

WORCESTER TOWNSHIP  
MONTGOMERY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(See Independent Auditors' Report)



WORCESTER TOWNSHIP

FINANCIAL STATEMENTS

December 31, 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Worcester Township  
Worcester, 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 Worcester, Pennsylvania, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the Township's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

### ***Auditors' 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 of 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 auditors' 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 Worcester Township, Pennsylvania, as of December 31, 2016 and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity 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 on pages 5 through 16, and the historical trend information on pages 57 through 59 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 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.



Bee, Bergvall and Company, P.C.  
Certified Public Accountants

Warrington, PA  
June 15, 2017

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

This discussion and analysis of the financial statements of Worcester Township, Montgomery County, Pennsylvania (the Township) for the calendar year ended December 31, 2016 has been prepared by the Township Treasurer. The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2016. Please read this in conjunction with the Township's financial statements, which begin on page 17.

#### **FINANCIAL HIGHLIGHTS**

##### **Highlights for Government-wide Financial Statements (Full Accrual)**

The government-wide financial statements report information about the Township as a whole using the economic resources measurement focus and accrual basis of accounting.

- The total net position (assets less liabilities) on a government-wide basis was \$26.7 million.
- Taxes and other revenues of the Township's governmental activities amounted to \$4.3 million and expenses equaled \$3.6 million.
- Revenues of the Township's business-type activities for 2016 were \$1,664,800 and business-type expenses were \$868,000.

##### **Highlights for Fund Financial Statements (Modified Accrual)**

The fund financial statements provide more detailed information about the Township's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting.

- At December 31, 2016, the Township's total government funds reported a fund balance of \$10.8 million, an increase of \$307,800 in comparison with the prior year.
- The Township's General Fund reported a fund balance of \$8.1 million, an increase of \$389,700 from December 31, 2015.

##### **General Fund Financial Highlights**

Township receipts increased in 2016. Dollars received from General Fund receipts totaled \$4.0 million in both 2016 and 2015. Earned Income Taxes accounted for 66% percent of this amount, or \$2.7 million. Employment among Township residents is well diversified, in terms of both employment sectors and employment location. As such the Earned Income Tax receipt is relatively protected against modest fluctuations in local, state and federal employment conditions.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

The Township levies a 0.05 mill tax on real estate, which is currently the lowest municipal real estate tax rate in Montgomery County. In 2016 real estate tax generated \$47,200.

Public Works-related costs have long topped the annual list of Township expenditures, and 2016 was no different. The annual road program construction cost totaled \$725,600, which included \$344,000 in Liquid Fuel Funds. The Township recognizes that State-provided Liquid Fuel Funds are inadequate to meet our community's infrastructure needs, and therefore augments this annual allocation with dollars from the General Fund. By providing a responsible road program today, the Township avoids shifting an undue maintenance obligation to the residents of tomorrow.

In 2016 the Township completed construction of a salt storage building at the Public Works compound. The final cost of the project, which began design in 2014 and broke ground in 2015, totaled approximately \$740,000; this amount includes design, permitting, construction, inspection and legal expenses.

The Township restructured its administrative staff in 2016, decreasing by one the complement of full-time administrative employees. An additional employee was hired in the Public Works Department, so to provide the standard of care required to maintain the Township's growing network of roads and inventory of parks and trails.

The Hickory Hill Sewer Extension Project was also completed in 2016, at a final cost of \$1.02 million; this amount includes design, permitting, construction, inspection and legal expenses. The extension provides public sewer service to 72 properties in the Worcester Acres subdivision. Each property owner was charged an equal share of the project cost through an assessment. 31 property owners opted to pay the assessment in full in a single lump-sum payment, and the balance of property owners will pay this amount in quarterly payments to be made to the Township during the next 25 years. All properties in the project area are required connect to the public sewer system no later than the failure of the existing on-lot system or the sale of the property, whichever occurs first.

#### **Using this Annual Report**

This annual report consists of two kinds of basic financial statements, each with a different view of the Township's finances. The Statement of Net Position and the Statement of Activities (on pages 17-19) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 20. For governmental activities, these statements indicate how services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the information about the Township's most significant funds. The remaining statements provide information on funds outside the government activities. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the pension plans.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

#### **Reporting the Township as a Whole**

Our analysis of the Township as a whole begins on page 9. The question asked about the Township's finances is if the Township as a whole is better or worse as a result of the year's activities. The Statement of Net Position and the Statement of Activities report information about Worcester Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net position and changes in them. Think of the Township's net position, the difference between assets and liabilities, as one way to measure the financial health or financial position. Over time, increases or decreases in the Township's net position are an indicator of whether the financial health is improving or deteriorating. Consideration needs to be given to other non-financial factors, however, such as the changes in the Township's property tax base, wage tax changes, and condition of the Township's roads, parks, and buildings to assess the overall health of the Township.

In the Statement of Net Position and the Statement of Activities, the Township is divided into two kinds of activities:

- **Governmental activities** – Most of the Township's basic services are reported here including administrative, permit and licenses, fire services, public works, parks and recreation, and community development. Property taxes, earned income tax, franchise fees, user fees and state grants finance most of these activities.
- **Business-type activities** – The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's wastewater (sewer) services are reported here.

#### **Reporting the Township's Most Significant Funds**

Our analysis of Worcester's major funds begins on page 14. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements begin on page 20 and provide detailed information about the most significant funds, not the Township as a whole. Some funds are required to be established by State law. However, the Township Board of Supervisors establishes other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities utilizing certain taxes, grants, and other money. The Township's two kinds of funds, governmental and proprietary, use different accounting approaches.



## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

- **Governmental Funds** – Most of the Township's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds in reconciliations on pages 21 and 23.
- **Proprietary Funds** – When the Township charges customers for the services it provides, whether to outside customers or the other units of the Township, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, one of the Township's enterprise funds – Sewage Treatment (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flows for sewer operations.

#### **The Township as a Trustee**

The Township is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 28-29. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### **Infrastructure Assets**

Infrastructure (roads, bridges, storm sewers, etc.) is capitalized on a perspective basis beginning in 2004. The Township has chosen to depreciate assets over their useful life. If a road project is considered maintenance, the cost of the project will be expensed. An "overlay" of a road will be considered maintenance whereas a "rebuild" of a road will be capitalized.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

**THE TOWNSHIP AS A WHOLE**

The following table reflects the condensed statement of net position:

**Table 1**  
**Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 11,495,092	\$ 11,102,284	\$ 1,101,713	\$ 264,009	\$ 12,596,805	\$ 11,366,293
Capital assets	<u>11,419,963</u>	<u>11,000,603</u>	<u>5,525,192</u>	<u>5,552,907</u>	<u>16,945,155</u>	<u>16,553,510</u>
Total assets	<u>22,915,055</u>	<u>22,102,887</u>	<u>6,626,905</u>	<u>5,816,916</u>	<u>29,541,960</u>	<u>27,919,803</u>
 Total deferred outflows of resources	 <u>67,234</u>	 <u>62,689.00</u>	 <u>-</u>	 <u>-</u>	 <u>67,234</u>	 <u>62,689.00</u>
 Other liabilities	 365,642	 256,025	 131,188	 696,236	 496,830	 952,261
Long term liabilities	<u>52,678</u>	<u>35,105</u>	<u>2,335,000</u>	<u>1,756,785</u>	<u>2,387,678</u>	<u>1,791,890</u>
Total liabilities	<u>418,320</u>	<u>291,130</u>	<u>2,466,188</u>	<u>2,453,021</u>	<u>2,884,508</u>	<u>2,744,151</u>
 Total deferred inflows of resources	 <u>22,757</u>	 <u>25,128.00</u>	 <u>-</u>	 <u>-</u>	 <u>22,757</u>	 <u>25,128.00</u>
 Net position:						
Net investment in capital assets	11,419,963	10,974,689	3,070,192	3,706,635	14,490,155	14,681,324
Restricted	363,566	83,502	-	-	363,566	83,502
Unrestricted	<u>10,757,683</u>	<u>10,791,127</u>	<u>1,090,525</u>	<u>(342,740)</u>	<u>11,848,208</u>	<u>10,448,387</u>
Total net position	<u>\$ 22,541,212</u>	<u>\$ 21,849,318</u>	<u>\$ 4,160,717</u>	<u>\$ 3,363,895</u>	<u>\$ 26,701,929</u>	<u>\$ 25,213,213</u>

For more detailed information see the Statement of Net Position (page 17).

