying jobs can be found.

| | <u>Lower Makefield Township</u> | <u>Bucks County</u> | <u>Pennsylvania</u> | <u>United States</u> |
|---|---|---------------------|---------------------|----------------------|
| Per Capita Income | \$ 54,282 | \$ 34,917 | \$ 26,933 | \$ 28,051 |
| Median Family Income | 136,638 | 86,196 | 63,283 | 53,046 |
| Percentage of Population Below Poverty Level | 1.5% | 5.0% | 9.6% | 14.9% |

Source: United States Census Bureau (2010 Census)

The 2017 Budget

The total millage for 2017 will be 17.51; this includes an increase of .75 mills in the General Fund, .80 mills in the Park and Recreation Fund, and .80 mills in the Debt Service Fund. This total increase of 2.35 mills equates to an increase of \$98.11 per year for the average Lower Makefield taxpayer.

Real estate transfer taxes are budgeted at \$1,200,000, up \$50,000 from 2016's budget, and down from the high point of \$1,925,000 actually received in 2005. We expect that the housing market and related credit markets will begin to show stability and steady improvement during 2017; however, the rise in interest rates may impact these taxes.

Both Police and Public Works are in the fourth year of 5-year contracts. In 2017, employees will be required to contribute 10% with a maximum of \$1,000 per year towards their health insurance.

As was done in the past, the Liquid Fuels Fund will help support the Public Works payroll in 2017.

Litigation

There is no outstanding litigation that will adversely affect Township finances.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to show the Township's accountability for the monies it receives and disburses. If you have any questions about this report or to request additional financial information, please contact Terry Fedorchak, Township Manager, 1100 Edgewood Road, Yardley, Pennsylvania 19067.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Net Position
December 31, 2016

| | <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 20,403,380 | \$ 1,602,091 | \$ 22,005,471 |
| Accounts receivable, net | 475,000 | 2,053,179 | 2,528,179 |
| Interfund receivable | - | 1,810,582 | 1,810,582 |
| Inventory | - | 85,744 | 85,744 |
| Prepaid expenses | 19,474 | 21,663 | 41,137 |
| Total Current Assets | <u>20,897,854</u> | <u>5,573,259</u> | <u>26,471,113</u> |
| Capital Assets | | | |
| Net capital assets | <u>83,644,002</u> | <u>34,338,559</u> | <u>117,982,561</u> |
| Total Assets | <u>104,541,856</u> | <u>39,911,818</u> | <u>144,453,674</u> |
| Deferred Outflows of Resources | | | |
| Deferred pension outflow | 1,287,112 | 100,126 | 1,387,238 |
| Deferred charges on refunding of bond | - | 142,318 | 142,318 |
| Total Deferred Outflow of Resources | <u>1,287,112</u> | <u>242,444</u> | <u>1,529,556</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 1,377,362 | 1,541,136 | 2,918,498 |
| Accrued expenses | 4,987,278 | 1,053,793 | 6,041,071 |
| Interfund payables | 1,810,582 | - | 1,810,582 |
| Security deposits | 39,900 | - | 39,900 |
| Bonds and notes payable, current portion | 1,567,868 | 1,095,396 | 2,663,264 |
| Total Current Liabilities | <u>9,782,990</u> | <u>3,690,325</u> | <u>13,473,315</u> |
| Long-term liabilities | | | |
| Bonds and notes payable, net of current portion | 14,144,507 | 30,079,098 | 44,223,605 |
| Other post-employment benefits | 592,321 | - | 592,321 |
| Compensated absences | 754,297 | - | 754,297 |
| Net pension liability | 6,514,015 | 453,442 | 6,967,457 |
| Total Long-term Liabilities | <u>22,005,140</u> | <u>30,532,540</u> | <u>52,537,680</u> |
| Total Liabilities | <u>31,788,130</u> | <u>34,222,865</u> | <u>66,010,995</u> |
| Deferred Inflows of Resources | | | |
| Deferred gift card and rental receipts | - | 343,267 | 343,267 |
| Net Position | | | |
| Invested in capital assets, net of related debt | 67,931,627 | 3,164,065 | 71,095,692 |
| Restricted for: | | | |
| Capital projects | 259,663 | - | 259,663 |
| Debt service | 8,956,277 | - | 8,956,277 |
| Special revenue funds | 736,810 | - | 736,810 |
| Unrestricted (deficit) | <u>(3,843,539)</u> | <u>2,424,065</u> | <u>(1,419,474)</u> |
| Total Net Position | <u>\$ 74,040,838</u> | <u>\$ 5,588,130</u> | <u>\$ 79,628,968</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Activities
Year Ended December 31, 2016

| Functions/Programs | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position | | |
|--|------------------|---------------------|------------------------------------|--|--------------------------|--|
| | Expenses | Charge for Services | Operating Grants and Contributions | Governmental Activities | Business Type Activities | |
| Primary Government | | | | | | |
| Governmental Activities | | | | | | |
| General government | \$ 2,769,552 | \$ 655,902 | \$ 706,621 | \$ (1,407,029) | \$ - | |
| Public safety | 9,041,131 | 267,164 | 868,230 | (7,905,737) | - | |
| Public works | 2,960,560 | 525,881 | 1,498,677 | (936,002) | - | |
| Parks and recreation | 1,456,326 | 187,224 | 294,922 | (974,180) | - | |
| Community development | 70,748 | - | - | (70,748) | - | |
| Bond acquisition costs | 55,919 | - | - | (55,919) | - | |
| Interest on long-term debt | 224,162 | - | - | (224,162) | - | |
| Total Governmental Activities | 16,578,398 | 1,636,171 | 3,368,450 | (11,573,777) | - | |
| Business Type Activities | | | | | | |
| Sewer fund | 7,071,374 | 5,982,930 | - | - | (1,088,444) | |
| Community pool fund | 870,212 | 994,085 | - | - | 123,873 | |
| Golf course fund | 2,847,887 | 3,002,679 | - | - | 154,792 | |
| Total Business Type Activities | 10,789,473 | 9,979,694 | - | - | (809,779) | |
| Total Primary Government | \$ 27,367,871 | \$ 11,615,865 | \$ 3,368,450 | (11,573,777) | (809,779) | |
| General Revenues (Expenses) | | | | | | |
| Property taxes, levied for general purpose | | | | 7,873,377 | - | |
| Transfer taxes | | | | 1,589,238 | - | |
| Local services and per capita taxes | | | | 514,548 | - | |
| PURTA Utility Tax | | | | 11,218 | - | |
| Franchise taxes | | | | 806,267 | - | |
| Investment earnings | | | | 17,448 | 7,056 | |
| Reimbursement and miscellaneous | | | | 172,624 | - | |
| Gain on sale of capital assets | | | | 1,050,000 | - | |
| Transfers in | | | | 14,751,401 | 3,859,176 | |
| Transfer out | | | | (7,832,848) | (10,777,729) | |
| Total General Revenues | | | | 18,953,273 | (6,911,497) | |
| Change in Net Position | | | | 7,379,496 | (7,721,276) | |
| Net Position at Beginning of Year | | | | 66,661,342 | 13,309,406 | |
| Net Position at End of Year | | | | \$ 74,040,838 | \$ 5,588,130 | |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Balance Sheet
Governmental Funds
December 31, 2016

| | General Fund | Capital Reserve Fund | Debt Service Fund | Special Project Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------|----------------------|----------------------|--------------------------|--------------------------|
| Assets | | | | | | |
| Cash | \$ 3,192,014 | \$ - | \$ 16,077,697 | \$ 424,613 | \$ 709,056 | \$ 20,403,380 |
| Accounts receivable, net | 433,916 | - | 10,604 | - | 30,480 | 475,000 |
| Interfund receivable | - | 1,500,000 | - | 3,500,000 | 314,418 | 5,314,418 |
| Prepaid expenses | 19,474 | - | - | - | - | 19,474 |
| Total Assets | \$ 3,645,404 | \$ 1,500,000 | \$ 16,088,301 | \$ 3,924,613 | \$ 1,053,954 | \$ 26,212,272 |
| Liabilities | | | | | | |
| Accounts payable | \$ 391,400 | \$ 486,946 | \$ - | \$ 264,958 | \$ 234,058 | \$ 1,377,362 |
| Accrued expenses | 508,268 | 753,391 | - | 3,688,233 | 37,386 | 4,987,278 |
| Interfund payables | - | - | 7,125,000 | - | - | 7,125,000 |
| Security deposits | 37,250 | - | - | - | 2,650 | 39,900 |
| Total Liabilities | 936,918 | 1,240,337 | 7,125,000 | 3,953,191 | 274,094 | 13,529,540 |
| Deferred Inflows of Resources | | | | | | |
| Deferred taxes | 55,862 | - | 7,024 | - | 14,472 | 77,358 |
| Fund Balances (Deficit) | | | | | | |
| Nonspendable: | | | | | | |
| Prepaid items | 19,474 | - | - | - | - | 19,474 |
| Restricted: | | | | | | |
| Capital projects | - | 259,663 | - | - | - | 259,663 |
| Debt service | - | - | 8,956,277 | - | - | 8,956,277 |
| Special revenue funds | - | - | - | (28,578) | 765,388 | 736,810 |
| Unassigned: | | | | | | |
| General fund | 2,633,150 | - | - | - | - | 2,633,150 |
| Total Fund Balances (deficit) | 2,652,624 | 259,663 | 8,956,277 | (28,578) | 765,388 | 12,605,374 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 3,645,404 | \$ 1,500,000 | \$ 16,088,301 | \$ 3,924,613 | \$ 1,053,954 | \$ 26,212,272 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
December 31, 2016

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | \$ 12,605,374 |
| Amounts reported for governmental activities on the statement of net position are different because of the following: | |
| Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$101,440,850 and the accumulated depreciation is \$17,796,848. | 83,644,002 |
| Taxes and grants not collected within 60 days of year-end are not recognized as a receivable in the funds. | 77,358 |
| Deferred pension outflows of resources are not available in the current period | 1,287,112 |
| Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Those liabilities consist of: | |
| Bonds and notes payable, including premiums | (15,712,375) |
| Post retirement health benefit obligation | (592,321) |
| Net pension liability | (6,514,015) |
| Accrued compensated absences - sick time | <u>(754,297)</u> |
| Net Position of Governmental Activities | <u>\$ 74,040,838</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2016

| | General | Capital Reserve | Debt Service | Special Project | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|------------------|------------------|------------------|--------------------------|--------------------------|
| Revenues | | | | | | |
| Real estate taxes | \$ 5,634,221 | \$ - | \$ 807,327 | \$ - | \$ 1,423,630 | \$ 7,865,178 |
| Real estate transfer taxes | 1,589,238 | - | - | - | - | 1,589,238 |
| Local services and per capita taxes | 514,548 | - | - | - | - | 514,548 |
| Licenses, permits and fees | 1,457,507 | - | - | - | - | 1,457,507 |
| Fines, forfeits and costs | 91,528 | - | - | - | - | 91,528 |
| Interest earnings | - | - | 2,460 | 218 | 4,851 | 7,529 |
| Rental income | 338,195 | - | - | - | 118,361 | 454,556 |
| Intergovernmental revenues | 684,185 | - | - | - | 1,321,038 | 2,005,223 |
| Charges for services | 554,346 | - | - | - | 215,947 | 770,293 |
| Contributions | 1,350 | 450,000 | - | 316,678 | 171,336 | 939,364 |
| Miscellaneous income | 110,063 | 329,466 | - | - | 62,864 | 502,393 |
| Total Revenues | 10,973,181 | 779,466 | 809,787 | 316,896 | 3,318,027 | 16,197,357 |
| Expenditures | | | | | | |
| General government | 1,850,827 | 622,007 | - | - | - | 2,472,834 |
| Public safety | 5,607,650 | 4,960 | - | - | 972,834 | 6,585,444 |
| Public works | 1,553,473 | - | - | - | 1,169,642 | 2,723,115 |
| Parks and recreation | - | - | - | - | 1,103,775 | 1,103,775 |
| Community development | - | - | - | 348,549 | 50,117 | 398,666 |
| Capital outlay | 10,714 | 1,039,835 | - | 4,210,863 | 293,164 | 5,554,576 |
| Insurance | 398,256 | - | - | - | - | 398,256 |
| Employee benefits and taxes | 1,857,374 | - | - | - | - | 1,857,374 |
| Debt service | | | | | | |
| Principal | - | - | 1,111,734 | - | - | 1,111,734 |
| Interest | - | - | 224,162 | - | - | 224,162 |
| Total Expenditures | 11,278,294 | 1,666,802 | 1,335,896 | 4,559,412 | 3,589,532 | 22,429,936 |
| (Deficiency) of revenues over expenditures | (305,113) | (887,336) | (526,109) | (4,242,516) | (271,505) | (6,232,579) |
| Other Financing Sources (Uses) | | | | | | |
| Refund prior year expenditure | 108,693 | - | - | - | 6,100 | 114,793 |
| Sale of capital assets | - | - | - | 800,000 | 250,000 | 1,050,000 |
| Net proceeds from 2016 bond issuance | - | - | 7,733,939 | - | - | 7,733,939 |
| Operating transfers in | 412,728 | 1,750,000 | 8,963,673 | 3,500,000 | 125,000 | 14,751,401 |
| Operating transfers out | (250,000) | (45,159) | (7,163,760) | (30,009) | (398,880) | (7,887,808) |
| Refinance payment of 2011 bonds | - | - | (602,535) | - | - | (602,535) |
| 2016 bond issuance costs | - | - | (55,919) | - | - | (55,919) |
| Total Other Financing Sources (uses) | 271,421 | 1,704,841 | 8,875,398 | 4,269,991 | (17,780) | 15,103,871 |
| Net change in fund balances | (33,692) | 817,505 | 8,349,289 | 27,475 | (289,285) | 8,871,292 |
| Fund balances (deficit), beginning | 2,686,316 | (557,842) | 606,988 | (56,053) | 1,054,673 | 3,734,082 |
| Fund balances (deficit), ending | \$ 2,652,624 | \$ 259,663 | \$ 8,956,277 | \$ (28,578) | \$ 765,388 | \$ 12,605,374 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Reconciliation of Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund
Balances to the Statement of Activities
Year Ended December 31, 2016

