

**LOWER SOUTHAMPTON TOWNSHIP**  
**BUCKS COUNTY, PENNSYLVANIA**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

LOWER SOUTHAMPTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	
– Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund	
Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position – Enterprise Fund	20
Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund	21
Statement of Cash Flows – Enterprise Fund	22-23
Statement of Fiduciary Net Position – Fiduciary Funds	24
Statement of Changes in Fiduciary Net Position – Police Pension	25
Notes to Financial Statements	26-49
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios	51
Schedule of Employer Contributions	52
Schedule of Investment Returns	53
Schedule of Funding Progress for Postemployment Benefits Other than Pensions	54
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
– Budget and Actual – General Fund	55
Other Supplementary Information:	
Combining Balance Sheet – Nonmajor Governmental Funds	57
Combining Statement of Revenues, Expenditures, and Changes in Fund	
Balances – Nonmajor Governmental Funds	58

# *Zelenkofske Axelrod LLC*

## INDEPENDENT AUDITORS' REPORT

Township Supervisors  
Lower Southampton Township  
Bucks, Pennsylvania

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 LOWER SOUTHAMPTON TOWNSHIP (the "Township") 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

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

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# *Zelenkofske Axelrod LLC*

## **Adoption of GASB Statements**

As described in Note 1 to the financial statements, in 2016 the Township adopted the provisions of Governmental Accounting Standards Board's Statement No. 72 "Fair Value Measurement and Application", GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 77, "Tax Abatement Disclosures", Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", and Statement No. 79, "Certain External Investment Pools and Pool Participants". Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of employer contributions, schedule of investment returns, schedule of funding progress for postemployment benefits other than pensions, and budgetary comparison information on pages 3 through 13 and 51 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining nonmajor fund financial statements on pages 57 and 58 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

  
ZELENKOFSCKE AXELROD LLC

June 16, 2017  
Harrisburg, Pennsylvania

**TOWNSHIP OF LOWER SOUTHAMPTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2016**

Our discussion and analysis of the Township of Lower Southampton's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the Township's financial statements, which begin on page 14.

**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, plus deferred outflows, less liabilities, and less deferred inflows) on a government-wide basis were \$21.2 million at December 31, 2016, an increase of \$2.1 million from 2015.
- Total revenues of the Township's governmental activities amounted to \$16.7 million and expenses equaled \$14.6 million in 2016. This compares to 2015 activity of \$15.7 million for revenues and expenses of \$14.0 million.
- Total revenues of the Township's business-type activities for 2016 were \$5.5 million and expenses were \$5.4 million. 2015 revenues equaled \$5.5 million and expenses of \$5.5 million.

**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 governmental funds reported fund balance of \$8.4 million, an increase of \$0.8 million in comparison with the prior year.
- The Township's General Fund reported an unassigned fund balance of \$3.7 million, an increase of \$0.7 million from December 31, 2015.

**General Financial Highlights**

- The Board in 2016 did not increase the millage for Real Estate Taxes, which remained at 14.08 mills. The rates for Sewer remained the same for 2016 compared to 2015. The Sanitation fee was \$300 for 2016. Taxable assessment for the Township was \$213,434,110 (1/13/16 per County) with the value of one mill being \$213,434.

## **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 14 and 15) 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 16. For governmental funds, the statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant funds. The remaining statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government. 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 budget to actual schedules and data pertaining to the pension and OPEB plans. In addition to these required elements, the Township includes other supplementary information with combining statements to provide details about the governmental funds.

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

Our analysis of the Township as a whole begins on page 6. One of the most important questions asked about the Township's finance is: "Is the Township as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about Lower Southampton 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. You can think of the Township's net position - the difference between assets and liabilities - as one way to measure the Township's financial health, or financial position. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as the changes in the Township's property tax base and the condition of the Township's capital assets, to assess the overall health of the Township.

In the Statement of Net Position and the Statement of Activities, we divide the Township into two kinds of activities:

- **Governmental activities** - Most of the Township's basic services are reported here, including administrative, code and planning, police and emergency services, public works, sanitation, and parks and recreation. Business privilege and mercantile, earned income taxes, property taxes, franchise fees, business taxes, user fees, and state and federal 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. Currently the Township is classifying its sewer services in this way.

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

Our analysis of Lower Southampton's funds begins on page 9. 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 16 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 many other funds to help it control and manage money for particular purposes (like the General Obligation Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the PA Department of Transportation). The Township's two kinds of funds - governmental and enterprise - use different accounting approaches.

- **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 to 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 fewer 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 governmental funds in the reconciliations on page 17 and 19.
- **Enterprise 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 enterprise funds. Enterprise funds are reported in the same way that all activities are reported in the Statement Net Position and the Statement of Activities. In fact the Township's only enterprise fund - the Sewer Fund - 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 operation.
- **Fiduciary Funds** – The Township is a fiduciary, or trustee, for various funds. These include our police pension fund and agency funds. The assets reported in these funds can only be used 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 24 and 25. We exclude these activities 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**

GASB 34 requires that infrastructure assets be valued and reported within the governmental column of the government-wide statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The Township has chosen to depreciate their assets over their estimated useful life.