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$26.7 million at year-end 2016. The largest portion of the Township's assets reflects cash and investments that will be used to fund future projects. The restricted net position portion represents resources that are subject to external restrictions on how they may be used. The unrestricted net position for governmental activities is the portion of net position for governmental activities that can be used to finance day-to-day operations without constraints established by enabling legislation, or other legal requirements.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

**Normal Impacts**

There are basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

*Net Results of Activities* which will impact (increase/decrease) current assets and unrestricted net position.

*Spending of Non-borrowed Current Assets on New Capital* which will (a) reduce current assets and increase capital assets, and (b) will reduce unrestricted net position and increase invested in capital assets, net of debt.

*Reduction of Capital Assets through Depreciation* which will reduce capital assets and invested in capital assets, net of debt.

**Current Year Impacts**

The primary impact for governmental activities is the use of unrestricted net position to offset the gap between appropriations and revenues.

The overall net position of governmental activities increased by \$691,900 in 2016, which was \$387,000 lower than last year's change in net position. Expenses were higher in 2016 due to the more extensive road program in 2016.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

The following chart shows the revenues and expenses of the governmental activities and business-type activities:

**Table 2**  
**Statement of Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>						
Program Revenues						
Charges for services	\$ 286,273	\$ 453,598	\$ 1,664,054	\$ 533,052	\$ 1,950,327	\$ 986,650
Operating grants and contributions	516,865	437,606	-	-	516,865	437,606
Capital grants and contributions	27,936	-	-	-	27,936	-
General Revenue						
Property taxes	47,212	46,504	-	-	47,212	46,504
Other taxes	2,987,204	2,970,649	-	-	2,987,204	2,970,649
Investment income	57,397	27,355	743	2,522	58,140	29,877
Other	396,887	327,791	-	-	396,887	327,791
Total Revenues	<u>4,319,774</u>	<u>4,263,503</u>	<u>1,664,797</u>	<u>535,574</u>	<u>5,984,571</u>	<u>4,799,077</u>
<b>EXPENSES</b>						
Administrative	909,216	1,089,996	-	-	909,216	1,089,996
Permits and licenses	322,776	403,357	-	-	322,776	403,357
Fire service	326,647	338,669	-	-	326,647	338,669
Public works	1,800,086	1,093,408	-	-	1,800,086	1,093,408
Parks and recreation	269,155	258,892	-	-	269,155	258,892
Sewer	-	-	867,975	806,921	867,975	806,921
Total Expenses	<u>3,627,880</u>	<u>3,184,322</u>	<u>867,975</u>	<u>806,921</u>	<u>4,495,855</u>	<u>3,991,243</u>
Changes in net position	691,894	1,079,181	796,822	(271,347)	1,488,716	807,834
Net Position, beginning of year	<u>21,849,318</u>	<u>20,770,137</u>	<u>3,363,895</u>	<u>3,635,242</u>	<u>25,213,213</u>	<u>24,405,379</u>
Net Position, end of year	<u>\$ 22,541,212</u>	<u>\$ 21,849,318</u>	<u>\$ 4,160,717</u>	<u>\$ 3,363,895</u>	<u>\$ 26,701,929</u>	<u>\$ 25,213,213</u>

For more detail see Statement of Activities (pages 18-19).

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

**Normal Impacts**

There are basic impacts on revenues and expenses as reflected below.

**Revenues:**

*Economic Condition* – This can reflect a declining, stable or growing economic environment and has a substantial impact on property or other tax revenue, as well as public spending habits for building permits and elective user fees.

*Increase/Decrease in Township Approved Rates* – While certain tax rates are set by statute, the Township Board of Supervisors has authority to impose and periodically increase/decrease rates (real estate tax millage, sewer fees, building fees, user fees, etc.). The real estate tax millage has remained at .05.

*Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)* – Certain recurring revenues (state-shared revenues, block grant, etc.) may experience significant changes periodically, while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

*Market Impacts on Investment Income* – The Township's investment portfolio is managed using a one to two year average maturity on capital funds. Market conditions cause investment income to fluctuate with the economic conditions.

**Expenses:**

*Salary Increases (annual adjustments)* – The ability to attract and retain human resources requires Worcester Township to strive to approach a competitive salary and range position in the marketplace.

*Inflation* – While overall inflation appears to be increasing, the Township is a major consumer of certain commodities such as supplies, fuels, and parts. Some functions may experience unusual commodity-specific fluctuations.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

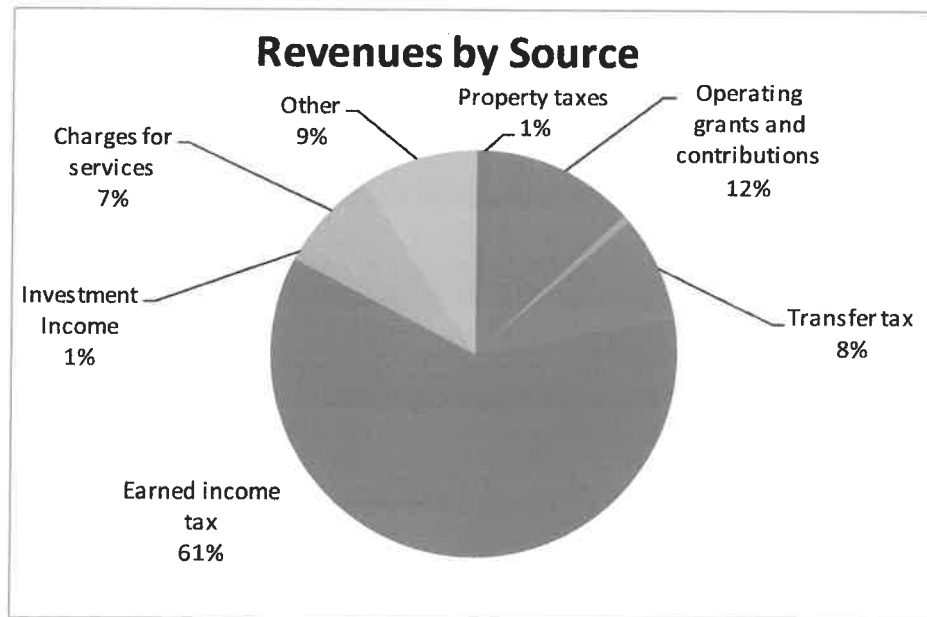
DECEMBER 31, 2016

#### **Current Year Impacts**

#### **Governmental Activities**

Revenues for the Township's governmental activities were \$4.3 million. Earned Income Taxes constitute the largest source of Township revenues (61%), and totaled \$2.6 million in 2016, which is consistent with 2015. In 2016 real estate taxes totaled \$47,000, or approximately 1% of total revenues, and real estate transfer taxes totaled \$366,000, a modest increase of \$19,000 from 2015.