| | |
|--|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 8,871,292 |
| Capital outlays are reported in the Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. Adjustments consist of: | |
| Capital outlays | 5,554,576 |
| Depreciation expense | (777,562) |
| Repayment of bond principal is an expenditure in the Governmental Funds, but the repayments reduce long-term liabilities in the Statement of Net Position. | 1,714,806 |
| Governmental Funds report the effect of premiums when debt is issued, but these amounts are deferred and amortized in the Statement of Activities. | 127,944 |
| Taxes not collected within 60 days of year-end are not recognized as revenue in the Government Funds, but are recognized as revenue in the Statement of Activities. | 13,106 |
| Compensated absences for unused sick time do not require the use of current financial resources and therefore, are not reported as expenditures in Governmental Funds, but are recorded as expenses in the Statement of Activities. | 12,037 |
| Net Pension Liability | (366,882) |
| Proceeds from issuance of 2016 bond premium and bond payable | (7,733,939) |
| In the Governmental Funds, post retirement health benefits are reported as expenses when due, but in the Statement of Activities the obligation is accrued. | (35,882) |
| Change in Net Position of Governmental Activities | <u>\$ 7,379,496</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Net Position (Deficit)
 Proprietary Funds
 December 31, 2016

| | Proprietary Funds | | | Total Proprietary Funds |
|---|---------------------|------------------------|---------------------|-------------------------------|
| | Sewer Fund | Community Pool Fund | Golf Course Fund | |
| Assets | | | | |
| Current assets | | | | |
| Cash | \$ 647,222 | \$ 502,689 | \$ 452,180 | \$ 1,602,091 |
| Accounts receivable, net | 2,051,049 | - | 2,130 | 2,053,179 |
| Inventory | - | - | 85,744 | 85,744 |
| Interfund receivables | 2,000,000 | - | - | 2,000,000 |
| Prepaid expenses | - | - | 21,663 | 21,663 |
| Total Current Assets | 4,698,271 | 502,689 | 561,717 | 5,762,677 |
| Capital assets | | | | |
| Net capital assets | 18,252,122 | 501,901 | 15,584,536 | 34,338,559 |
| Total Assets | 22,950,393 | 1,004,590 | 16,146,253 | 40,101,236 |
| Deferred Outflows of Resources | | | | |
| Deferred pension outflow | 100,126 | - | - | 100,126 |
| Deferred charges on refunding of bond | 93,594 | - | 48,724 | 142,318 |
| Total Deferred Outflow of Resources | 193,720 | - | 48,724 | 242,444 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 1,512,531 | 5,725 | 22,880 | 1,541,136 |
| Accrued expense | 1,030,964 | 5,475 | 17,354 | 1,053,793 |
| Interfund payables | - | - | 189,418 | 189,418 |
| Current portion of long-term debt | 422,314 | - | 673,082 | 1,095,396 |
| Total Current Liabilities | 2,965,809 | 11,200 | 902,734 | 3,879,743 |
| Long-term liabilities | | | | |
| Net pension liability | 453,442 | - | - | 453,442 |
| Bonds and notes payable | 14,926,538 | - | 15,152,560 | 30,079,098 |
| Total Long-Term Liabilities | 15,379,980 | - | 15,152,560 | 30,532,540 |
| Deferred Inflows of Resources | | | | |
| Deferred revenue | 117,840 | - | 225,427 | 343,267 |
| Net position (deficit) | | | | |
| Invested in capital assets, net of related debt | 2,903,270 | 501,901 | (241,106) | 3,164,065 |
| Unrestricted | 1,777,214 | 491,489 | 155,362 | 2,424,065 |
| Total Net Position (deficit) | \$ 4,680,484 | \$ 993,390 | \$ (85,744) | \$ 5,588,130 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Revenues, Expenses, and Change in Net Position (Deficit)
 Proprietary Funds
Year Ended December 31, 2016

| | Proprietary Funds | | | Total Proprietary Funds |
|---|--------------------------|--------------------------------|-----------------------------|--|
| | Sewer Fund | Community Pool Fund | Golf Course Fund | |
| Operating Revenues | | | | |
| Charges for service | \$ 5,865,821 | \$ 982,905 | \$ 3,002,679 | \$ 9,851,405 |
| Miscellaneous | 20,635 | 11,180 | - | 31,815 |
| Total Operating Revenues | 5,886,456 | 994,085 | 3,002,679 | 9,883,220 |
| Operating Expenses | | | | |
| Operations | 5,574,850 | 789,572 | 2,379,635 | 8,744,057 |
| Depreciation | 1,146,366 | 80,640 | 296,615 | 1,523,621 |
| Total Operating Expenses | 6,721,216 | 870,212 | 2,676,250 | 10,267,678 |
| Operating Income (loss) | (834,760) | 123,873 | 326,429 | (384,458) |
| Non-Operating Revenues (Expenses) | | | | |
| Earnings on investments | 4,159 | 1,596 | 1,301 | 7,056 |
| Tapping fees | 96,474 | - | - | 96,474 |
| Interest expense | (239,799) | - | (261,690) | (501,489) |
| Bond Acquisition cost | (104,662) | - | - | (104,662) |
| (Accretion) Amortization | (5,697) | - | 90,053 | 84,356 |
| Total Non-Operating Revenues (Expenses) | (249,525) | 1,596 | (170,336) | (418,265) |
| Income (loss) before contributions and fund transfers | (1,084,285) | 125,469 | 156,093 | (802,723) |
| Contributions and fund transfers | | | | |
| Interfund transfers in | 3,639,176 | 220,000 | - | 3,859,176 |
| Interfund transfers out | (10,504,219) | (248,510) | (25,000) | (10,777,729) |
| Total contributions and fund transfers | (6,865,043) | (28,510) | (25,000) | (6,918,553) |
| Change in Net Position | (7,949,328) | 96,959 | 131,093 | (7,721,276) |
| Total Net Position (deficit), Beginning | 12,629,812 | 896,431 | (216,837) | 13,309,406 |
| Total Net Position (deficit), Ending | \$ 4,680,484 | \$ 993,390 | \$ (85,744) | \$ 5,588,130 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2016

| | Proprietary Funds | | | Total Proprietary Funds |
|---|--------------------------|--------------------------------|-----------------------------|--|
| | Sewer Fund | Community Pool Fund | Golf Course Fund | |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 5,590,146 | \$ 994,085 | \$ 3,019,743 | \$ 9,603,974 |
| Cash payments to suppliers | (4,999,542) | (378,708) | (1,268,514) | (6,646,764) |
| Cash payments to employees | (257,211) | (382,647) | (1,005,584) | (1,645,442) |
| Cash payments to other governments | (19,961) | (29,514) | (118,198) | (167,673) |
| Net cash provided by operating activities | <u>313,432</u> | <u>203,216</u> | <u>627,447</u> | <u>1,144,095</u> |
| Cash Flows from Non-Capital Financing Activities | | | | |
| Transfers (out) | (8,865,043) | (28,510) | (25,000) | (8,918,553) |
| Tapping fees | 96,474 | - | - | 96,474 |
| Net cash (used) in non-capital financing activities | <u>(8,768,569)</u> | <u>(28,510)</u> | <u>(25,000)</u> | <u>(8,822,079)</u> |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchases of capital assets | (1,158,511) | (44,813) | (5,000) | (1,208,324) |
| Proceeds from long-term debt | 15,312,225 | - | - | 15,312,225 |
| Principal paid on long-term debt | (6,982,465) | - | (545,000) | (7,527,465) |
| Bond issuance costs | (104,662) | - | - | (104,662) |
| Interest paid on long-term debt | (239,799) | - | (261,690) | (501,489) |
| Net cash provided by (used) in capital and related financing activities | <u>6,826,788</u> | <u>(44,813)</u> | <u>(811,690)</u> | <u>5,970,285</u> |
| Cash Flows from Investing Activities | | | | |
| Earnings from investments | 4,159 | 1,596 | 1,301 | 7,056 |
| Net cash provided by investing activities | <u>6,839</u> | <u>1,596</u> | <u>1,301</u> | <u>9,736</u> |
| Net (decrease) increase in cash and cash equivalents | (1,624,190) | 131,489 | (207,942) | (1,700,643) |
| Cash and Cash Equivalents | | | | |
| Beginning of year | <u>2,271,412</u> | <u>371,200</u> | <u>660,122</u> | <u>3,302,734</u> |
| End of Year | <u>\$ 647,222</u> | <u>\$ 502,689</u> | <u>\$ 452,180</u> | <u>\$ 1,602,091</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Cash Flows
 Proprietary Funds
Year Ended December 31, 2016

| | Proprietary Funds | | | Total Proprietary Funds |
|---|--------------------------|--------------------------------|-----------------------------|--|
| | Sewer Fund | Community Pool Fund | Golf Course Fund | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities | | | | |
| Operating income (loss) | \$ (834,760) | \$ 123,873 | \$ 326,429 | \$ (384,458) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 1,146,366 | 80,640 | 296,615 | 1,523,621 |
| (Increase) decrease in | | | | |
| Accounts receivable | (296,310) | - | 5,733 | (290,577) |
| Inventory | - | - | (10,242) | (10,242) |
| Prepaid expenses | - | - | (3,543) | (3,543) |
| Increase (decrease) in | | | | |
| Accounts payable | (767,801) | (515) | 5,596 | (762,720) |
| Pension Liability | 23,020 | - | - | 23,020 |
| Accrued expense | 989,889 | (782) | (4,472) | 984,635 |
| Deferred revenue | 53,028 | - | 11,331 | 64,359 |
| Net Cash Provided by Operating Activities | <u>\$ 313,432</u> | <u>\$ 203,216</u> | <u>\$ 627,447</u> | <u>\$ 1,144,095</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

| | Pension Trust Funds | | | Deferred Retirement Option Plan Fund | Unemployment Compensation Trust Fund | Agency Fund | Total Fiduciary Funds |
|---|---------------------|---------------------|-------------------------------|--------------------------------------|--------------------------------------|----------------|-----------------------|
| | Police Pension | Non-Uniform Pension | Deferred Contribution Pension | | | | |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 139,990 | \$ 396,955 | \$ - | \$ - | \$ - | \$ 875,565 | \$ 1,412,510 |
| Investments | 9,539,643 | 6,508,756 | 36,026 | 223,568 | - | - | 16,307,993 |
| Accounts receivable | - | - | - | - | - | 52,971 | 52,971 |
| Total Assets | 9,679,633 | 6,905,711 | 36,026 | 223,568 | - | 928,536 | 17,773,474 |
| Liabilities | | | | | | | |
| Accounts payable | - | - | - | - | 16,050 | 172,923 | 188,973 |
| Due to developers | - | - | - | - | - | 755,613 | 755,613 |
| Total Liabilities | - | - | - | - | 16,050 | 928,536 | 944,586 |
| Net Position Held in Trust for Pension Benefits and Other purposes (deficit) | \$ 9,679,633 | \$ 6,905,711 | \$ 36,026 | \$ 223,568 | \$ (16,050) | \$ - | \$ 16,828,888 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2016

| | Pension Trust Funds | | | Deferred Retirement Option Plan Fund | Unemployment Compensation Trust Fund | Total Fiduciary Funds |
|---|---------------------|---------------------|-------------------------------|--------------------------------------|--------------------------------------|-----------------------|
| | Police Pension | Non-Uniform Pension | Deferred Contribution Pension | | | |
| Additions | | | | | | |
| Contributions | | | | | | |
| Employer | \$ 616,577 | \$ 404,119 | \$ - | \$ - | \$ - | \$ 1,020,696 |
| Transfer from Police Pension | 29,802 | 41,323 | 19,319 | 126,161 | - | 216,605 |
| Investment income | 546,528 | 374,292 | 1,799 | 5,241 | - | 927,860 |
| Total Additions | 1,192,907 | 819,734 | 21,118 | 131,402 | - | 2,165,161 |
| Deductions | | | | | | |
| Administrative expenses | 57,231 | 43,142 | - | - | - | 100,373 |
| Benefits | 669,138 | 373,431 | - | 242,167 | 6,503 | 1,291,239 |
| Investment loss | - | - | - | - | 30 | 30 |
| Transfer to Deferred Retirement Option Plan | 126,163 | - | - | - | - | 126,163 |
| Total Deductions | 852,532 | 416,573 | - | 242,167 | 6,533 | 1,517,805 |
| Change in Net Position | 340,375 | 403,161 | 21,118 | (110,765) | (6,533) | 647,356 |
| Net position (deficit) held in trust for pension benefits and other purposes: | | | | | | |
| Beginning of year (deficit) | 9,339,258 | 6,502,550 | 14,908 | 334,333 | (9,517) | 16,181,532 |
| End of year (deficit) | \$ 9,679,633 | \$ 6,905,711 | \$ 36,026 | \$ 223,568 | \$ (16,050) | \$ 16,828,888 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

The **Township of Lower Makefield** (the Township) is located in Bucks County, Pennsylvania, was formed in 1692, exists as a Second-Class Township, and is a "local government unit" as defined under the Local Government Unit Debt Act of General Assembly of the Commonwealth of Pennsylvania.

The five-member governing body of the Township is the Board of Supervisors. A Township manager is appointed by, and serves at the direction of the Board of Supervisors to administer the daily operations of the Township. Principal services provided by the Township include public safety, maintenance of the roads and highways, culture and recreation, maintenance of the sewer system and general governmental administration.