The following chart shows the revenues of the governmental activities.



The cost of all governmental activities this year was \$3.6 million consisting of administrative, code enforcement, safety, public works, and park expenses.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

#### **Business-type Activities**

Total revenues of the Wastewater Treatment Operations were \$1,664,800 as compared to total costs of \$868,000 including non-cash depreciation expense of \$268,000. The Sewer Fund receives its primary revenue through user fees, tapping fees and assessment payments. Each year the Township approves a user fee calculated to recapture the sanitary sewer system's estimated operating and capital expenses.

**Table 3**  
**Governmental/Business Type Activities**

	Total Cost of Services		Net Cost of Services	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Governmental Activities</b>				
Administrative	\$ 909,216	\$ 1,089,996	\$ 848,723	\$ 1,031,071
Code and Engineering	322,776	403,357	271,966	117,043
Emergency Services	326,647	338,669	42,547	233,742
Public Works	1,800,086	1,093,408	1,416,865	816,187
Parks	<u>269,155</u>	<u>258,892</u>	<u>216,705</u>	<u>95,075</u>
<b>Total Governmental Activities</b>	<u>\$ 3,627,880</u>	<u>\$ 3,184,322</u>	<u>\$ 2,796,806</u>	<u>\$ 2,293,118</u>
<b>Total Sewer - Business Type Activities</b>	<u>\$ 867,975</u>	<u>\$ 806,921</u>	<u>\$ (796,079)</u>	<u>\$ 273,869</u>

#### **THE TOWNSHIP'S FUNDS**

At year's end Township governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$10.8 million. Of this amount \$22,000 is Liquid Fuel Funds, and as such is restricted for road maintenance expenditures only, and \$342,000 is restricted for transportation improvement projects in accordance with Act 209 of 1990. The balance represents the unreserved fund balance.

#### **General Fund Budgetary Highlights**

General Fund actual revenues exceeded budgeted revenues by \$598,000. The largest variances were realized in the Earned Income Tax, Real Estate Transfer Tax, and Program Revenues, which exceeded amounts budgeted by \$252,900, \$115,900 and \$187,300, respectively. Those increases are attributable to new development, which resulted in new homes sales and new residents paying taxes.

General Fund expenses were \$353,000 under budget, with the largest variances being retirements, restructuring of the administrative staff, the Heebner Park Soccer Field and the North Penn US Army Reserve Center.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

**Capital Assets**

As of December 31, 2016, on a government-wide basis, the Township had \$16.9 million invested in a broad range of capital assets, including buildings, parks, open space, and wastewater facilities (see table below). Significant additions to this inventory in 2016 include the aforementioned Hickory Hill Sewer Expansion Project and the salt storage building.

The following reconciliation summarizes the Capital Assets, which is presented in detail on pages 41-42 of the Notes.

**Table 4**  
**Change in Capital Assets**  
**Governmental Activities**

	Beginning Balance <u>1/1/2016</u>	Net Additions/ Deletions	Ending Balance <u>12/31/2016</u>
<b>Non-Depreciable Assets</b>			
Land	\$ 4,871,637	\$ -	\$ 4,871,637
Easements	569,088	-	569,088
<b>Other Capital Assets</b>			
Building and improvements	2,505,563	580,087	3,085,650
Infrastructure	3,724,802	-	3,724,802
Land improvements	1,081,948	179,112	1,261,060
Office equipment	213,718	-	213,718
Machinery and equipment	378,265	(43,613)	334,652
Vehicles	638,323	(16,277)	622,046
Traffic signal	215,127	-	215,127
Accumulated depreciation	<u>(3,197,868)</u>	<u>(279,949)</u>	<u>(3,477,817)</u>
<b>Total Governmental Capital Assets</b>	<u>\$ 11,000,603</u>	<u>\$ 419,360</u>	<u>\$ 11,419,963</u>
<b>Business-Type Activities</b>			
<b>Other Capital Assets</b>			
Construction in progress	\$ 760,522	\$ -	\$ 760,522
Building and improvements	3,483,147	-	3,483,147
Improvements/sewer lines	3,440,155	186,716	3,626,871
Machinery and equipment	568,133	53,862	621,995
Accumulated depreciation	<u>(2,699,050)</u>	<u>(268,293)</u>	<u>(2,967,343)</u>
<b>Total Business-Type Capital Assets</b>	<u>\$ 5,552,907</u>	<u>\$ (27,715)</u>	<u>\$ 5,525,192</u>
<b>Total Government-Wide Capital Assets</b>	<u>\$ 16,553,510</u>	<u>\$ 391,645</u>	<u>\$ 16,945,155</u>



## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

#### **Debt**

Township Governmental Activities ended the year without debt.

Township Business-type Activities include the issuance of a \$2.495 million General Obligation Bond to fund the Hickory Hill Sewer Expansion Project and to retire a 2013 loan to construct improvements to the Valley Green Wastewater Treatment Plant.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Township retained its conservative fiscal practices when preparing the 2017 Budget.

The 2017 General Fund budget is 12% or \$438,000 lower than the 2016 budget. The primary driver attributable to the decrease is a change in the budget practices. The capital projects and expenses are now being funded from the capital fund instead of the general fund. Another driver is that a 2016 transfer of \$383,000 was made from the general to the capital fund.

#### **CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT**

If you have questions about this report or need additional financial information, contact the Treasurer at Worcester Township, P.O. Box 767, 1721 Valley Forge Road, Worcester, PA 19490 or go to the web site [www.Worcestertwp.com](http://www.Worcestertwp.com).