The financial statements of the Township have been prepared in conformity with United States generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Township also applies Financial Accounting Standard Board (FASB) and AICPA Pronouncement statements to its governmental and business type activities and to its Proprietary Funds provided they do not conflict with or contradict GASB pronouncements.

The Township has adopted all applicable GASB Statements through GASB No. 73 and No. 76 through 79. The Township has not determined the effect of GASB Statements No. 74 through 75 and 80 through 86 since these GASB Statements are not required to be adopted until periods beginning after June 15, 2016 or June 15, 2017.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Township are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

In evaluating the Township as a reporting entity, management has addressed all potential component units for which the Township may or may not be financially accountable and as such, be included in the Township's financial statements. In accordance with GASB Statement No. 39, the Township is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the Township. Additionally, the primary government is required to consider 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.

Management has elected to include the Municipal Sewer Authority of the Township of Lower Makefield (the Authority) as a blended component unit in the December 31, 2016 annual financial report. The Authority is reported as if it was part of the Township because its sole purpose is to finance and construct the Township's facilities. The Authority issues a separately audited financial statement. Copies of this report may be obtained from the Township's Finance Director.

Management has elected not to include the following potential component units in the December 31, 2016 annual financial report:

- Yardley Makefield Fire Company
- Lower Makefield Farmland Preservation, Inc.
- Yardley Makefield Rescue Squad

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

These entities are under the direction of a separate independent board. These entities are organized under a separate charter and, therefore, not included in the annual financial report.

Basis of Presentation and Accounting

The Township's basic financial statements consist of government-wide statements, including a statement of net position, a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide and Fund Financial Statements

The statement of net position and the statement of activities report information on all non-fiduciary activities of the primary government and its blended component unit. All fiduciary activities are reported only in the fund financial statements. *Government activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges to external customers for support.

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. Governmental Funds financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the providers have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues for each segment of the business type activities of the Township and for each function or program of the Township's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Administrative overhead charges of the general government are included in the direct expenses. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

As a general rule, the effect of the interfund activity has been eliminated from the government wide financial statements.

Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

The accounting and financial reporting treatment applied to a fund is determined by the measurement focus. The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Those revenues generally susceptible to accrual are real estate taxes, real estate transfer taxes, and local services and per capita taxes. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other postemployment benefits, compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which report on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

In applying the susceptible to accrual concept in intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Township. Therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses, permits, and fees, fines, forfeitures, and costs, charges for services, rental income, and other miscellaneous income are generally recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available.

All Proprietary Funds are accounted for on a *flow of economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position (deficit). The statement of revenues, expenses and changes in net position (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in total Net Position. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

Proprietary Funds distinguished operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' ongoing operations. The principal operating revenues of the Township's Enterprise Funds are sewer charges, golf fees, and pool membership fees. Operating expenses for the Township's Enterprise Funds include supplies, administrative costs and depreciation on capital assets. All revenue or expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Township functions or activities. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township has the following funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund form which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in current financial resources, rather than upon net income determination.

The Township reports the following major Governmental Funds:

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Reserve Fund (Capital Project Fund)

The Capital Reserve Fund is used to account for financial resources, including bond and loan proceeds, to be used for acquisitions or construction of major capital assets (other than those financed by the Street Project Fund, the 9-11 Memorial Fund, and Proprietary Funds).

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Special Project Fund

The Special Project Fund is used to account for non-recurring financial resources that are not part of any other special revenue funds. The Special Project Fund balance is a deficit of \$28,578 as of December 31, 2016.

Other Special Revenue Funds

The other special revenue funds of the Township are considered non-major (presented in a single column) and are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Township's Other Special Revenue Funds include: Liquid Fuels, Hydrant, Ambulance, Fire Protection, 9-11 Memorial Fund, Parks and Recreation, Street Lights, Parks and Recreation Fee-in-Lieu, Library, and Traffic Impact.

The following Other Special Revenue Funds had fund deficits as of December 31, 2016:

| | |
|---------------------|-------------|
| Street Light Fund | (\$8,645) |
| Hydrant Fund | (\$64,154) |
| Park and Recreation | (\$368,038) |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

Proprietary funds are used to account for operations that are organized to be self-supporting through user charges. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Township has not and does not intend to apply any Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989 to the government-wide financial statements and the proprietary funds.

The Township reports the following major Proprietary Funds:

Sewer Fund

The Sewer Fund accounts for the activities of the sewer system infrastructure, sewage pumping stations and collection systems.

Community Pool Fund

The Community Pool Fund accounts for the operations of the Township's municipal pool.

Golf Course Fund

The Golf Course Fund accounts for the construction and operation of the Township's municipal golf course.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Township as a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

The Township reports the following Fiduciary Funds:

Pension Trust Funds

The Pension Trust Funds account for the assets and liabilities held by the Township in a trustee capacity for the police officers and non-uniform employees' pension plans.

Deferred Retirement Option Plan Fund

The Deferred Retirement Option Plan Fund accounts for the assets and liabilities held by the Township in a trustee capacity for policy officers within forty-eight months of retirement. (See Note J).

Unemployment Compensation Trust Fund

The Unemployment Compensation Trust Fund accounts for the assets and liabilities related to the Township's self-insured unemployment compensation coverage. As of December 31, 2016, the Unemployment Compensation Trust Fund has a deficit of \$16,050.

Agency Fund

The Agency Fund accounts for the assets held as an agent for the various developer escrows.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Investments

Investments are stated at fair value. State statutes authorize the Township to invest in obligations of the United States Treasury, short-term obligations of the United States Government or its agencies or instrumentalities, backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision and insured certificates of deposit.

As of December 31, 2016, the only the Township's fiduciary funds held investments.

Interest earnings attributable to the Township's concentration accounts is allocated to the Township's various funds based on the ratio of each participating fund's average balance to the total pooled average balance.

Accounts Receivable

Real estate tax receivables are recognized when levied to the extent that they are available as current assets. Real estate taxes are levied March 1. An elected tax collector bills and collects all real estate taxes and remits them to the Township. Taxes unpaid in the current year are lien January 15 of the succeeding year. Taxes are paid as follows: two percent (2%) discount, March 1 through April 30; face amount May through June 30; and a ten percent (10%) penalty thereafter.

Other fees and assessments include franchise fees, transfer taxes, and street light and solid waste collection assessments and are recognized when billed.

See Note O - Acquisition to loan receivable.

Accounts receivable includes all invoices owed by other governments, individuals and private enterprises for services rendered and/or materials supplied. Revenue is recognized when the invoice is prepared.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory and Prepaid Expenditures/Expenses

Inventories are valued using the average cost method. Inventory in the Golf Course Fund is capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

The inventories on hand in the Golf Course Fund at December 31, 2016, consist of the following:

| | |
|-------------------|------------------|
| Pro Shop | \$ 74,297 |
| Food and Beverage | \$ 11,447 |
| | <u>\$ 85,744</u> |

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures/expenses in both the government wide and fund financial statements.

Deferred Charges

Deferred charges consist of bond and note deferred losses on early retirement of debt, which are amortized over the life of the new debt.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructures (e.g., roads, bridges, curbs, sidewalks, drainage systems and lighting systems) and construction in progress, are reported in the applicable governmental or business type activities columns in the government wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 (amount not rounded) or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest and real estate taxes incurred during the construction phase of capital assets of business type activities are included as part of the capitalized value of the assets constructed and associated land.

In the case of road, curb, sidewalk and bike path infrastructure, the Township has elected to use the modified approach and the assets are not depreciated. See page 60 for a more detailed description of the method.

Property, plant, and equipment of the Township are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|------------------------------------|--------------|
| Infrastructure | 20 |
| Land improvements | 5-40 |
| Plant and pools | 4-40 |
| Building and building improvements | 40 |
| Furniture and equipment | 5 |
| Vehicles | 3-10 |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to assets, the statement of net position and government fund balance sheet will at times report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and thus will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has two items in the proprietary funds and one item in government-wide statement of net position that qualifies for reporting in this category. Deferred charges on refunding of bonds are amortized over the life of the bonds in the proprietary fund. The deferred pension outflow in the proprietary fund and governmental activities are amortized over four years.

In addition to liabilities, the statement of net position and the government funds balance sheet will at times report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and thus will not be recognized as an inflow of resources (revenue) until that time. The township has one item in the government funds balance sheet that qualifies for this category. Property taxes receivable not collected within 60 days are not available for current use and therefore are classified as a deferred out-flow of resource in the government funds financial statements. The township has one item in the proprietary funds and government-wide statement of net position that qualifies for reporting in this category. Deferred revenue from unused golf fund gift certificates and gift cards are recognized as revenue when redeemed.

Compensated Absences, Post-Employment Benefits and Net Pension Liability

The Township accounts for compensated absences by complying with GASB Statement No. 16 *Accounting for Compensated Absences*. This statement requires a liability be reported for certain compensated absences as the benefits are earned by employees instead of when they are paid. Certain Township employees are entitled to vacation pay based on years of service. The unpaid vacation time as of December 31, 2016 is included in accrued expenses. Police officers are entitled to a maximum of sixty days' sick pay upon retirement and the accrued sick time is reported as compensated absences on the statement of net position. In addition, per the terms of the Township's police and public works contract, officers and public works employees are due certain other benefits after retirement. See Note H – Post Retirement Health Benefits.

These post-retirement health benefits include thirty-six months of medical, dental, prescription, and life insurance coverage for eligible retirees and their dependents. The CBA that was enacted effective January 1, 2010 extend the thirty-month window an additional sixty months if an officer elected to retire by December 31, 2010.

During 2015, the Township adopted GASB 68 which is the inclusion of the Net Pension Liability. See Note G - Defined Benefit Pension Plan.

Long-Term Obligations

In the government wide financial statements and Proprietary Funds in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or Proprietary Funds statement of net position (deficit). Bond/note premiums and discounts, as well as deferred losses on early retirement of debt, are deferred and amortized over the life of the bonds. Bond/notes payable are reported net of the applicable bond premium or discount.

In the fund financial statements, Governmental Funds recognize bond/note premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government wide and proprietary fund financial statements. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets, net of related debt excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position amounts are considered unrestricted. The Township applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Equity

The Township follows GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." This statement provides defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. Fund balances of the government funds are classified as follows:

Non-Spendable - Amounts that cannot be spent because of their form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constitutional provisions of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Township Board of Supervisors. The Board of Supervisors is the highest decision making authority of the Township. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Supervisors.

Assigned - Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned - Residual net resources.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Real Estate Tax Calendar

Property taxes are levied no later than the fourth Monday in March of each year based on assessed values as of the preceding January 1 for all real property located in the Township. Taxpayers are granted discounts if payments are made by April 30 and are subject to penalties if payments are not made by June 30. An elected tax collector monitors, collects and remits property taxes to the Township.

The Township also annually levies a \$10 per capita tax on all residents over the age of eighteen. In addition, a Local Services Tax on all people employed within the township boundaries with annual salaries over \$12,000 are assessed at \$52 annual charge. Real estate transfer taxes received by the Township are .5% on the transfer of title of real property in the Township.

The tax collector, who is responsible for collecting taxes on behalf of the Township, County and School District, is an elected official. The Township regards the tax collector's office as a separate entity and, therefore, does not account for its activity in the financial statements.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE B - DEPOSITS AND INVESTMENTS

Subsequent Events

Subsequent events after the statement of net position date through the date the financial statements were available to be issued, July 28, 2017, have been evaluated in the preparation of the financial statements. Subsequent events are disclosed in Note Q.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township follows state statute as it relates to custodial credit risk. As of December 31, 2016, the Township's total cash and cash equivalents held in deposit accounts was \$22,005,471. The Township's bank balance was \$22,609,106 of which \$22,109,106 was uninsured including the fiduciary funds and cash and cash equivalent and was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the
pledging bank's trust department not in the Township's name. \$ 22,109,106

Investments

As of December 31, 2016, the Township had the following investments and maturities in its Pension Trust and Deferred Retirement Option Plan Funds:

| <u>Investment Type</u> | <u>Fair Value</u> | | | | <u>Total</u> |
|---------------------------|----------------------------|---------------------------------|--|---|----------------------|
| | <u>Police Pension Fund</u> | <u>Non-Uniform Pension Fund</u> | <u>Deferred Retirement Option Plan</u> | <u>Deferred Contribution Pension Fund</u> | |
| Fixed Income Mutual Funds | \$ 2,777,728 | \$ 1,798,184 | \$ - | \$ - | \$ 4,575,912 |
| Equity Mutual Funds | 1,367,484 | 904,019 | - | - | 2,271,503 |
| Mixed Assets | 1,535,046 | 524,045 | - | - | 2,059,091 |
| Common Stock | 3,859,385 | 544,886 | - | - | 4,404,271 |
| Investment Contract | - | 2,737,622 | 223,568 | 36,026 | 2,997,216 |
| Total | \$ 9,539,643 | \$ 6,508,756 | \$ 223,568 | \$ 36,026 | \$ 16,307,993 |

| <u>Investment Type</u> | <u>Investment Maturities</u> | | | <u>Total</u> |
|---------------------------|------------------------------|--------------------------|--------------------------|----------------------|
| | <u>Less than One Year</u> | <u>One to Five Years</u> | <u>Five to Ten Years</u> | |
| Fixed Income Mutual Funds | \$ 4,575,912 | \$ - | \$ - | \$ 4,575,912 |
| Equity Mutual Funds | 2,271,503 | - | - | 2,271,503 |
| Mixed Assets | 2,059,091 | - | - | 2,059,091 |
| Common Stock | 4,404,271 | - | - | 4,404,271 |
| Investment Contract | 2,997,216 | - | - | 2,997,216 |
| Total | \$ 16,307,993 | \$ - | \$ - | \$ 16,307,993 |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Township's Pension Trust Funds' investment policy limits investments to the following criteria:

| <u>Asset Allocation</u> | <u>Minimum</u> | <u>Maximum</u> |
|-----------------------------|----------------|----------------|
| Cash | 0% | 10% |
| Fixed Income | 30% | 50% |
| Equities | 50% | 70% |

Restrictions

Fixed Income

- Average credit quality - AA, maximum of 10% in BBB.
- Minimum issuer credit quality - investment grade.
- Duration range - 80% to 120% of index duration
- No maturity may exceed 30 years.