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 9,030,689	\$ 275,397	\$ 9,306,086
Investments	1,366,504	-	1,366,504
Restricted cash (escrows)	286,989	-	286,989
Receivables	1,037,104	39,698	1,076,802
Notes receivable	-	560,424	560,424
Internal balances	(226,194)	226,194	-
Financing costs	-	-	-
Land	4,871,637	-	4,871,637
Easements	569,088	-	569,088
Other capital assets (net of accumulated depreciation)	5,979,238	5,525,192	11,504,430
Total Assets	<u>22,915,055</u>	<u>6,626,905</u>	<u>29,541,960</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Net difference between projected and actual earnings on pension plan investments	67,234	-	67,234
Total deferred outflows of resources	<u>67,234</u>	<u>-</u>	<u>67,234</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	78,653	11,188	89,841
Deposits	286,989	-	286,989
Non-current liabilities:			
Due within one year	-	120,000	120,000
Due after one year	52,678	2,335,000	2,387,678
Total Liabilities	<u>418,320</u>	<u>2,466,188</u>	<u>2,884,508</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between expected and actual experience on pension plan liability	22,757	-	22,757
Total deferred inflows of resources	<u>22,757</u>	<u>-</u>	<u>22,757</u>
<u>NET POSITION</u>			
Net investment in capital assets	11,419,963	3,070,192	14,490,155
Restricted			
Highways	21,612	-	21,612
Transportation	341,954	-	341,954
Unrestricted	10,757,683	1,090,525	11,848,208
Total Net Position	<u>\$ 22,541,212</u>	<u>\$ 4,160,717</u>	<u>\$ 26,701,929</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Total	Governmental Activities		
		Governmental Activities Total	Administrative	Permits & Licenses
Expenses:				
Program expenses	\$ 3,803,555	\$ 3,251,763	\$ 838,810	\$ 322,776
Depreciation	643,604	375,311	69,600	-
Interest on debt	48,696	806	806	-
Total Expenses	<u>4,495,855</u>	<u>3,627,880</u>	<u>909,216</u>	<u>322,776</u>
Program revenues:				
Charges for services	1,950,327	286,273	-	50,810
Operating grants and contributions	516,865	516,865	60,493	-
Capital grants and contributions	27,936	27,936	-	-
Total Program Revenues	<u>2,495,128</u>	<u>831,074</u>	<u>60,493</u>	<u>50,810</u>
Net (Expense) Revenue	(2,000,727)	(2,796,806)	(848,723)	(271,966)
General Revenues:				
Taxes:				
Property	47,212	47,212		
Transfer tax	365,908	365,908		
Earned income tax	2,615,762	2,615,762		
Other	5,534	5,534		
Investment earnings	58,140	57,397		
Miscellaneous	396,887	396,887		
Total General Revenues	<u>3,489,443</u>	<u>3,488,700</u>		
Change in net position	1,488,716	691,894		
Net position - beginning	<u>25,213,213</u>	<u>21,849,318</u>		
Net position - ending	<u>\$ 26,701,929</u>	<u>\$ 22,541,212</u>		

Governmental Activities		
Fire Services	Public Works	Park & Recreation
\$ 326,647	\$ 1,592,672	\$ 170,858
-	207,414	98,297
-	-	-
<u>326,647</u>	<u>1,800,086</u>	<u>269,155</u>
183,013	-	52,450
101,087	355,285	-
-	27,936	-
<u>284,100</u>	<u>383,221</u>	<u>52,450</u>
(42,547)	(1,416,865)	(216,705)

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

BALANCE SHEET  
GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Government Funds (Highway Aid)</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 6,816,558	\$ 2,192,519	\$ 21,612	\$ 9,030,689
Restricted cash	286,989	-	-	286,989
Investments	919,504	447,000	-	1,366,504
Receivables	678,149	-	-	678,149
Total Assets	<u>\$ 8,701,200</u>	<u>\$ 2,639,519</u>	<u>\$ 21,612</u>	<u>\$ 11,362,331</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable and accrued wages	\$ 78,653	\$ -	\$ -	\$ 78,653
Due to other funds	226,194	-	-	226,194
Deposits	286,989	-	-	286,989
Total Liabilities	<u>591,836</u>	<u>-</u>	<u>-</u>	<u>591,836</u>
Fund Balances				
Restricted for:				
Highways	-	-	21,612	21,612
Transportation	-	341,954	-	341,954
Committed for:				
Capital projects	-	2,297,565	-	2,297,565
Unassigned	8,109,364	-	-	8,109,364
Total Fund Balances	<u>8,109,364</u>	<u>2,639,519</u>	<u>21,612</u>	<u>10,770,495</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,701,200</u>	<u>\$ 2,639,519</u>	<u>\$ 21,612</u>	<u>\$ 11,362,331</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

RECONCILIATION OF THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION

DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of net position (page 17)  
are different because:

Total fund balances--total governmental funds (page 20)		\$ 10,770,495
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		358,955
Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds.		
Cost of capital assets	\$ 14,897,780	
Accumulated depreciation	<u>(3,477,817)</u>	11,419,963
Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Net difference between projected and actual earnings on pension plan investments	67,234	
Differences between expected and actual experience on pension plan liability	<u>(22,757)</u>	44,477
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Leases payable	-	
Net pension liability	<u>(52,678)</u>	<u>(52,678)</u>
Total net position for governmental activities (page 17)		<u>\$ 22,541,212</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

FOR THE YEAR DECEMBER 31, 2016

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Governmental Funds (Highway Aid)</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Property	\$ 47,212	\$ -	\$ -	\$ 47,212
Transfer	365,908	-	-	365,908
Earned income	2,653,014	-	-	2,653,014
Other	5,534	-	-	5,534
Fees, licenses and permits	264,107	-	-	264,107
Investment income and rent	205,781	14,612	862	221,255
Intergovernmental revenues	228,196	-	325,427	553,623
Fines and forfeitures	1,714	-	-	1,714
Program revenues	243,699	-	-	243,699
Other	960	-	-	960
Total Revenues	<u>4,016,125</u>	<u>14,612</u>	<u>326,289</u>	<u>4,357,026</u>
Expenditures				
Current:				
General government	747,016	645	-	747,661
Public safety	651,397	-	-	651,397
Highways and roads	1,137,173	-	388,179	1,525,352
Culture and recreation	170,858	-	-	170,858
Miscellaneous	108,030	-	-	108,030
Debt service:				
Principal	25,915	-	-	25,915
Interest	805	-	-	805
Capital projects	819,244	-	-	819,244
Total Expenditures	<u>3,660,438</u>	<u>645</u>	<u>388,179</u>	<u>4,049,262</u>
Excess (Deficiency) of Revenues Over expenditures	<u>355,687</u>	<u>13,967</u>	<u>(61,890)</u>	<u>307,764</u>
Other Financing Sources (Uses)				
Operating transfers in	383,872	349,823	-	733,695
Operating transfers out	(349,823)	(383,872)	-	(733,695)
Total Other Financing Sources (Uses)	<u>34,049</u>	<u>(34,049)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	389,736	(20,082)	(61,890)	307,764
Fund Balance - Beginning	<u>7,719,628</u>	<u>2,659,601</u>	<u>83,502</u>	<u>10,462,731</u>
Fund Balance - Ending	<u>\$ 8,109,364</u>	<u>\$ 2,639,519</u>	<u>\$ 21,612</u>	<u>\$ 10,770,495</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of activities (page 18-19)  
are different because:

Net change in fund balances--total governmental funds (page 22)		\$	307,764
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.			(37,252)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	794,671		
Depreciation expense	<u>(375,311)</u>		419,360
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Repayment of leases	<u>25,914</u>		<u>25,914</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Net pension liability and deferred items			<u>(23,892)</u>
Net change in net position - governmental activities (page 18)		\$	<u>691,894</u>

The notes to the financial statements are an integral part of this statement



WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR DECEMBER 31, 2016

	GENERAL FUND			Variance with Final Budget
	Budgeted Amounts			Over (under)
	Original	Final	ACTUAL	
Revenues				
Taxes:				
Property	\$ 48,187	\$ 48,187	\$ 47,212	\$ (975)
Transfer	250,000	250,000	365,908	115,908
Earned income	2,400,100	2,400,100	2,653,014	252,914
Other	5,750	5,750	5,534	(216)
Fees, licenses and permits	276,776	276,776	264,107	(12,669)
Interest and rent	196,584	196,584	205,781	9,197
Intergovernmental revenues	180,850	180,850	200,260	19,410
Fines and forfeitures	2,500	2,500	1,714	(786)
Program revenues	56,440	56,440	243,699	187,259
Other	800	800	28,896	28,096
Total Revenues	3,417,987	3,417,987	4,016,125	598,138
Expenditures				
Current:				
General government	866,797	866,797	747,016	(119,781)
Public safety	639,536	639,536	651,397	11,861
Highways and roads	1,300,619	1,300,619	1,137,173	(163,446)
Culture and recreation	401,463	401,463	150,589	(250,874)
Miscellaneous	116,000	116,000	108,030	(7,970)
Debt service	-	-	26,720	26,720
Capital projects	688,823	688,823	839,513	150,690
Total Expenditures	4,013,238	4,013,238	3,660,438	(352,800)
Net Change in Fund Balance	(211,379)	(211,379)	389,736	601,115
Fund Balance-beginning	7,719,628	7,719,628	7,719,628	
Fund Balance-ending	\$ 7,508,249	\$ 7,508,249	\$ 8,109,364	