Equities

- Mutual funds are acceptable vehicles for equity allocation.
- The allocation may include international and small cap funds.

The Township's Pension Trust Funds met these requirements. All other investments of the Township follow state statute as it relates to interest rate risk.

Credit Risk

The Township's Pension Trust Funds' credit risk policy is described under interest rate risk restrictions. The Township's investments in corporate bonds have ratings ranging from A1 to AA3 by Moody's.

Concentration of Credit Risk

The Township's Pension Trust Funds' concentration of credit risk is described in Note G.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

| | <u>Governmental Type Funds</u> | | | <u>Total Governmental Funds</u> |
|----------------------------|--------------------------------|----------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | |
| Real estate taxes | \$ 79,973 | \$ 10,604 | \$ 20,798 | \$ 111,375 |
| Other fees and assessments | 353,943 | - | 9,682 | 363,625 |
| Total | <u>\$ 433,916</u> | <u>\$ 10,604</u> | <u>\$ 30,480</u> | <u>\$ 475,000</u> |

During 2016, the Township wrote off the \$125,000 loan receivable due by Yardley Makefield Rescue Squad as a contribution.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE C - ACCOUNTS RECEIVABLE (Continued)

| | Proprietary Funds | |
|---------------------|---------------------|--------------------|
| | Enterprise Funds | Fiduciary Funds |
| Golf course | \$ 2,130 | \$ - |
| Sewer billings | 2,051,049 | - |
| Due from developers | - | 52,971 |
| Total | \$2,053,179 | \$ 52,971 |

Accounts receivable for the sewer billings is reported net of allowance for doubtful accounts of \$25,000. No bad debt expense was recorded for the year ended December 31, 2016.

NOTE D - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | Balance January 1, 2016 | Additions | Disposals | Balance December 31, 2016 |
|--|-------------------------------|---------------------|-------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 19,468,701 | \$ 3,919,250 | \$ - | \$ 23,387,951 |
| Infrastructure | 49,524,483 | - | - | 49,524,483 |
| Construction in progress | 365,193 | 939,470 | - | 1,304,663 |
| Total Capital Assets not Being Depreciated | 69,358,377 | 4,858,720 | - | 74,217,097 |
| Capital assets being depreciated | | | | |
| Infrastructure | 1,308,418 | - | - | 1,308,418 |
| Land improvements | 9,086,774 | 126,516 | - | 9,213,290 |
| Buildings and improvements | 6,913,421 | 8,205 | - | 6,921,626 |
| Vehicles | 5,557,935 | 471,664 | - | 6,029,599 |
| Furniture and equipment | 3,330,653 | 420,167 | - | 3,750,820 |
| | 26,197,201 | 1,026,552 | - | 27,223,753 |
| Accumulated depreciation | (17,019,286) | (777,562) | - | (17,796,848) |
| Total Capital Assets, Net | 9,177,915 | 248,990 | - | 9,426,905 |
| Total Governmental Activities Capital Assets, Net | 78,536,292 | 5,107,710 | - | 83,644,002 |
| Business Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | 7,765,999 | - | - | 7,765,999 |
| Construction in progress | 37,037 | - | - | 37,037 |
| Total Capital Assets not Being Depreciated | 7,803,036 | - | - | 7,803,036 |
| Capital assets being depreciated | | | | |
| Land improvements | 8,120,764 | - | - | 8,120,764 |
| Sewer infrastructure and pools | 44,022,220 | 1,038,280 | - | 45,060,500 |
| Buildings and improvements | 3,397,254 | - | - | 3,397,254 |
| Furniture and equipment | 1,689,995 | 170,044 | - | 1,860,039 |
| | 57,230,233 | 1,208,324 | - | 58,438,557 |
| Accumulated depreciation | (30,379,413) | (1,523,621) | - | (31,903,034) |
| Total Capital Assets Being Depreciated | 26,850,820 | (315,297) | - | 26,535,523 |
| Total Business Activity Capital Assets, Net | 34,653,856 | (315,297) | - | 34,338,559 |
| Total Capital Assets, Net | \$113,190,148 | \$ 4,792,413 | \$ - | \$117,982,561 |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE D - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions and business-type functions as follows:

| <u>Governmental</u> | | <u>Business</u> | |
|----------------------|-------------------|------------------|--------------------|
| General Government | \$ 33,837 | Sewer Fund | \$1,146,366 |
| Public Safety | 222,651 | Golf Course Fund | 296,615 |
| Public Works | 227,759 | Pool Fund | <u>80,640</u> |
| Parks and Recreation | <u>293,315</u> | | |
| Total | <u>\$ 777,562</u> | Total | <u>\$1,523,621</u> |

NOTE E - LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Township for the year ended December 31, 2016:

| | <u>Principal Outstanding January 1, 2016</u> | <u>Additions</u> | <u>Deletions / Maturities</u> | <u>Principal Outstanding December 31, 2016</u> | <u>Due Within One Year</u> |
|------------------------------------|--|----------------------|-----------------------------------|--|--------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| Series of 2011 | \$ 602,535 | \$ - | \$ (602,535) | \$ - | \$ - |
| Series A of 2010 | 1,785,000 | - | (640,000) | 1,145,000 | 645,000 |
| Series B of 2013 | 803,616 | - | - | 803,616 | - |
| Series of 2015 | 3,800,000 | - | (295,000) | 3,505,000 | 310,000 |
| Series of 2016 | - | 7,287,200 | - | 7,287,200 | 283,500 |
| General Obligation Notes: | | | | | |
| Series of 2004 | 2,016,000 | - | (121,000) | 1,895,000 | 126,000 |
| Notes Payable: | | | | | |
| Commonwealth of PA: | | | | | |
| PEMA | 33,284 | - | (10,575) | 22,709 | 11,113 |
| Bucks County | - | 330,696 | (45,158) | 285,538 | 45,836 |
| Deferred amounts: | | | | | |
| Bond premiums | 449,517 | 446,739 | (127,944) | 768,312 | 146,419 |
| Total Bonds and Notes | 9,489,952 | 8,064,635 | (1,842,212) | 15,712,375 | 1,567,868 |
| Net OPEB obligation | 556,439 | 35,882 | - | 592,321 | - |
| Accrued sick time | 766,334 | - | (12,037) | 754,297 | - |
| Net pension liability | 6,147,133 | 366,882 | - | 6,514,015 | - |
| Total Government Activities | 16,959,858 | 8,467,399 | (1,854,249) | 23,573,008 | 1,567,868 |
| Business Activities | | | | | |
| General Obligation Bonds: | | | | | |
| Series of 2011 | 6,982,465 | - | (6,982,465) | - | - |
| Series A of 2013 | 1,965,000 | - | (5,000) | 1,960,000 | 5,000 |
| Series B of 2013 | 1,988,918 | - | - | 1,988,918 | - |
| Series of 2015 | 3,585,000 | - | (540,000) | 3,045,000 | 565,000 |
| Series of 2016 | - | 14,427,800 | - | 14,427,800 | 346,500 |
| General Obligation Notes: | | | | | |
| Series A of 2002 | 3,470,000 | - | - | 3,470,000 | - |
| Series B of 2002 | 5,036,000 | - | - | 5,036,000 | - |
| Deferred amounts | | | | | |
| Bond premiums | 474,030 | 884,426 | (111,680) | 1,246,776 | 178,896 |
| Total Bonds and Notes | 23,501,413 | 15,312,226 | (7,639,145) | 31,174,494 | 1,095,396 |
| Net pension liability | 430,537 | 22,905 | - | 453,442 | - |
| Total long-term liabilities | \$40,891,808 | \$ 23,802,530 | \$ (9,493,394) | \$55,200,944 | \$2,663,264 |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE E - LONG-TERM LIABILITIES (Continued)

Funds to repay outstanding bonds and notes will be provided from future taxes, other general revenues and charges for services. Total interest expense paid during the year ended December 31, 2016 was \$725,651. Interest costs incurred and charged to expenditures for the year ended December 31, 2016 were \$224,162 in the Debt Service Fund, \$239,799 in the Sewer Fund and \$261,690 in the Golf Course Fund.

In June 2016, the Township issued the General Obligation Bonds Series of 2016 in the amount of \$21,715,000 to refund the General Obligation Bonds Series of 2011 in the amount of \$7,585,000 and the remaining proceeds of \$14,130,000 will be used for future capital projects.

Bonds and notes payable at December 31, 2016, consisted of:

General Obligation Note, Series of 2004

Payable to Delaware Valley Regional Finance Authority (DVRFA) for the purpose of acquiring open space and constructing Township parks and facilities; principal was payable annually beginning June 2006, interest was payable monthly beginning December 2004 at a variable rate, with maturity scheduled for June 2028. \$ 1,895,000

General Obligation Bonds, Series A of 2010

Issued in 2010 for the purpose of currently refunding the Township's General Obligation Bonds, Series of 2003, of \$5,590,000 principal was payable annually beginning December 2010, interest was payable semi-annually beginning December 2010 at rates ranging from 1% to 4%, with maturity scheduled for December 2018. 1,145,000

Commonwealth of Pennsylvania Emergency Management Agency

Note payable for the purpose of constructing an emergency services building and related improvements; the note was issued to the Yardley-Makefield Rescue Squad; the Township assumed payments on the note if July 2001, with the acquisition of the Rescue Squad Building; principal and interest are due monthly at a rate of 2% through January 2019. 22,709

County of Bucks

Note payable for the purpose of acquiring radio equipment principal and interest are due annually at a rate of 1.92% through November 2022 285,538

General Obligation Note, Series A of 2002

Payable to DVRFA for the purpose of construction of a municipal golf course; principal will be payable annually beginning June 2022, interest was payable monthly beginning June 2003, at a variable rate not to exceed 3.5% with maturity scheduled for June 2028. 3,470,000

General Obligation Note, Series B of 2002

Payable to DVRFA for the purpose of construction of a municipal golf course; principal will be payable annually beginning June 2022, interest was payable monthly beginning June 2003, at a variable rate not to exceed 3.5% with maturity scheduled for June 2028. 5,036,000

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE E - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds, Series A of 2013

Issued in 2013 for the purpose of funding the litigation settlement payment and establishing a golf course construction fund. The bond proceeds will be payable annually beginning in December 2014, interest will be payable semi-annually beginning December 2013, at fixed intervals, ranging from 2.0% to 3.5%, with maturity scheduled for December 2024.

1,960,000

General Obligation Bonds, Series B of 2013

Issued in 2013 for the purpose of funding the litigation settlement payment and establishing a golf course construction fund. The bond proceeds will be payable annually beginning in December 2025, interest will be payable annually beginning December 2025, at fixed intervals, ranging from 4.40% to 5.45%, with maturity scheduled for December 2032.

2,792,534

General Obligation Bonds, Series 2015

Issued in 2015 for the purpose of refunding the townships 2010 general obligation bonds. The bond proceeds will be payable annually beginning in December 2015, interest will be payable annually beginning December 2015, at fixed intervals, ranging from .25% to 4.00%, with maturity scheduled for December 2021.

6,550,000

General Obligation Bonds Series

Issued in 2016 for the purpose of refunding the township 2011 general obligation bonds and the remaining proceeds to be used for future capital projects. The bond proceeds will be payable annually beginning March 2017 at fixed intervals ranging from 2.00% to 5.00% with maturity scheduled for March 2036.

21,715,000

\$ 44,871,781

Debt Service Requirements

A summary of long-term debt service requirements to maturity, including principal and interest are as follows:

| <u>Year Ending December 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> |
|------------------------------------|----------------------|----------------------|-------------------------------|
| 2016 | \$ 2,337,949 | \$ 1,028,236 | \$ 3,366,185 |
| 2017 | 2,514,120 | 1,083,684 | 3,597,804 |
| 2018 | 2,718,221 | 996,553 | 3,714,774 |
| 2019 | 2,814,930 | 900,868 | 3,715,798 |
| 2020 | 13,186,391 | 3,519,757 | 16,706,148 |
| 2021-2025 | 12,881,865 | 3,310,802 | 16,192,668 |
| 2026-2030 | 8,418,305 | 2,048,891 | 10,467,196 |
| 2031-2036 | <u>\$ 44,871,781</u> | <u>\$ 12,888,791</u> | <u>\$ 57,760,573</u> |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE E - LONG-TERM LIABILITIES (Continued)

The Township is subject to the Local Governmental Unit Debt Act of the Commonwealth of Pennsylvania, which limits the amount of net bonded debt the Township may have outstanding as of any point of time. The Township's bonded indebtedness as of the statement of net assets date is not in excess of statutory limits.

The various bond indentures contain limitations and restrictions on annual debt service requirements and maintenance of flow of monies through various sinking funds. Management believes the Township is in compliance with all such significant financial limitations and restrictions.

NOTE F - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund transfers are summarized as follows for the year-ended December 31, 2016:

| | Interfund Receivables | Interfund Payables |
|--------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 412,728 | \$ 250,000 |
| Capital Reserve Fund | 1,750,000 | 45,159 |
| Debt Service Fund | 8,963,673 | 7,163,760 |
| Special Project Fund | 2,500,000 | 30,009 |
| Other Governmental Funds | 125,000 | 343,920 |
| Enterprise Funds | | |
| Sewer Fund | 3,639,176 | 10,504,219 |
| Community Pool Fund | 220,000 | 248,510 |
| Golf Course Fund | - | 25,000 |
| Total | \$ 17,610,577 | \$ 18,610,577 |

Interfund receivables/payables are summarized as follows for the year-ended December 31, 2016:

| | Interfund Receivables | Interfund Payables |
|--------------------------|----------------------------------|-------------------------------|
| Capital Reserve Fund | \$ 1,500,000 | - |
| Debt Service Fund | - | 7,125,000 |
| Special Project Fund | 3,500,000 | - |
| Other Governmental Funds | 314,418 | - |
| Enterprise Funds | | |
| Sewer Fund | 2,000,000 | - |
| Golf Course Fund | - | 189,418 |
| Total | \$ 7,314,418 | \$ 7,314,418 |

NOTE G - DEFINED BENEFIT PENSION PLANS

Description of Plans

The **Township of Lower Makefield** sponsors a single employer defined pension plan for both police officers and non-uniformed employees of the Township. These plans are included in the Pension Trust Fund of the Township and are controlled by various ordinances adopted pursuant to Pennsylvania Act 205.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Description of Plans (Continued)

At January 1, 2017 (the most recent valuation date), the Township's pension plan membership consisted of:

| | Police Pension Plan | Non-Uniform Pension Plan |
|--|--------------------------------|-------------------------------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 22 | 29 |
| Current employees | 3 | 11 |
| Total Membership | 60 | 64 |

Police Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement and disability benefits as well as the return of members' contributions in the event of death. For the year ended December 31, 2016, the plan's assets were managed by Glenmede Trust Company.

Benefits Provided

The following table provides information concerning the **Township's Police Pension Plan**:

| | |
|-----------------------------|--|
| Covered Employees: | All full-time uniformed employees. |
| Normal Retirement Date: | Age 55 and the completion of 25 years of service for all participants. |
| Disability Retirement Date: | The first day of the month following the date on which the member incurs a total and permanent service related disability. The Township Supervisors shall determine if a member is eligible to receive a disability benefit under the Plan after securing the opinion of one or more practicing physicians licensed to practice medicine. |
| Drop Retirement Date: | The first day of the month following eligibility for a normal retirement date. |
| Vesting: | None for the first 12 years of service; thereafter, 100%. |
| Retirement Benefit: | The monthly pension shall be 50% of the average compensation of the participant's last 36 months of employment, plus a service increment of \$100 per month, if officer completes 25 years or more of benefit service. The monthly benefit attributable to the contractually limited service increment shall not exceed \$500 per month. The normal retirement benefit is payable monthly during the lifetime of the retired officer. |
| Death Benefit: | Pre-Retirement – Upon the death of a member, the beneficiary shall receive a lump sum death benefit equal to a refund of the member's contributions plus interest earned at the rate of five percent (5%) per annum. Post-Retirement Survivors Benefit – The widow of a member who has attained eligibility for retirement, or a member who retired on pension, shall receive during the spouse's lifetime, seventy-five percent (75%) of the pension the member was receiving or would have been receiving had he been retired at the time of his death. |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided (Continued)

Death Benefit: (Continued) If no such widow survives, or if the spouse survives and subsequently dies or remarries, then the children under the age of eighteen (18) [or are attending college and have not yet attained age twenty-three (23)], shall be entitled to the same benefit described above.

Disability Benefit Service
Related:

A disability pension shall be provided to an officer with a total and permanent service related disability equal to 50% of the officer's monthly salary at the time of disability, reduced by Social Security disability benefits provided for the same illness or injury.

Non-Uniform Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide retirement benefits as well as death and disability benefits. For the year ended December 31, 2016, the plan's assets were managed by Glenmede Trust Company.

The following table provides information concerning the **Township's Non-Uniform Employees' Pension Plan**:

| | |
|----------------------------------|--|
| Covered Employees: | All full-time non-uniformed employees. Participation is frozen effective January 1, 2012. |
| Normal Retirement Date: | The later of the first day of the month following the attainment of age sixty-five (65) or the fifth (5 th) anniversary of his date of employment. |
| Early Retirement Date: | The first day of the month following the latter of the attainment of age fifty-five (55) or the completion of five (5) years of service. |
| Special Early Retirement Window: | Participants who meet the eligibility of Rule of 90 (minimum age 59) or 61 and 15 years of service during January 1, 2016 to December 31, 2017 are eligible. |
| Vesting: | None for the first five years of service; thereafter 100%. |
| Normal Retirement Benefit: | 2.0% of the Average Monthly Compensation of a member multiplied by years of benefit service not exceeding thirty (30) years of service. The minimum monthly benefit shall not be less than \$200.00 provided the participant works until the Normal Retirement Date. |
| Early Retirement Benefit: | The accrued Normal Retirement Benefit actuarially reduced by five-tenths percent (.5%) for each month that a member's Early Retirement Date precedes the Normal Retirement Date. |
| Early Retirement Window: | The unreduced benefit of 2.5% of compensation times credited service to a maximum of 24 years (60% of compensation). |
| Disability Benefit: | Equal to 40% of the rates set forth in the 1964 OASDI (social security) Experience for Males. |

The Township is required by statute, principally Pennsylvania Act 205, to contribute the amounts necessary to fund the plans. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Summary of Significant Accounting Policies

Basis of Accounting

Pension plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which employee services are performed.

Method Used to Value Investments

Investments are reported at fair value. Market related value of assets is used to determine the indicated contribution.

Financial Reporting

A separate financial statement is not issued on the pension plans.

Contributions

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

Plan Expenses

Plan expenses are paid from plan assets.

Investments

A. Investment Policy

The police and non-uniform pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. The investment policy of the plan is to maximize the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investments in domestic equity securities, international equity securities, domestic fixed instruments and other asset classes as may be deemed prudent.

The plan's investment policy establishes that the portfolio may be invested in the following asset classes with the following target asset allocation:

Police Pension Plan

| <u>Asset Class</u> | <u>Target</u> | <u>Asset Class</u> | <u>Target</u> |
|--------------------|---------------|----------------------|---------------|
| Domestic Equity | | International Equity | 15% |
| Large Cap | 38% | Fixed Income | 46% |
| Mid Cap | 0% | Balanced/Blend | 0% |
| Small Cap | 0% | Cash | 1% |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

A. Investment Policy (Continued)

Non-Uniform Pension Plan

| <u>Asset Class</u> | <u>Target</u> | <u>Asset Class</u> | <u>Target</u> |
|--------------------|---------------|----------------------|---------------|
| Domestic Equity | | International Equity | 14% |
| Large Cap | 39% | Fixed Income | 41% |
| Mid Cap | 0% | Balanced/Blend | 0% |
| Small Cap | 0% | Cash | 6% |

B. Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.12 percent for the Police Pension Plan and 5.11 percent for the Non-Uniform Pension Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Concentrations

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer. The Township does not currently invest 5% of its assets in any one of its equities, corporate or international bond issuers.

Net Pension Liability

The components of the net pension liabilities of the Township at the measurement date of December 31, 2016 is as follows:

| | <u>Non-Uniform</u> | <u>Police</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|
| Total Pension Liability | \$ 9,551,229 | \$ 14,001,572 | \$ 23,552,801 |
| Plan Fiduciary Net Position | 6,905,711 | 9,679,633 | 16,585,344 |
| Net Pension Liability | <u>\$ 2,645,518</u> | <u>\$ 4,321,939</u> | <u>\$ 6,967,457</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.3% | 69.1% | 70.4% |

Actuarial Assumptions

An actuarial valuation of the total pension liability is performed biannually. The total pension liability was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2016. This report was based upon the plan's actuarial assumptions, asset valuation method, and cost method described below:

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Police Pension Plan

1. Liabilities - All plan benefits are valued using the entry age normal cost valuation method.
2. Economic Assumptions
 - a. Investment Return - 8.0% per annum, net of investment expenses.
 - b. Salary Increases - 5.0% compounded annually.
3. Demographic Assumptions
 - a. Mortality -
Healthy Lives - The Blue Collar RP-2000 Mortality Table.
Disabled Lives - Current liability mortality for males under Revenue Ruling 96-7.
 - b. Termination - T-1 table of the pension Actuary's Handbook.
 - c. Disability - 100% of the United Auto Workers Table.
 - d. Retirement Age - Normal retirement age, or age on valuation date if greater.
 - e. Marital Status - 80% of active members are assumed to be married. Female spouse is assumed to be 3 years younger than male spouse.
 - f. Form of Annuity - Joint & 75% survivor.

Non-Uniformed Pension Plan

1. Liabilities - All plan benefits re valued using the entry age normal cost valuation method.
2. Economic Assumptions
 - a. Investment Return - 8.0% per annum, net of investment expenses.
 - b. Salary Increases - 5.0% compounded annually.
3. Demographic Assumptions
 - a. Mortality - The RP-2000 Mortality Table.
 - b. Termination - T-1 table of the pension Actuary's Handbook.
 - c. Disability - None assumed.
 - d. Retirement Age - Normal retirement age, or age on valuation date if greater.
 - e. Form of Annuity - Single life annuity.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Non-Uniformed Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension plans' target asset allocation as of the measurement date December 31, 2016 are summarized in the following table:

Actuarial Assumptions

| | Long-Term Expected Real Rate of Return |
|---|---|
| Domestic equities (large cap) | 6.58% |
| Domestic equities (mid cap) | 7.39% |
| Domestic equities (small cap) | 7.39% |
| International equities | 7.59% |
| International equities (emerging markets) | 10.25% |
| Fixed income | 3.03% |
| Cash | 0.75% |

Changes in the Net Pension Liability

Changes in the Police Defined Benefit Pension Plan net pension liability for the measurement date of December 31, 2016 is as follows:

| | Increase (Decrease) | | |
|-----------------------------|------------------------------------|--|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balances at 12/31/2015 | \$ 13,405,202 | \$ 9,339,257 | \$ 4,065,945 |
| Changes for the year: | | | |
| Service cost | 324,509 | - | 324,509 |
| Interest | 1,066,588 | - | 1,066,588 |
| Contributions - employer | - | 209,735 | (209,735) |
| Contributions - state aid | - | 406,842 | (406,842) |
| Contributions - member | - | 46,495 | (46,495) |
| Net investment income | - | 473,031 | (473,031) |
| Benefit payments | (794,727) | (794,727) | - |
| PMRS administrative expense | - | (1,000) | 1,000 |
| Net changes | 596,370 | 340,376 | 255,994 |
| Balances at 12/31/2016 | \$ 14,001,572 | \$ 9,679,633 | \$ 4,321,939 |

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

Changes in the Non-Uniformed Defined Benefit Plan net pension liability for the measurement date of December 31, 2016 is as follows:

| | Increase (Decrease) | | |
|--------------------------|-----------------------------------|---------------------------------------|-------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances at 12/31/2015 | \$ 9,014,272 | \$ 6,502,550 | \$ 2,511,722 |
| Changes for the year: | | | |
| Service cost | 189,059 | - | 189,059 |
| Interest | 721,329 | - | 721,329 |
| Contributions - employer | - | 404,119 | (404,119) |
| Contributions - member | - | 41,322 | (41,322) |
| Net investment income | - | 333,001 | (333,001) |
| Benefit payments | (373,431) | (373,431) | - |
| Administrative expense | - | (1,850) | 1,850 |
| Net changes | <u>536,957</u> | <u>403,161</u> | <u>133,796</u> |
| Balances at 12/31/2016 | <u>\$ 9,551,229</u> | <u>\$ 6,905,711</u> | <u>\$ 2,645,518</u> |

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. The pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Expense and the Deferred Outflows and Inflows of Resources related to the Police Defined Benefit Pension Plan and Non-Uniformed Defined Benefit Plan.

At the measurement date of December 31, 2016, the Township reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Police Deferred Outflows of Resources | Non-Uniformed Deferred Outflows of Resources | Total |
|--|--|---|---------------------|
| Net difference between projected and actual earnings on pension plan investments | <u>\$ 803,074</u> | <u>\$ 584,164</u> | <u>\$ 1,387,238</u> |

The Township reported no deferred inflows of resources related to pensions.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE G - DEFINED BENEFIT PENSION PLANS (Continued)

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

| Year ended December 31: | Police | Non-Uniform | Total |
|--------------------------------|-------------------|--------------------|---------------------|
| 2017 | \$ 250,593 | \$ 182,592 | \$ 433,185 |
| 2018 | 250,593 | 182,592 | 433,185 |
| 2019 | 250,592 | 182,593 | 433,185 |
| 2020 | 51,296 | 36,387 | 87,683 |
| | <u>\$ 803,074</u> | <u>\$ 584,164</u> | <u>\$ 1,387,238</u> |

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

The following presents the net pension liabilities of the Township, calculated using the discount rate of 8.0%, as well as what the Township's net pension liabilities would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

| | 1% Decrease 7.00% | Discount Rate 8.00% | 1% Increase 9.00% |
|-------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| Net Pension Liability - Police | <u>\$ 5,924,259</u> | <u>\$ 4,321,939</u> | <u>\$ 2,963,037</u> |
| Net Pension Liability - Non-Uniform | <u>\$ 3,546,451</u> | <u>\$ 2,645,518</u> | <u>\$ 1,859,417</u> |

NOTE H - POST RETIREMENT HEALTH BENEFITS

Plan Description

The Township provides a defined benefit group health plan for retirees. The retiree group health plan provides the first thirty months of benefits for eligible retirees and their dependents. Benefit coverage includes medical, dental, prescription, and life insurance. The Township offered a termination benefit to employees who retired on or before December 31, 2010. The entire medical, dental and prescription drug benefits that were provided to employees at the time will be provided for a period of ninety-six months, as compared to thirty months available for other retired members, at the Township's cost. Currently, five retirees are receiving benefits for a ninety-six-month period. Benefit provisions are established annually by the Supervisors.