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

DECEMBER 31, 2016

	<u>Business-Type Activities Sewage Treatment</u>
<u>ASSETS</u>	
Current Assets	
Cash	\$ 275,397
Receivables	
Sewer rents	39,698
Notes	18,566
Due from other funds	226,194
Total Current Assets	<u>559,855</u>
Long-Term Assets	
Notes receivable	541,858
Capital Assets (net of accumulated depreciation)	<u>5,525,192</u>
Total Assets	<u>\$ 6,626,905</u>
<u>LIABILITIES</u>	
Current Liabilities	
Current maturities	\$ 120,000
Accounts payable and accrued wages	11,188
Total Current Liabilities	<u>131,188</u>
Long-Term Debt	
Long-term note and bonds payable	<u>2,335,000</u>
Total Long-Term Debt	<u>2,335,000</u>
Total Liabilities	<u>2,466,188</u>
<u>NET POSITION</u>	
Net investment in capital assets	3,070,192
Unrestricted	<u>1,090,525</u>
Total Net Position	<u>\$ 4,160,717</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION – PROPRIETARY FUNDS

FOR THE YEAR DECEMBER 31, 2016

	Business-Type Activities <u>Sewage Treatment</u>
Operating Revenues	
Sewer service charges	\$ 596,951
Other revenues	<u>8,273</u>
Total Operating Revenues	<u>605,224</u>
Operating Expenses	
Sewer operations	427,102
Administrative	50,218
Depreciation expense	<u>268,293</u>
Total Operating Expenses	<u>745,613</u>
Operating Income (Loss)	<u>(140,389)</u>
Nonoperating Revenues (Expense)	
Net earnings on investments	743
Interest expense	(47,890)
Tapping fees	1,058,830
Bond issuance fees	<u>(74,472)</u>
Total Nonoperating Revenues (Expense)	<u>937,211</u>
Change in Net Position	796,822
Total Net Position-Beginning	<u>3,363,895</u>
Total Net Position-Ending	<u>\$ 4,160,717</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

FOR THE YEAR DECEMBER 31, 2016

	Business-Type Activities Sewage Treatment
Cash flows from operating activities	
Cash received from customers	\$ 600,799
Cash paid to employees for services	(47,153)
Cash paid to suppliers for goods and services	(450,639)
Net cash provided by (used in) operating activities	<u>103,007</u>
Cash flows from capital and related financing activities	
Proceeds from long term debt	2,495,000
Principal paid on long-term debt	(1,886,272)
Payment on notes receivable	(15,421)
Interest paid on long-term debt	(47,890)
Payments from interfund balances	(778,590)
Acquisition and construction of capital assets	(240,578)
Bond issuance expenditures	(74,472)
Payments for tapping fees	516,972
Net cash provided by (used in) capital and related financing activities	<u>(31,251)</u>
Cash flows from investing activities	
Interest and dividends on investments	743
Net cash provided by (used in) investing activities	<u>743</u>
Net increase (decrease) in cash and cash equivalents	72,499
Beginning cash and cash equivalents	202,898
Ending cash and cash equivalents	<u>\$ 275,397</u>

**Reconciliation of Net Operating Income (Loss)  
to Net Cash Provided by (Used in) Operating Activities**

Net operating income (loss)	\$ (140,389)
Adjustments to reconcile net operating (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	268,293
Changes in assets and liabilities	
(Increase) decrease in receivables	(4,425)
Increase (decrease) in accounts payable	(20,472)
Net adjustments	<u>243,396</u>
Cash provided by (used in) operating activities	<u>\$ 103,007</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

DECEMBER 31, 2016

	<u>Pension Trust Fund</u>
<u>ASSETS</u>	
Current Assets	
Pennsylvania State Association of Boroughs	\$ 1,045,098
Total Current Assets	<u>1,045,098</u>
 Total Assets	 <u>\$ 1,045,098</u>
 <u>NET POSITION</u>	
Net Position restricted for Pension Benefits	<u>\$ 1,045,098</u>

The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

FOR THE YEAR DECEMBER 31, 2016

	Pension Trust Funds
Additions	
State contributions	\$ 56,870
Total Contributions	<u>56,870</u>
Investment Earnings	
Net appreciation (depreciation) in fair value of investments	29,867
Dividends	13,829
Interest	<u>2,195</u>
Total Earnings	45,891
Less: Investment Expense	<u>(8,317)</u>
Net Investment Earnings	<u>37,574</u>
Total Additions	<u>94,444</u>
Deductions	
Benefits	43,520
Administrative expenses	<u>2,850</u>
Total Deductions	<u>46,370</u>
Net Increase	48,074
Net Position restricted for Pension Benefits:	
Beginning of Year	<u>997,024</u>
End of Year	<u>\$ 1,045,098</u>

The notes to the financial statements are an integral part of this statement

## WORCESTER TOWNSHIP

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

#### **I. Summary of significant accounting policies**

##### ***A. Reporting entity***

Worcester Township is a municipal corporation existing and operating under the Second Class Township code of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Township (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Township have been addressed. Financial accountability is present if the Township appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. Based upon the application of these criteria, there are currently no component units of Worcester Township.

##### ***B. Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***C. Measurement focus, basis of accounting, and financial statement presentation***

The government-wide financial 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. 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 eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, and licenses associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds on the governmental fund financial statements:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital reserve fund* accounts for capital purchases and construction to enhance and improve the property throughout the Township.

The government reports the following major proprietary funds:

The *sewage treatment fund* provides wastewater treatment services throughout the Township.



WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***C. Measurement focus, basis of accounting, and financial statement presentation (continued)***

Additionally, the government reports the following fiduciary fund types:

The *pension trust fund* accounts for the activities of the Non Uniformed Pension plans, which accumulate resources for pension benefit payments to qualified employees.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government, if existing. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund and sewer capital fund are charges to customers for services.

The sewer capital fund also recognizes as operating revenues the portion of tapping fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity***

***1. Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

With the exception of Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

The government invests in obligations and agencies of the United States of America. These investments are comprised of collateralized mortgage obligations, U.S. Treasury obligation, and money market mutual funds. The government recognizes interest rate risk and extension risk with some of these obligations. The government has stratified their portfolio so that the investments with extension risk are comprised of monies needed on a long-term basis. Investments with interest rate risk are selected so that the risk of interest decline below area savings accounts rates is minimal.

The law provides that the government's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the government to be prudent.

## WORCESTER TOWNSHIP

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

#### **I. Summary of significant accounting policies (Continued)**

##### ***D. Assets, liabilities, and net position or equity***

##### ***1. Deposits and investments (continued)***

*Fair Value Measurements:* The Township categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2016:

Investments for the government are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the pool's amortized cost-based net asset value per share, which approximates fair value. There are no limitations or restrictions on withdrawals.

##### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectible amounts. At December 31, 2015, all tax receivables were deemed to be fully collectible. There is no tax receivable allowance due to the materiality of the outstanding receivables.

## WORCESTER TOWNSHIP

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

#### **I. Summary of significant accounting policies (Continued)**

##### ***D. Assets, liabilities, and net position or equity (continued)***

##### ***2. Receivables and payables (continued)***

Property taxes are levied as of January 1 on property values assessed as of the same date. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through June 30; and a 10% penalty after June 30. The township employs an elected tax collector to collect the property tax levied. The tax collector remits Township taxes at least monthly and is paid a commission. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

##### ***3. Use of estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles 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 expenditures during the reporting period. Actual results could differ from those estimates.

##### ***4. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 for infrastructure and intangible assets and \$5,000 for all other capital assets, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation.

The costs 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 incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized as the standard was applied prospectively.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***4. Capital assets (continued)***

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7-30
Roads and bridges	30-50
Guiderails, manholes, and curbing	20-30
Storm sewer pipes	50
Sewer pipes	50
Utility and heavy equipment	10-18
Vehicles and equipment	5-15
Signs and traffic signals	7-15

***5. Long-term obligations***

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If bond premiums or discounts exist, they are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of any applicable bond premium or discount. Issuance costs are expensed as incurred.

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***6. Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category:

*Net difference between projected and actual earnings on pension plan investments* is reported in the government-wide statement of net position. A net difference results from the actual earnings in the plan either exceeding or falling short of projected earnings. This amount is deferred and amortized over a five year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category.

*Differences between expected and actual experience on pension plan liability* is reported in the government-wide statement. A difference results when actual economic or demographic factors differ from expected results. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***7. Net Position***

In the government-wide financial statements, net position is classified in the following categories:

**Net investment in capital assets** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance of this category.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net investment in capital assets		
Capital assets not being depreciated	\$ 5,440,725	\$ -
Capital assets being depreciated, net of accumulated depreciation	5,979,238	5,525,192
Less: Long-term debt outstanding	-	(2,455,000)
	<u>\$ 11,419,963</u>	<u>\$ 3,070,192</u>

**Restricted net position** - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This category represents net position of the entity, not restricted for any project or other purpose.

***8. Fund Balance***

Governmental funds report fund balance in classifications based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

**Nonspendable Fund Balance** - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***8. Fund Balance (continued)***

**Restricted Fund Balance** - includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**Committed Fund Balance** - includes amounts that can only be used for the specific purposes determined by a formal action of the Township's highest level of decision-making authority, the Board of Supervisors. Commitments may be changed or lifted only by the Township taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

**Assigned Fund Balance** - includes amounts intended to be used by the Township for specific purposes but do not meet the criteria to be classified as committed. The governing body, the Board of Supervisors, has by resolution authorized the Township Manager or Finance Director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Unassigned Fund Balance** - this residual classification is used for all negative fund balances in Special Revenue, Capital Projects, and Debt Service funds; or any residual amounts in the General Fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

***9. Subsequent events***

The Township has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release.



WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**II. Stewardship, compliance, and accountability**

***A. Budgetary information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Township funds all annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During November, the Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them.
2. All budget revisions require the approval of the Township Board of Supervisors. All appropriations lapse at year-end.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Proprietary Funds. Budgetary control is maintained at the fund level.

***B. Excess of expenditures over appropriations***

For the year ended December 31, 2016 expenditures exceed appropriations in the public safety, debt service, and capital projects categories of the general fund by \$11,861, \$26,720, and \$150,690 respectively. These over expenditures were funded by revenues which were larger than expected.

**III. Detailed notes on all funds**

***A. Deposits and investments***

As of December 31, 2016, the government had the following investments:

	<u>Maturities</u>	
GOVERNMENTAL FUNDS		
Externally Pooled Investments		\$ 6,366,616
Certificates of Deposit	< 1 year	1,123,504
Certificates of Deposit	1-5 years	243,000
		<u>\$ 7,733,120</u>
FIDUCIARY FUNDS		
State Investment Pool (Pension)		<u>\$ 1,045,098</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

**A. *Deposits and investments (continued)***

*Interest Rate Risk.* This is the risk that changes in interest will adversely affect the fair value of an investment. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described in Section I Note D. The government's investment in the external investment pools was rated AAAm by Standard & Poor's.

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the government's policy that the fiduciary assets may not be invested in more than 5% of the total equity portfolio in the common stock of one corporation and not more than 25% of the stock value at market may be held in any one industry.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2016, the government's carrying amount of deposits was \$3,204,337 and the bank balance was \$3,298,635. Of the bank balance, \$500,000 was covered by federal depository insurance. Any balances exceeding federal depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the government's name. Externally pooled investments are considered a cash equivalent.

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are "held in the name of the government" and thus not exposed to custodial credit risk.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
GOVERNMENTAL FUNDS				
Certificates of Deposit	<u>\$ 1,366,504</u>	<u>\$ 1,366,504</u>	<u>\$ -</u>	<u>\$ -</u>
FIDUCIARY FUNDS				
PSAB Mutual Retirement Trust-Balanced Fund	<u>\$ 1,045,098</u>	<u>\$ -</u>	<u>\$ 1,045,098</u>	<u>\$ -</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

***B. Receivables***

Receivables as of year end for the government's funds are as follows:

	<u>General</u>	<u>Sewer</u>	<u>Total</u>
Receivables:			
Taxes	\$ 590,236	\$ -	\$ 590,236
Accounts	87,913	39,698	127,611
Special assessments	-	18,566	18,566
Total Receivables	<u>\$ 678,149</u>	<u>58,264</u>	<u>\$ 736,413</u>

***C. Capital assets***

Capital asset activity for the year ended December 31, 2016 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,871,637	\$ -	\$ -	\$ 4,871,637
Easements	569,088	-	-	569,088
Total capital assets, not being depreciated	<u>5,440,725</u>	<u>-</u>	<u>-</u>	<u>5,440,725</u>
Capital assets, being depreciated:				
Buildings and improvements	2,505,563	580,087	-	3,085,650
Land improvements	1,081,948	179,112	-	1,261,060
Infrastructure	3,724,802	-	-	3,724,802
Traffic signal	215,127	-	-	215,127
Office equipment	213,718	-	-	213,718
Equipment	378,265	5,935	49,548	334,652
Vehicles	638,323	29,537	45,814	622,046
Total capital assets being depreciated	<u>8,757,746</u>	<u>794,671</u>	<u>95,362</u>	<u>9,457,055</u>
Less accumulated depreciation for:				
Buildings and improvements	1,060,475	107,347	-	1,167,822
Land improvements	421,346	84,071	-	505,417
Infrastructure	631,613	94,824	-	726,437
Traffic signal	108,066	14,342	-	122,408
Office equipment	179,741	13,580	-	193,321
Equipment	301,251	32,651	49,548	284,354
Vehicles	495,376	28,496	45,814	478,058
Total accumulated depreciation	<u>3,197,868</u>	<u>375,311</u>	<u>95,362</u>	<u>3,477,817</u>
Total capital assets, being depreciated, net	<u>5,559,878</u>	<u>419,360</u>	<u>-</u>	<u>5,979,238</u>
Governmental activities capital assets, net	<u>\$11,000,603</u>	<u>\$ 419,360</u>	<u>\$ -</u>	<u>\$ 11,419,963</u>