Current benefit provisions are as follows:

| | |
|------------------------|-------------------|
| Single Member | \$ 6,400 per year |
| Member with Dependents | \$14,600 per year |

In order to be eligible for the Township's contribution, the retiree must have a minimum of twenty years of service for police and twenty-five years for public works.

Funding Policy

The Township's Board of Supervisors will not be funding the plan in the current year. The Supervisors will review the funding requirements and policy annually.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE H - POST RETIREMENT HEALTH BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No.45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess). The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

| | |
|--|--------------------------|
| Annual required contributions | \$ 143,628 |
| Interest on net OPEB obligation | 10,123 |
| Adjustment to annual required contribution | <u>(16,869)</u> |
| Annual OPEB cost (expense) | 136,882 |
| Contributions | <u>101,000</u> |
| Increase in net OPEB obligation | 35,882 |
| Net OPEB obligation, beginning of year | <u>556,439</u> |
| Net OPEB obligation, end of year | <u><u>\$ 592,321</u></u> |

Membership of the plan consisted of the following on January 1, 2015 (the date of the latest actuarial valuation):

| Active Members | Retired Members | Total Members |
|---------------------------|----------------------------|--------------------------|
| 53 | 7 | 60 |

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending 2016 and the preceding fiscal years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|------------------------------|-----------------------------|---|--|
| 2014 | \$ 163,452 | 71% | \$ 506,157 |
| 2015 | \$ 136,882 | 63% | \$ 556,439 |
| 2016 | \$ 136,882 | 74% | \$ 592,321 |

Funding Status and Funding Progress

As of January 1, 2015, the actuarial accrued liability (AAL) for benefits was \$1,759,678, all of which is unfunded.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE H - POST RETIREMENT HEALTH BENEFITS (Continued)

Funding Status and Funding Progress (Continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age sixty for police and sixty-five for public works, or at the first subsequent year in which the member would qualify for benefits.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in Paragraph 35 of GASB Statement No.45. In addition, the expected future working life times of employees were determined using Table 2 in Paragraph 35c of GASB Statement No.45.

Healthcare cost trend – Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment.

Health insurance premiums - 2012 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Payroll increase - Changes in the payroll for current employees are expected to increase at a rate of approximately 2.0% annually.

Discount rate - The calculation uses an annual discount rate of 2%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entity age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed thirty-year basis.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements December 31, 2016

NOTE H - POST RETIREMENT HEALTH BENEFITS (Continued)

Plan for Funding

On an ongoing basis, the Township will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

NOTE I - DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Contributions are invested with an outside trustee, ICMA Retirement Corporation.

On August 21, 2000, the Board of Supervisors passed a resolution to comply with GASB Statements No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, reestablishing the ICMA Retirement Corporation Deferred Compensation Plan and Trust. The resolution directs that the assets of the plan shall be held in trust, with the Township serving as Trustee, for the exclusive benefit of plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose. The assets have been removed from the Township's financial statements.

NOTE J - DEFERRED RETIREMENT OPTION PLAN

The Township sponsors a Deferred Retirement Option Plan (DROP) for members of the police department who have not retired prior to the implementation date (May 2005) of the DROP. Employees may enter into the DROP on the first day of any month following completion of twenty-five years of credited service and attaining the age of fifty-five. When electing to participate in the DROP, the employee must resign from employment no less than twelve months and no more than forty-eight months from the execution of the DROP option. An employee may elect in writing to terminate participation in the DROP any time up to six months before the previously selected resignation date. Once termination is elected, the employee is barred from any future participation in the program.

After the effective date of the DROP option, the employee shall no longer earn or accrue additional years of continuous service for pension purposes. Earnings or increases in earnings thereafter shall not be recognized or used for the calculation or determination of any benefits payable by the Police Pension Fund. The monthly retirement benefits that would have been payable had the employee elected to cease employment and receive a normal retirement benefit shall, upon the employee commencing participation in the DROP, be paid into the separate account established to receive that participant's monthly pension payments. All other contractual benefits shall continue to accrued, with the exception of those provisions relating to the Police Pension Plan.

Upon the termination date set forth in the employee's DROP option notice or such date as the Township separates the employee from employment, the retirement benefits payable to the employee or employee's beneficiary, if applicable, shall be paid to the employee or beneficiary and shall no longer be paid to the employee's DROP account. Within thirty days following termination of an employee's employment, the balance in the employee's DROP account shall be paid to the employee in a single lump-sum payment or, at the employee's option, in any fashion permitted by law.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements December 31, 2016

NOTE J - DEFERRED RETIREMENT OPTION PLAN (Continued)

The Township has entered into an administrative service agreement with The International City Management Association Retirement Corporation (RC). RC acts as investment adviser to the Vantage Trust (the Trust). The Trust is a common law trust governed by an elected Board of Trustees for the commingled investment of retirement funds held by state and local government units for their employees. The Township has adopted the Declaration of Trust of the Trust and agrees to the commingled investments of assets of the DROP within the Trust. Cost of management of the DROP shall be paid directly from the Police Pension Fund and not by the Township.

Any amendments to the DROP Ordinance shall be consistent with the provisions covering deferred retirement option plans set forth in the collective bargaining agreement and shall be binding upon all future DROP participants and existing participants.

No DROP payment shall be made unless and until the Pennsylvania Legislature authorizes the adoption of the DROP program for police officers employed by a Township of the Second Class or a final judicial determination issues from the Pennsylvania Appellate Court that such DROP benefits is lawful for police officers employed by a Township of the Second Class. In the event that either of these two situations occurs, the DROP will be modified only to the extent necessary to become compliant with the maximum then allowed by law for DROP programs. If neither of these occurs by the DROP date, the participant shall receive his full pension benefits as set forth in the Police Pension Ordinance as if no such DROP election were made.

NOTE K - TRANSACTIONS WITH DEVELOPERS

In connection with the development agreements for the construction of residential housing within the Township, the Township receives contributions from developers to finance various infrastructure and related costs and to fund legal, engineering and other costs of administering regulatory responsibilities concerning development of real estate.

The Township also receives developer deposits applicable to plan review and development billing activities. In such instances, the Township is required to hold such deposits in escrow and refund amounts not ultimately required to fund anticipated administrative costs. Potentially refundable deposits are accounted for in Agency Funds, which reflect a liability to various developers of \$755,613 as of December 31, 2016.

NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES

Lease Agreement - The Municipal Sewer Authority of the Township of Lower Makefield

On December 1, 1991, the Township entered into a lease agreement with the Municipal Sewer Authority of the Township of Lower Makefield (Authority), which superseded the 1978 lease agreement. The Authority leases the sewer system to the Township for operation and use for one dollar (\$1) per annum. The lease expired on March 14, 2005, and was renewed on August 2, 2006 for a period of twenty-five years, expiring on December 31, 2031. The payments remain at \$1 per annum.

Treatment Capacity Agreement

The Authority has entered into agreements with certain adjoining municipal authorities in order to guarantee treatment capacity at the Municipal Authority of the Borough of Morrisville's sewage treatment plant and to guarantee the right to connect to and transport through the Yardley Borough Sewer Authority's system. Under terms of the agreement, the Authority has made capital contributions representing its pro rata share for joint use or expansion of the facilities. During the year ended December 31, 2016, capital contributions in the form of system improvements and expansion were \$993,466.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE L - COMITMENTS AND CONTINGENT LIABILITIES (Continued)

Equipment Leases

In May 2012, the Township entered into a new lease purchase agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$6,694, including interest, beginning June 2012 through May 2016. In February 2013, the Township entered into a new lease purchase agreement for maintenance equipment to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$5,901. At the end of the lease term, the Township has the option to purchase the golf carts for a bargain purchase option of \$1. In 2016, the Township entered into a new lease agreement for golf carts to be used at the Makefield Highlands Golf Club. The lease terms call for monthly rental payments of \$6,888, beginning September 2016 through August 2019.

The leases are not being treated as capital leases because the Township has no intention of purchasing the golf carts or equipment at the end of the leases. Therefore, the total value of the equipment has not been included in the capital assets of the Golf Course Fund. Total rent expense for the year ended December 31, 2016 for the leases was \$131,254.

The future minimum lease payments are as follows:

| <u>Year Ending December 31</u> | |
|------------------------------------|-------------------|
| 2017 | \$ 153,457 |
| 2018 | 94,458 |
| 2019 | 82,656 |
| 2020 | 55,104 |
| | <u>\$ 385,675</u> |

Management Agreement

In 2012 the Township extended its management agreement with Applied Golf to manage the day-to-day operations of the Makefield Highlands Golf Club. The extended agreement expires on December 31, 2018 and calls for monthly management fee payments of \$7,500 per month. During 2015, the agreement was extended until December 31, 2018 at the same monthly payment.

The future minimum management fee payments are as follows:

| <u>Year Ending December 31</u> | |
|------------------------------------|-------------------|
| 2017 | \$ 90,000 |
| 2018 | 90,000 |
| | <u>\$ 180,000</u> |

Sewer Billing Service Contact

Effective December 1, 2015, the Township agreed to a sewer billing service contract with Bucks County Water Sewer Authority (BCWSA) that will expire on November 30, 2021. The contract states the Township will reimburse BCWSA costs for data conversion, license cost, personnel and billing supplies. In addition, a management fee of 10% of cost is paid to BCWSA on a monthly basis.

Self-Insured Unemployment Compensation

The Township is self-insured for unemployment compensation coverage. During 2016, there were several claims totaling \$6,533 and as of December 31, 2016, there is a deficit of \$16,050.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Construction and Material Contracts

During the year, the Township enters into construction contracts for improvements to the facilities and infrastructure. These construction contracts may take over a year to complete but are usually completed in the second year. As of December 31, 2016, the Township had three construction contracts in progress and as of the date of this report, the Township has entered into three construction contracts.

In addition, the Township enters into purchase commitment contracts for materials as unit price contracts for a length of two to three years.

Litigation

The Township is party to legal proceedings. The Township is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Township.

NOTE M - RISK MANAGEMENT

The Township is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township participates in a public entity risk pool (Delaware Valley Insurance Trust (DVIT)) operated as a common risk management and insurance program for municipalities. The Trust retains the first \$250,000 of each general liability, police professional liability and automobile liability loss. DVIT assumes the first \$100,000 of each first party property loss public official liability claim. Reinsurance coverage is through commercial companies. The Trust also serves a group purchaser of boiler and machinery and crime and public official policies for its members.

The calculation of premium contributions, loss assessments and any redistribution or surplus is predicated on each participant's individual loss history. An experience modification factor is applied to annual membership contributions.

The Township continues to carry commercial insurance for all other risk of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from all risks have not exceeded commercial and DVIT insurance coverage in any of the past three years.

NOTE N - MUNICIPAL SEWER AUTHORITY

In accordance with agreements with the Municipal Sewer Authority of the Township of Lower Makefield, all repairs, renewals, replacements, improvements, additions and extensions and all real estate made or acquired by (or dedicated to) the Township in connection with the sewer system shall become the property of the Authority and part of the sewer system by the Township over a period of twelve years.

NOTE O - ACQUISITION

On August 31, 2001, the Yardley Makefield Emergency Unit agreed to transfer title and interest in the Emergency Rescue Squad Building to the Township. This was due to the financial problems of the Emergency Unit. The Township capitalized \$1,151,410 (equity in the building). This included assuming \$700,475 of outstanding obligations, payment to the Emergency Unit of \$100,000, a credit of \$56,000 in funds provided to the Emergency Unit in 2000 and a balance due by the Township to the Emergency Unit in the amount of \$294,935. The balance due was reduced \$25,000 per year and recognized as rental income. During the year ended December 31, 2013, the balance of the rental income was fully recognized and there is no rent income as of December 31, 2016.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Basic Financial Statements
December 31, 2016

NOTE P - DERIVATIVE FINANCIAL INSTRUMENTS

The Township entered into its General Obligation Notes, Series of 2002A, 2002B, and 2004, with the DVRFA. In order to provide funds for the notes, the DVRFA issued Local Government Revenue Bonds, Series of 1997, 1998, and 2002 (DVRFA Bonds). The DVRFA has entered into an interest rate swap agreement related to the DVRFA Bonds to provide variable rates on these loans, to reduce the costs of participants in the loan program and to enhance the ability of participants to manage their interest rate risks. If the Township defaults on all or a portion of the general obligation notes with DVRFA, it may owe costs, if any, associated with the liquidation or termination of the respective variable rate swaps used by the DVRFA to provide the variable rates to the Township.

The following is a summary of the Township's general obligation notes with DVRFA and the estimated fair market value of the swap agreements at December 31, 2016:

| <u>General Obligation Notes</u> | <u>Original Issue Amount</u> | <u>Outstanding at 12/31/16</u> | <u>Market Value of Related Interest Rate Swap Agreements</u> |
|-------------------------------------|--------------------------------------|--|--|
| Series of 2002A | \$ 10,300,000 | \$ 3,470,000 | \$ 489,482 |
| Series of 2002B | 5,661,000 | 5,036,000 | 710,384 |
| Series 2004 | 3,000,000 | 1,895,000 | 267,311 |
| | <u>\$ 18,961,000</u> | <u>\$ 10,401,000</u> | <u>\$ 1,467,177</u> |

With the execution of the variable rate swap agreement and in accordance with GASB 53, "Accounting and Reporting for Derivative Instruments", the Township accounts for the interest rate under both the consistent critical terms and quantitative methods standards of GASB 53. However, because the Township is not entitled to termination benefits per the swap agreements, the value of the swaps at December 31, 2016 are not reflected in the Statement of Net Position of the Township.

NOTE Q - SUBSEQUENT EVENTS

2017 Real Estate Taxes

Effective for 2017, the Township has increased the real estate taxes by 2.35 mills for a total millage of 17.51 mills.

Deferred Compensation Plan

Effective for 2017, the Township will provide a deferred compensation plan for voluntary participation of eligible township employees. The plan is in accordance with the IRC Section 457 permitting the employees to defer a portion of their current salary until future years.

**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
General Fund
Year Ended December 31, 2016

| | <u>Budgeted Amount Final</u> | <u>Actual GAAP Basis</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|--------------------------------------|------------------------------|---|
| Revenues | | | |
| Taxes | \$ 7,191,500 | \$ 7,738,007 | \$ 546,507 |
| Licenses, permits and fees | 1,293,700 | 1,457,507 | 163,807 |
| Fines, forfeits and costs | 98,500 | 91,528 | (6,972) |
| Interest earnings and rental income | 348,000 | 336,195 | (11,805) |
| Intergovernmental revenues | 488,700 | 684,185 | 195,485 |
| Charges for services | 660,200 | 554,346 | (105,854) |
| Contributions | 1,000 | 1,350 | 350 |
| Miscellaneous | 32,000 | 110,063 | 78,063 |
| Total revenues | <u>10,113,600</u> | <u>10,973,181</u> | <u>859,581</u> |
| Expenditures | | | |
| General government | 1,681,610 | 1,850,827 | (169,217) |
| Public safety | 5,435,893 | 5,612,914 | (177,021) |
| Public works | 1,539,400 | 1,558,923 | (19,523) |
| Insurance | 393,000 | 398,256 | (5,256) |
| Employee benefits | 1,945,000 | 1,857,374 | 87,626 |
| Total expenditures | <u>10,994,903</u> | <u>11,278,294</u> | <u>(283,391)</u> |
| (Deficiency) of Revenues Over Expenditures | <u>(881,303)</u> | <u>(305,113)</u> | <u>576,190</u> |
| Other Financing Sources (Uses) | | | |
| Refund prior year expenditure | 100,000 | 108,693 | 8,693 |
| Transfers in | 412,728 | 412,728 | - |
| Transfers out | - | (250,000) | (250,000) |
| Total other financing sources | <u>512,728</u> | <u>271,421</u> | <u>(241,307)</u> |
| Net (decrease) in fund balance | <u>(368,575)</u> | <u>(33,692)</u> | <u>\$ 334,883</u> |
| Fund Balance, Beginning | <u>1,690,435</u> | <u>2,686,316</u> | |
| Fund Balance, Ending | <u>\$ 1,321,860</u> | <u>\$ 2,652,624</u> | |

See notes to budgetary comparison statements.

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
Debt Service Fund
Year Ended December 31, 2016

| | <u>Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-----------------------------|---------------------------|---|
| Revenues | | | |
| Real estate taxes | \$ 797,500 | \$ 807,327 | \$ 9,827 |
| Interest earnings | 2,000 | 2,460 | 460 |
| Total revenues | <u>799,500</u> | <u>809,787</u> | <u>10,287</u> |
| Expenditures | | | |
| Debt service | | | |
| Principal | 1,066,573 | 1,111,734 | (45,161) |
| Interest | 226,425 | 224,162 | 2,263 |
| Total expenditures | <u>1,292,998</u> | <u>1,335,896</u> | <u>(42,898)</u> |
| (Deficiency) of Revenues Over Expenditures | <u>(493,498)</u> | <u>(526,109)</u> | <u>(32,611)</u> |
| Other Financing Sources (uses) | | | |
| Net proceeds from 2016 bond issuance | - | 7,733,939 | 7,733,939 |
| Operating transfers in | 303,471 | 8,963,673 | 8,660,202 |
| Operating transfers out | (38,760) | (7,163,760) | (7,125,000) |
| Refinance payment of 2011 bonds | - | (602,535) | (602,535) |
| 2016 bond issuance costs | - | (55,919) | (55,919) |
| Total other financing sources | <u>264,711</u> | <u>8,875,398</u> | <u>8,610,687</u> |
| Net (decrease) increase in fund balance | <u>(228,787)</u> | 8,349,289 | <u>\$ 8,578,076</u> |
| Fund Balance, Beginning | <u>437,633</u> | <u>606,988</u> | |
| Fund Balance, Ending | <u>\$ 208,846</u> | <u>\$ 8,956,277</u> | |

See notes to budgetary comparison statements.

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
 Capital Reserve Fund
Year Ended December 31, 2016

| | <u>Budgeted Amounts</u> | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|---|-----------------------------|---------------------------|---|
| Revenues | | | |
| Interest earnings | \$ 500 | \$ - | \$ (500) |
| Intergovernmental revenues | 1,000,000 | - | (1,000,000) |
| Contributions | 500,000 | 450,000 | (50,000) |
| Miscellaneous income | 1,000,000 | 329,466 | (670,534) |
| Total revenues | <u>2,500,500</u> | <u>779,466</u> | <u>(1,721,034)</u> |
| Expenditures | | | |
| General government | 605,000 | 622,007 | (17,007) |
| Public Safety | - | 4,960 | (4,960) |
| Capital outlay | <u>2,100,000</u> | <u>1,039,835</u> | <u>1,060,165</u> |
| Total expenditures | <u>2,705,000</u> | <u>1,666,802</u> | <u>1,038,198</u> |
| (Deficiency) of Revenues Over Expenditures | <u>(204,500)</u> | <u>(887,336)</u> | <u>(682,836)</u> |
| Other Financing Sources (uses) | | | |
| Operating transfers in | 450,000 | 1,750,000 | 1,300,000 |
| Operating transfers out | - | (45,159) | (45,159) |
| Total other financing sources | <u>450,000</u> | <u>1,704,841</u> | <u>1,254,841</u> |
| Net increase in fund balance | 245,500 | 817,505 | <u>\$ 572,005</u> |
| Fund Balance (deficit), Beginning | <u>318,408</u> | <u>(557,842)</u> | |
| Fund Balance, Ending | <u>\$ 563,908</u> | <u>\$ 259,663</u> | |

See notes to budgetary comparison statements.

TOWNSHIP OF LOWER MAKEFIELD

Budgetary Comparison Statement
 Special Project Fund
Year Ended December 31, 2016

| | <u>Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-----------------------------|---------------------------|---|
| Revenues | | | |
| Interest earnings | \$ - | \$ 218 | \$ 218 |
| Intergovernmental revenues | 900,000 | - | (900,000) |
| Loan proceeds | - | - | - |
| Contributions | 200,000 | 316,678 | 116,678 |
| | <u>1,100,000</u> | <u>316,896</u> | <u>(783,104)</u> |
| Expenditures | | | |
| Community development | 1,005,000 | 4,559,412 | (3,554,412) |
| | <u>1,005,000</u> | <u>4,559,412</u> | <u>(3,554,412)</u> |
| (Deficiency) of Revenues Over Expenditures | <u>95,000</u> | <u>(4,242,516)</u> | <u>(4,337,516)</u> |
| Other Financing Sources (uses) | | | |
| Sale of capital assets | - | 800,000 | 800,000 |
| Operating transfers in | - | 3,500,000 | 3,500,000 |
| Operating transfers out | (30,009) | (30,009) | - |
| | <u>(30,009)</u> | <u>4,269,991</u> | <u>4,300,000</u> |
| Net increase in fund balance | 64,991 | 27,475 | <u>\$ (37,516)</u> |
| Fund Balance, (deficit) Beginning | 291,744 | (56,053) | |
| Fund Balance, (deficit) Ending | <u>\$ 356,735</u> | <u>\$ (28,578)</u> | |

See notes to budgetary comparison statements.

TOWNSHIP OF LOWER MAKEFIELD

Notes to the Budgetary Comparison Statements
Year Ended December 31, 2016

1. Budgetary Information

The Township's process for establishing its annual operating budget involves submission of the budget by the Township Manager to the Board of Supervisors for its approval and adoption. The Township Manager, Finance Director and Budget Review Committee are responsible for the preparation of the annual budget.

The budgetary process consists of the evaluation and review of appropriation requests of the operating directors and various Township departments. Revenue estimates are made throughout the process to determine the amount of Township property taxes and other revenue required to balance the budget.

The Board of Supervisors is required to introduce the budget for the following year by twenty days prior to the end of the fiscal year, after which it is advertised and reviewed at public hearings held by the Board of Supervisors of the Township. After the close of the public hearings, the Board of Supervisors approves and adopts the budget on or before December 31, the close of the Township's fiscal year.

The Township Supervisors may authorize supplemental appropriations for any lawful purpose via resolution. In addition, the Supervisors are permitted to transfer funds from one Township account to another; however, such transfers are not permitted during the first three months of the fiscal year. Appropriations lapse at the close of the fiscal year to the extent by have not been expended. It is the Township's policy to maintain budgetary control at the fund level.

The Township prepares budgets for Governmental Funds on a basis of accounting, which is consistent with United States general accepted accounting principles.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the following fund object levels (the legal level of the budgetary control):

| General Fund | |
|---------------------|------------|
| General government | \$ 169,217 |
| Public safety | \$ 177,021 |
| Public works | \$ 19,523 |
| Insurance | \$ 5,256 |

| Debt Service | |
|---------------------|-----------|
| Principal | \$ 45,161 |

| Capital Reserve Fund | |
|-----------------------------|----------|
| General government | \$ 9,576 |
| Public safety | \$ 4,960 |

| Special Project Fund | |
|-----------------------------|--------------|
| Community development | \$ 2,554,412 |

These over expenditures were funded by available fund balance and transfers in the respected funds.

TOWNSHIP OF LOWER MAKEFIELD

Trend Data on Infrastructure Condition
Year Ended December 31, 2016

The Township has elected to use the modified approach to account for maintenance of its streets system. The Township annually inspects its streets, and the Township engineers use the Micro PAVER program, developed by the United States Army Corps of Engineers, as part of a pavement management system to describe the condition of all roadways in the Township. The streets are rated on their life expectancy before milling and overlay work is needed. The rating is the probable number of years remaining before resurfacing work is needed. The Township's streets as a whole are given an overall rating, indicating the average condition of all streets operated by the Township. The assessment of condition is made by visual and mechanical tests designed to reveal any condition that would reduce highway user benefits below the maximum level service. The Township's policy is to maintain the street condition at a level of sixty-five or better. The results of the last inspection were:

| <u>Period</u> | <u>Evaluation Rating</u> |
|---------------|------------------------------|
| 2014 | 67 |

The budgeted expenditures and amounts actually expended for maintenance and preservation for the past year are as follows:

| <u>Period</u> | <u>Budget</u> | <u>Actual</u> |
|---------------|---------------|---------------|
| 2016 | \$ 640,815 | \$637,832 |

The next inspection of Township roadways is scheduled to be completed in 2017.

TOWNSHIP OF LOWER MAKEFIELD

**Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Police Defined Benefit Pension Plan
December 31, 2016
(Unaudited)**

| | Measurement Year Ending 2016 | Measurement Year Ending 2015 |
|--|---|---|
| Total Pension Liability | | |
| Service cost (beginning of year) | \$ 324,509 | \$ 309,056 |
| Interest (includes interest on service cost) | 1,066,588 | 1,020,453 |
| Changes of benefit terms | | |
| Differences between expected and actual experience | - | - |
| Changes of assumptions | - | - |
| Benefit payments, including refunds of member contributions | (794,727) | (741,830) |
| Net change in total pension liability | \$ 596,370 | \$ 587,679 |
| Total pension liability - beginning | 13,405,202 | 12,817,523 |
| Total pension liability - ending | \$ 14,001,572 | \$ 13,405,202 |
| <u>Plan fiduciary net position</u> | | |
| Contributions - employer | \$ 209,735 | \$ 281,180 |
| Contributions - state aide | 406,842 | 388,163 |
| Contributions - member | 46,945 | 29,940 |
| Net investment income | 473,031 | (241,454) |
| Benefit payments, including refunds of member contributions | (794,727) | (741,830) |
| Administrative expense | (1,000) | (6,707) |
| Net change in plan fiduciary net position | \$ 340,376 | \$ (290,708) |
| Plan fiduciary net position - beginning | 9,339,257 | 9,629,965 |
| Plan fiduciary net position - ending | \$ 9,679,633 | \$ 9,339,257 |
| Net pension liability - ending | \$ 4,321,939 | \$ 4,065,945 |
| Plan fiduciary net position as a percentage of the total pension liability | 69.1 % | 69.7 % |
| Covered employee payroll | \$ 3,164,517 | \$ 3,083,827 |
| Net pension liability as a percentage of covered employee payroll | 136.6 % | 131.8 % |

Change in benefit terms: None

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is complete, available information is presented.

TOWNSHIP OF LOWER MAKEFIELD

**Required Supplementary Information
Schedule of Contributions
Police Defined Benefit Pension Plan
December 31, 2016
(Unaudited)**

| | Measurement Year Ending 2016 | Measurement Year Ending 2015 |
|--|---|---|
| Actuarially determined contribution | \$ 616,577 | \$ 669,343 |
| Contributions in relation to the actuarially determined contribution | 616,577 | 669,343 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered employee payroll | \$ 3,164,517 | \$ 3,083,327 |
| Contributions as a percentage of covered employee payroll | 19.5 % | 21.7 % |

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2015 is based upon the January 1, 2015 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|------------------------|
| Actuarial valuation date | January 1, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Dollar Closed |
| Remaining amortization period | 16.44 years |
| Asset valuation method | Market Value of Assets |
| Inflation | 0% |
| Salary increases | 5.0% |
| Investment rate of return | 8.0% |
| Retirement Age | Normal Retirement Age |
| Mortality | RP2000 Table |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is complete, available information is presented.