(continued)

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

**C. *Capital assets (continued)***

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 760,522	\$ -	\$ -	\$ 760,522
Total capital assets, not being depreciated	<u>760,522</u>	<u>-</u>	<u>-</u>	<u>760,522</u>
Capital assets, being depreciated:				
Buildings	3,483,147	-	-	3,483,147
Improvements	3,440,155	186,716	-	3,626,871
Machinery and equipment	<u>568,133</u>	<u>53,862</u>	<u>-</u>	<u>621,995</u>
Total capital assets being depreciated	<u>7,491,435</u>	<u>240,578</u>	<u>-</u>	<u>7,732,013</u>
Less accumulated depreciation for:				
Buildings	706,576	116,105	-	822,681
Improvements	1,603,299	127,124	-	1,730,423
Machinery and equipment	<u>389,175</u>	<u>25,064</u>	<u>-</u>	<u>414,239</u>
Total accumulated depreciation	<u>2,699,050</u>	<u>268,293</u>	<u>-</u>	<u>2,967,343</u>
Total capital assets, being depreciated, net	<u>4,792,385</u>	<u>(27,715)</u>	<u>-</u>	<u>4,764,670</u>
Business-type activities capital assets, net	<u>\$ 5,552,907</u>	<u>\$ (27,715)</u>	<u>\$ -</u>	<u>\$ 5,525,192</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administrative	\$ 69,600
Public works	207,414
Parks	<u>98,297</u>
Total depreciation expense-governmental activities	<u>\$ 375,311</u>
Business-type activities	
Sewer treatment	<u>\$ 268,293</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

***D. Interfund receivables, payables, and transfers***

The interfund balances and transfers for the year ended December 31, 2016 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 226,194
Sewer Fund	<u>226,194</u>	<u>-</u>
Total	<u>\$ 226,194</u>	<u>\$ 226,194</u>

Interfund balances represent expenses paid for one fund on behalf of another.

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund	\$ 383,872	\$ 349,823
Capital Reserve	<u>349,823</u>	<u>383,872</u>
Total	<u>\$ 733,695</u>	<u>\$ 733,695</u>

Interfund transfers are primarily to fund capital projects in another fund.

***E. Long term debt***

**General Obligation Notes and Bonds**

The government issues general obligation notes and bonds to provide funds for the acquisition, construction, and improvement of facilities and the purchase of equipment and open space. General obligation notes and bonds have been issued for the governmental activities only. In 2016, the government issued \$2,495,000 in a general obligation bonds. General obligation notes and bonds are direct obligations and pledge the full faith and credit of the government. These notes and bonds are generally issued as 20-30 year serial notes and bonds with varying amounts of principal maturing each year.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

***E. Long term debt (continued)***

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business activities	.8%-3.0%	\$ <u>2,455,000</u>

The annual debt service requirements to maturity, including principal and interest, for long term debt, as of December 31, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 120,000	\$ 50,821
2018	120,000	49,861
2019	120,000	48,781
2020	125,000	45,181
2021	130,000	41,431
2022-2026	665,000	179,946
2027-2031	750,000	110,656
2032-2036	270,000	38,900
2037-2041	155,000	14,250
	<u>\$ 2,455,000</u>	<u>\$ 579,827</u>

Capital Leases

Certain equipment has been acquired under capital lease obligations to third-party lessor. The liabilities incurred through such arrangements are accounted for in the entity-wide statements as capital leases payable.

The following is an analysis of the leased assets included in property and equipment as of December 31, 2016:

Equipment	\$ 61,720
Less: accumulated depreciation	<u>(49,376)</u>
	<u>\$ 12,344</u>

The Township paid off the lease early.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

***E. Long term debt (continued)***

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Net Pension Liability	\$ 21,870	\$ 30,808	\$ -	\$ 52,678	\$ -
Capital leases	25,914	-	25,914	-	-
Long-term liabilities	<u>\$ 47,784</u>	<u>\$ 30,808</u>	<u>\$ 25,914</u>	<u>\$ 52,678</u>	<u>\$ -</u>
<b>Business Type activities:</b>					
Notes payable	\$ 1,846,272	\$ -	\$ 1,846,272	\$ -	\$ -
Bonds payable	-	2,495,000	40,000	2,455,000	120,000
	<u>\$ 1,846,272</u>	<u>\$ 2,495,000</u>	<u>\$ 1,886,272</u>	<u>\$ 2,455,000</u>	<u>\$ 120,000</u>

Debt service for capital leases are funded primarily from taxes for governmental activities. Any liabilities for net pension obligations are generally liquidated by the general fund for governmental activities.

**IV. Other information**

***A. Contingent liabilities***

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

In the normal course of business, there are various relatively minor claims and suits pending against the Township, none of which materially affect the financial position of the Township. At the present time, there are no significant litigation matters pending.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan***

Plan Description and Membership

The Township of Worcester Non-Uniform Pension plan is a single-employer defined benefit pension. The Plan was established and entered into a Joinder Agreement with the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT) effective January 1, 1993. The Plan was restated by Ordinance No. 2003-187, effective December 31, 2002. This plan is reported as a Pension Trust Fund in the accompanying financial statements and does not issue stand-alone reports. The plan is administered by the Township. The most recent valuation was as of January 1, 2015. Details below are from the valuation.

*Non-Uniformed Employees' Defined Benefit Pension Plan* - The plan is a contributory, single employer defined benefit plan that covers all full-time non-uniformed employees of the Township who join the Plan on their date of hire.

The Plan is governed by the Board of Supervisors of the Township of Worcester which may amend the plan provisions, and which is responsible for the management of Plan assets. The Board of Supervisors has delegated authority to manage certain Plan assets to the PSABMRT. The plan is required to file Form PC-203C biennially with the Public Employee Retirement Commission (PERC).

At December 31, 2016, Worcester Township's Pension Plan consisted of the following:

Inactive employees (or their beneficiaries)	
currently receiving benefits	9
Inactive employees entitled to benefits	
but not yet receiving them	2
Active employees	<u>12</u>
Total members	<u>23</u>



## WORCESTER TOWNSHIP

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

#### **IV. Other information (Continued)**

##### ***B. Employee retirement pension plan (continued)***

###### Benefits Provided

The plan provides retirement benefits as well as death benefits to plan members and their beneficiaries. Compensation is averaged over the last 60 months of employment. Pennsylvania law establishes benefits and contribution provisions. All benefits are vested at 20% after the completion of three years of service, increasing by 20% per year to a maximum of 100 percent after seven years of Service. Participants as of September 1, 1993 were 100% vested as of September 1, 1993. Employees, who retire at or after age 65, are entitled to an annual retirement benefit, payable monthly, equal to 1.3 percent of Average Monthly Compensation multiplied by Years of Credited Service after January 1, 1993. A member is eligible for early retirement after attainment of age 62 and completion of 7 years of service. The early retirement pension is the actuarial equivalent of the member's accrued benefit payable at normal retirement. A death benefit before retirement, after vesting is equal to 50% of the joint and survivor benefit that would have been payable to the participant, assuming the participant had retired or terminated the day before death. Benefit provisions are established and amended by Pennsylvania law. Administrative costs of the Plan are financed through investment earnings.