TOWNSHIP OF LOWER MAKEFIELD

Required Supplementary Information
 Schedule of Changes in the Net Pension Liability and Related Ratios
 Non-Uniform Defined Benefit Pension Plan
December 31, 2016
 (Unaudited)

| | <u>Measurement Year Ending 2016</u> | <u>Measurement Year Ending 2015</u> |
|--|---|---|
| Total Pension Liability | | |
| Service cost (beginning of year) | \$ 189,059 | \$ 180,056 |
| Interest (includes interest on service cost) | 721,329 | 677,694 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | - | - |
| Changes of assumptions | - | - |
| Benefit payments, including refunds of member contributions | (373,431) | (269,183) |
| Net change in total pension liability | \$ 536,957 | \$ 588,567 |
| Total pension liability - beginning | 9,014,272 | 8,425,705 |
| Total pension liability - ending | <u>\$ 9,551,229</u> | <u>\$ 9,014,272</u> |
| <u>Plan fiduciary net position</u> | | |
| Contributions - employer | \$ 404,119 | \$ 368,300 |
| Contributions - member | 41,322 | 46,553 |
| Net investment income | 333,001 | (207,138) |
| Benefit payments, including refunds of member contributions | (373,431) | (269,183) |
| Administrative expense | (1,850) | (7,894) |
| Net change in plan fiduciary net position | \$ 403,161 | \$ (69,362) |
| Plan fiduciary net position - beginning | 6,502,550 | 6,571,912 |
| Plan fiduciary net position - ending | <u>\$ 6,905,711</u> | <u>\$ 6,502,550</u> |
| Net pension liability - ending | <u>\$ 2,645,518</u> | <u>\$ 2,511,722</u> |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | 72.3 % | 72.1 % |
| Covered employee payroll | \$ 1,984,189 | \$ 1,965,213 |
| Net pension liability as a percentage of covered employee payroll | 133.3 % | 127.8 % |

Change in benefit terms: None

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is complete, available information is presented.

TOWNSHIP OF LOWER MAKEFIELD

Required Supplementary Information
 Schedule of Contributions
 Non-Uniform Defined Benefit Pension Plan
December 31, 2016
 (Unaudited)

| | <u>Measurement Year Ending 2016</u> | <u>Measurement Year Ending 2015</u> |
|--|---|---|
| Actuarially determined contribution | \$ 404,119 | \$ 368,300 |
| Contributions in relation to the actuarially determined contribution | 404,119 | 368,300 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered employee payroll | \$ 1,984,198 | \$ 1,965,213 |
| Contributions as a percentage of covered employee payroll | 20.4 % | 18.7 % |

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2015 is based upon the January 1, 2015 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|------------------------|
| Actuarial valuation date | January 1, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Dollar Closed |
| Remaining amortization period | 11.45 years |
| Asset valuation method | Market Value of Assets |
| Inflation | 0% |
| Salary increases | 5% |
| Investment rate of return | 8.0% |
| Retirement Age | Normal Retirement Age |
| Mortality | RP2000 Table |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is complete, available information is presented.

TOWNSHIP OF LOWER MAKEFIELD

**Required Supplementary Information
Schedule of Investment Returns
Police and Non-Uniform Defined Benefit Pension Plan
December 31, 2016
(Unaudited)**

| | <u>Year</u> | <u>Police</u> | <u>Non-Uniform</u> |
|---|-------------|---------------|--------------------|
| Annual money-weighted rate of return, net of investment expense | 2015 | (2.52) % | (3.12) % |
| Annual money-weighted rate of return, net of investment expense | 2016 | 5.12 % | 5.11 % |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is complete, available information is presented.

TOWNSHIP OF LOWER MAKEFIELD

Post-Retirement Health Benefits Funding Progress
Year Ended December 31, 2016

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the health benefits is presented herewith as required supplementary information. It is intended to help users assess the health benefits funding status on a going concern basis, assess progress made in accumulating assets to pay health benefits when due and make comparisons with other state and local government benefit systems.

The actuarial information is required every three years.

| Actuarial Valuation Date January 1, | Actuarial Value of Assets (a) | Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) |
|--|--|--|--|-----------------------------------|
| 2012 | - | \$ 1,848,732 | \$ 1,848,732 | 0.0% |
| 2015 | - | \$ 1,759,678 | \$ 1,759,678 | 0.0% |

Source: The Post-Retirement Health Benefits Actuarial Valuation Report.

The actuarial accrued liability measure was determined as part of the calculation to determine the actuarially determined contribution requirement that was made at January 1, 2015. The entry age actuarial cost method was used to calculate the actuarial accrued liability. Significant actuarial assumptions include:

- A rate of return on the investment of present and future assets of 2.00% per year.
- Projected salary increases of 2.00% per year compounded annually, attributable to inflation.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the health benefit's funding status on a going concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the health benefits' funding status is.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the health benefits' progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the funded status is. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the funding status is.

Schedules of Contributions from the Employer and Other Contributing Entities:

| Fiscal Year Ended | Annual OPEB Cost | Total Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|---------------------------------|------------------------------|---|------------------------------------|
| 2014 | \$ 163,452 | \$ 116,114 | 71% | \$ 506,157 |
| 2015 | \$ 136,882 | \$ 86,600 | 63% | \$ 556,439 |
| 2016 | \$ 136,882 | \$ 101,000 | 74% | \$ 592,321 |

See notes to OPEB Plans

SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MAKEFIELD

Notes to OPEB Plans
December 31, 2016

Information for the Other Post-Employment Benefits is as follows:

| | <u>OPEB</u> |
|-----------------------------|------------------|
| Date of actuarial valuation | 1/1/2015 |
| Projected salary increases | 2.0% |
| Inflation rate | 2.75% |
| Cost method | Entry Age Normal |
| Amortization method | Level % Open |
| Amortization period | 30 years |

Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment.

TOWNSHIP OF LOWER MAKEFIELD

Combining Balance Sheet
Other Governmental Funds
December 31, 2016

| | Street Light Fund | 9-11 Memorial Fund | Fire Protection Fund | Hydrant Fund | Park and Recreation Fund | Park and Recreation FIL Fund | Library Fund | Traffic Impact Fund | Regency Bridge Fund | Tree Fund | Liquid Fuels Fund | Ambulance Rescue Fund | Patterson Park Fund | Total Other Governmental Funds |
|--|-------------------|--------------------|----------------------|--------------------|--------------------------|------------------------------|------------------|---------------------|---------------------|-------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Assets | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ (3,248) | \$ 8,878 | \$ 86,678 | \$ (52,365) | \$ (373,510) | \$ 55,201 | \$ 89,632 | \$ 207,130 | \$ 297,175 | \$ 206,139 | \$ 139,567 | \$ 11,054 | \$ 36,725 | \$ 709,056 |
| Accounts receivable | 1,939 | - | 6,140 | 2,228 | 18,423 | - | - | - | - | - | - | 1,750 | - | 30,480 |
| Interfund receivables | - | - | - | - | 125,000 | - | - | 189,418 | - | - | - | - | - | 314,418 |
| Total Assets | \$ (1,309) | \$ 8,878 | \$ 92,818 | \$ (50,137) | \$ (355,087) | \$ 55,201 | \$ 89,632 | \$ 396,548 | \$ 297,175 | \$ 206,139 | \$ 139,567 | \$ 12,804 | \$ 36,725 | \$ 1,053,954 |
| Liabilities | | | | | | | | | | | | | | |
| Accounts payable | \$ 5,397 | \$ 5,647 | \$ 1,200 | \$ 12,502 | \$ 93,723 | \$ - | \$ 89,622 | \$ 18,926 | \$ - | \$ 6,142 | \$ 238 | \$ - | \$ 661 | \$ 234,058 |
| Accrued expenses | - | - | 343 | - | 37,043 | - | - | - | - | - | - | - | - | 37,366 |
| Security deposits | - | - | - | - | 1,400 | - | - | - | - | - | - | - | 1,250 | 2,650 |
| Total Liabilities | 5,397 | 5,647 | 1,543 | 12,502 | 132,166 | - | 89,622 | 18,926 | - | 6,142 | 238 | - | 1,911 | 274,094 |
| Deferred Inflows of Resources | | | | | | | | | | | | | | |
| Deferred taxes and rental receipts | 1,939 | - | 4,062 | 1,515 | 5,785 | - | - | - | - | - | - | 1,171 | - | 14,472 |
| Fund Balances | | | | | | | | | | | | | | |
| Restricted: | | | | | | | | | | | | | | |
| Special revenue funds | (8,645) | 3,231 | 87,213 | (64,154) | (368,038) | 55,201 | 10 | 377,622 | 297,175 | 199,997 | 139,329 | 11,633 | 34,814 | 765,388 |
| Total Fund Balances (deficit) | (8,645) | 3,231 | 87,213 | (64,154) | (368,038) | 55,201 | 10 | 377,622 | 297,175 | 199,997 | 139,329 | 11,633 | 34,814 | 765,388 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (deficit) | \$ (1,309) | \$ 8,878 | \$ 92,818 | \$ (50,137) | \$ (230,087) | \$ 55,201 | \$ 89,632 | \$ 396,548 | \$ 297,175 | \$ 206,139 | \$ 139,567 | \$ 12,804 | \$ 36,725 | \$ 1,053,954 |

TOWNSHIP OF LOWER MAKEFIELD

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
Year Ended December 31, 2016

| | Street Light Fund | 9-11 Memorial Fund | Fire Protection Fund | Hydrant Fund | Park and Recreation Fund | Park and Recreation FIL Fund | Library Fund | Traffic Impact Fund | Regency Bridge Fund | Tree Fund | Liquid Fuels Fund | Ambulance Rescue Fund | Patterson Park Fund | Total Other Governmental Funds |
|---|-------------------|--------------------|----------------------|--------------|--------------------------|------------------------------|--------------|---------------------|---------------------|------------|-------------------|-----------------------|---------------------|--------------------------------|
| Revenues | | | | | | | | | | | | | | |
| Real estate taxes | | | \$ 467,280 | \$ 161,768 | \$ 664,698 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 129,884 | \$ - | \$ 1,423,630 |
| Interest earnings | 16 | 24 | 697 | (32) | 177 | 16 | 212 | 603 | 683 | 114 | 2,112 | 133 | 96 | 4,851 |
| Rental income | - | - | - | - | 63,543 | - | - | - | - | - | - | - | 54,818 | 116,361 |
| Intergovernmental revenues | - | - | 327,879 | - | - | - | - | - | - | - | 993,159 | - | - | 1,321,038 |
| Charges for services | 64,297 | - | 27,960 | - | 123,690 | - | - | - | - | - | - | - | - | 215,947 |
| Contributions | - | 50,601 | - | - | - | 120,735 | - | - | - | - | - | - | - | 171,336 |
| Miscellaneous income | - | - | - | - | 1,814 | - | - | - | 61,050 | - | - | - | - | 62,864 |
| Total Revenues | 64,313 | 50,625 | 823,816 | 161,736 | 853,922 | 120,751 | 212 | 603 | 61,733 | 114 | 995,271 | 130,017 | 54,914 | 3,319,027 |
| Expenditures | | | | | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public safety | - | - | 722,334 | - | - | - | - | - | - | - | - | - | - | 972,834 |
| Public works | 51,406 | - | - | 160,103 | - | - | - | 59,995 | - | - | 856,306 | 250,500 | 41,832 | 1,169,642 |
| Parks and recreation | - | 40,648 | - | - | 1,063,127 | - | - | - | - | - | - | - | - | 1,103,775 |
| Community Development | - | - | - | - | - | - | - | - | - | 50,117 | - | - | - | 50,117 |
| Capital outlays | - | - | - | - | 118,865 | 64,677 | 89,622 | - | - | - | - | - | - | 293,164 |
| Total Expenditures | 51,406 | 40,648 | 722,334 | 160,103 | 1,181,992 | 64,677 | 89,622 | 59,995 | - | 50,117 | 856,306 | 250,500 | 41,832 | 3,589,532 |
| Excess of Revenues Over (Under) Expenditures | 12,907 | 9,977 | 101,482 | 1,633 | (328,070) | 36,074 | (89,410) | (59,392) | 61,733 | (50,003) | 138,965 | (120,483) | 13,082 | (271,505) |
| Other Financing Sources (Uses) | | | | | | | | | | | | | | |
| Refund of prior year expenditure | - | - | 663 | - | 5,437 | - | - | - | - | - | - | - | - | 6,100 |
| Sale of capital assets | - | - | - | - | - | - | - | - | - | 250,000 | - | - | - | 250,000 |
| Operating transfers in | - | - | - | - | 125,000 | - | - | - | - | - | - | - | - | 125,000 |
| Operating transfers out | (1,245) | - | (128,665) | (5,014) | (259,633) | - | - | - | - | - | - | (4,323) | - | (396,680) |
| Total Other Financing Sources (Uses) | (1,245) | - | (128,002) | (5,014) | (129,196) | - | - | - | - | 250,000 | - | (4,323) | - | (17,780) |
| Net Increase (Decrease) in Fund Balances | 11,662 | 9,977 | (26,520) | (3,381) | (457,266) | 36,074 | (89,410) | (59,392) | 61,733 | 199,997 | 138,965 | (124,806) | 13,082 | (288,285) |
| Fund Balances, Beginning (deficit) | (20,307) | (6,746) | 113,733 | (60,773) | 89,228 | 19,127 | 89,420 | 437,014 | 235,442 | - | 364 | 136,439 | 21,732 | 1,054,673 |
| Fund Balances, Ending (deficit) | \$(8,645) | \$ 3,231 | \$ 87,213 | \$(64,154) | \$(368,038) | \$ 55,201 | \$ 10 | \$ 377,622 | \$ 297,175 | \$ 199,997 | \$ 135,329 | \$ 11,633 | \$ 34,814 | \$ 765,388 |