###### Measurement Focus and Basis of Accounting

*Basis of Accounting:* Pension Plan financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Employer and member contributions are recognized as when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation/(depreciation) in fair value of investments is recorded as an increase/(decrease) to investment income based on the valuation of investments. The entire expense of Plan administration is charged against the earnings of the Plan. Investment earnings are reduced for investment management fees, portfolio evaluation, custodial services, and actuarial services, as required by State statutes.

*Method Used to Value Investments:* Pension Plan equity security fixed income securities are reported at fair value, investment income is recognized as earned. Fair value is based on quoted market values. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Gains and losses on sales and exchanges of fixed income securities are recognized on the transaction date. Market related value of assets is used to determine the indicated contribution.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued).***

Contributions

Members are not required to contribute to the plan. Contributions are determined on an annual basis. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

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

The Pension Plans funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

Administrative costs, which may include but are not limited to investment fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

The Township's annual required contribution is equal to its minimum municipal obligation ("MMO") as calculated in accordance with Pennsylvania law (Act 205 of 1984) less state aid and employee contributions deposited in the pension fund during the year. State law requires that state aid be used first to fund the plan, then employee contributions and finally general Township funds. The Township received state aid, which is recognized as revenue and expenses, in the amount of \$56,870 for the pensions for the year ended December 31, 2016.

WORCESTER TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

Investments

*Investment Policy:* The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. It is the policy of the PSABMRT General Balanced Fund to invest approximately 55% of assets in equities, approximately 40% of assets in fixed income investments (with a maximum individual maturity of 40 years) and approximately 5% of assets in alternative investments.

*Credit Risk:* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2016, all plan assets were invested in the PSABMRT General Balanced Fund, which is not rated. However, the formal investment policy of the PSABMRT requires fixed income securities within the portfolio to be rated BBB or higher at the time of purchase, and requires any asset-backed or mortgage-backed securities within the portfolio to be rated AAA at the time of purchase.

*Concentration of Credit Risk:* This is the risk of loss attributed to the magnitude of an investment in a single issuer. The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2016 the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

*Interest Rate Risk:* This is the risk that a change in interest rates will adversely affect the fair value of an investment. For the General Balanced Fund, approximately 40% of assets will be invested in interest-bearing securities with a maximum individual maturity of 40 years.

*Rate of Return:* For the year ended December 31, 2016, the annual money-weighted rate of return on Plan investments, net of investment expense was 4.67 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

Net Pension Liability

The components of the net pension liability of participating entities at December 31, 2016 were as follows:

Total pension liability	\$ 1,097,776
Plan fiduciary net position	<u>(1,045,098)</u>
Net pension liability	<u>\$ 52,678</u>
Plan fiduciary net position as a percentage of the total pension liability	95%

*Actuarial Assumptions:* The total pension liability in the January 1, 2015 actuarial valuation for the Plan was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	5.00% (including inflation)
Investment rate of return	7.25%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment. Rates are projected to improve with 75% of scale AA.

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

The net pension liability for plan was measured as of December 31, 2016 and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2015. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equities	55%	6.3%
Fixed Income	40%	1.9%
Alternative	5%	0.0%

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b><u>Non-Uniformed Pension Plan</u></b>			
Balance at December 31, 2015	\$ 1,014,043	\$ 992,173	\$ 21,870
Changes for the year:			
Service cost	46,863	-	46,863
Interest	75,538	-	75,538
Change of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Change of assumptions	-	-	-
Contributions - employer	-	56,870	(56,870)
Contributions - employee	-	-	-
Net investment income	-	45,890	(45,890)
Benefit payments, including refunds of employee contributions	(38,668)	(38,668)	-
Administrative expense	-	(11,167)	11,167
Other changes	-	-	-
Net Changes	83,733	52,925	30,808
Balance at December 31, 2016	<u>\$ 1,097,776</u>	<u>\$ 1,045,098</u>	<u>\$ 52,678</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of participating entities calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 176,741	\$ 52,678	\$ (51,794)

WORCESTER TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

*Deferred Outflows and Inflows of Resources:* For the year ended December 31, 2016, the Township recognized pension expense of \$67,461, for the Non-Uniform Pension. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Non-Uniform Pension</u>		
Differences between expected and actual experience	\$ -	\$ 22,757
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	67,234	-
Total	<u>\$ 67,234</u>	<u>\$ 22,757</u>

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

<u>Year Ended December 31:</u>	<u>Non-Uniform</u>
2017	\$ 18,355
2018	18,355
2019	18,356
2020	2,684
2021	(2,371)
Thereafter	(10,902)
Total	<u>\$ 44,477</u>

*Payable to the Pension Plan:* For the year ended December 31, 2016, there was no amount payable for contributions to the pension plan.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**IV. Other information (Continued)**

***C. Escrow cash deposits and investments***

The Township acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Township and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Township. At December 31, 2016, \$286,989 represents the balance of these monies held in escrow.

***D. New Accounting Pronouncements***

GASB Statement No. 72 – Fair Value Measurement and Application. This Statement is effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. The implementation of this Statement had no effect on the balances of the investment in the financial statements, however, expanded disclosure can be found in Note III.A.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement is effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The external investment pool described in these financial statements elected to continue reporting its investments at amortized cost. The implementation of this Statement had no effect on the balances of the investment in the financial statements, however, expanded disclosure can be found in Note I.D.1.



## REQUIRED SUPPLEMENTAL INFORMATION

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniform Pension Plan

DECEMBER 31, 2016

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
**AND RELATED RATIOS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 46,863	\$ 44,631	\$ 77,873
Interest	75,538	70,045	127,810
changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(27,499)	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(38,668)	(43,520)	(52,739)
Net change in total pension liability	83,733	43,657	152,944
Total pension liability - beginning	1,014,043	970,386	817,442
Total pension liability - ending (a)	<u>\$ 1,097,776</u>	<u>\$ 1,014,043</u>	<u>\$ 970,386</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 56,870	\$ 54,892	\$ 54,249
Contributions - employee	-	-	-
Net investment income	45,890	(6,832)	48,764
Benefit payments, including refunds of employee contributions	(38,668)	(43,520)	(29,606)
Administrative expense	(11,167)	(13,738)	(1,475)
Other	-	-	-
Net change in plan fiduciary net position	52,925	(9,198)	71,932
Plan fiduciary net position - beginning	992,173	1,001,371	929,439
Plan fiduciary net position - ending (b)	<u>\$ 1,045,098</u>	<u>\$ 992,173</u>	<u>\$ 1,001,371</u>
<b>Township's net pension liability - ending (a)-(b)</b>	<u>\$ 52,678</u>	<u>\$ 21,870</u>	<u>\$ (30,985)</u>
Plan fiduciary net position as a percentage of the total pension liability	95.2%	97.8%	103.2%
Covered-employee payroll	\$ 630,663	\$ 674,180	\$ 587,864
Township's net pension liability as a percentage of covered-employee payroll	8.4%	3.2%	-5.3%
Annual money-weighted rate of return, net of investment expense	4.67%	-0.69%	6.13%

**Notes to Schedule:**

Change in benefit terms: None since 1/1/2015

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

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 55,687	\$ 41,248	\$ 39,483	\$ 44,321
<u>55,687</u>	<u>41,248</u>	<u>39,483</u>	<u>44,321</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 532,007	\$ 532,007	\$ 390,134	\$ 390,134
(1)	(1)	(1)	(1)
10.5%	7.8%	10.1%	11.4%