## THE TOWNSHIP AS A WHOLE

The following table reflects the condensed statement of net position:

**Table 1**  
Statement of Net Position  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital Assets	\$ 17,698	\$ 17,662	\$ 2,877	\$ 2,949	\$ 20,575	\$ 20,611
Other Assets	9,219	8,213	5,635	5,724	14,854	13,937
Total Assets	\$ 26,917	\$ 25,875	\$ 8,512	\$ 8,673	\$ 35,429	\$ 34,548
Pensions	\$ 1,182	\$ 1,387	\$ -	\$ -	\$ 1,182	\$ 1,387
Deferred Amount of Refunding	502	585	-	-	502	585
Total Deferred Outflows of Resources	\$ 1,684	\$ 1,972	\$ -	\$ -	\$ 1,684	\$ 1,972
Current Liabilities	\$ 676	\$ 474	\$ 393	\$ 639	\$ 1,069	\$ 1,113
Long Term Liabilities	14,851	16,330	35	37	14,886	16,367
Total Liabilities	15,527	16,804	428	676	15,955	17,480
Net Position:						
Net Investment in Capital Assets	10,513	9,620	2,877	2,949	13,390	12,569
Restricted	570	234	-	-	570	234
Unrestricted	1,991	1,189	5,207	5,048	7,198	6,237
Total Net Position	\$ 13,074	\$ 11,043	\$ 8,084	\$ 7,997	\$ 21,158	\$ 19,040

For more detailed information see the Statement of Net Position (page 14)

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, total assets and deferred outflows of resources exceeded total liabilities by \$21.2 million at year-end 2016. The largest portion of the Township's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure and equipment), less the outstanding debt to acquire these assets. 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 that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

In comparing the Statement of Net Position to 2015, there was an increase in Total Net Position of around \$2.1 million or 11.1%. Governmental Activities Net Position increased by \$2.0 million and business activities increased by \$87 thousand. The Township has been building the sewer fund balance, which is a business-type activity, to fund future capital needs of the sewer and wastewater treatment facilities.

### Current Year Impacts

The primary impact for governmental and business-type activities would be categorized as a net result of activity.

Net position of governmental activities increased \$2.0 million as a result of decreases to Public Works, Culture & Recreation, and Interest expenses and increases to Charges for Service, Real Estate and Other Taxes.



The net position of business-type activities increased by \$87 thousand. The Township is reserving this balance and prior year excess collections in anticipation of future capital needs of the sewer conveyance and wastewater treatment facilities.

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

**Table 2**  
Statement of Activities  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Program Revenues</b>						
Charges for Services	\$ 4,302	\$ 4,223	\$ 5,518	\$ 5,518	\$ 9,820	\$ 9,741
Operating Grants & Contrib.	1,275	1,013	-	-	1,275	1,013
Capital Grants & Contrib.	766	647	-	-	766	647
<b>General Revenues</b>						
Real Estate Taxes	3,433	3,019	-	-	3,433	3,019
Other Taxes	6,500	6,429	-	-	6,500	6,429
Gain (Loss) on Asset Disposal	(3)	17	-	-	(3)	17
Investment Income	271	249	2	1	273	250
Transfers	-	-	-	-	-	-
Other General Revenues	125	146	-	-	125	146
<b>Total Revenues</b>	<b>16,669</b>	<b>15,743</b>	<b>5,520</b>	<b>5,519</b>	<b>22,189</b>	<b>21,262</b>
<b>Expenses</b>						
Administrative	1,424	1,349	-	-	1,424	1,349
Public Safety	7,428	6,781	-	-	7,428	6,781
Sanitation	1,752	1,730	-	-	1,752	1,730
Public Works	2,243	2,300	-	-	2,243	2,300
Sewer	-	-	5,433	5,511	5,433	5,511
Culture & Recreation	1,589	1,617	-	-	1,589	1,617
Interest Expense	202	215	-	-	202	215
<b>Total Expenses</b>	<b>14,638</b>	<b>13,992</b>	<b>5,433</b>	<b>5,511</b>	<b>20,071</b>	<b>19,503</b>
<b>Change in Net Position</b>	<b>2,031</b>	<b>1,751</b>	<b>87</b>	<b>8</b>	<b>2,118</b>	<b>1,759</b>
<b>Net Position, Beg. of Year</b>	<b>11,043</b>	<b>9,292</b>	<b>7,997</b>	<b>7,989</b>	<b>19,040</b>	<b>17,281</b>
<b>Net Position, End of Year</b>	<b>\$ 13,074</b>	<b>\$ 11,043</b>	<b>\$ 8,084</b>	<b>\$ 7,997</b>	<b>\$ 21,158</b>	<b>\$ 19,040</b>

For more detailed information see the Statement of Activities (page 15)

The following schedule presents the cost of each functional category as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid):

**Table 3**  
Governmental Activities/Business-type Activities  
(in thousands)

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
<b>Governmental Activities</b>				
Administrative	\$ 1,424	\$ 1,349	\$ (905)	\$ (848)
Public Safety	7,428	6,781	(5,622)	(5,423)
Sanitation	1,752	1,730	149	405
Public Works	2,243	2,300	(941)	(1,194)
Culture & Recreation	1,589	1,617	(775)	(834)
Interest Expense	202	215	(202)	(215)
Total Governmental Act	<u>14,638</u>	<u>13,992</u>	<u>(8,296)</u>	<u>(8,109)</u>
<b>Total Sewer-Business</b>	<u>\$ 5,433</u>	<u>\$ 5,511</u>	<u>\$ 85</u>	<u>\$ 7</u>

Total Governmental Activities shows an increase in net costs of \$187 thousand over 2015 due to a \$646 thousand increase in program expenses offset by a \$460 thousand increase in program revenues. General revenues fund the portion of program expense not funded by program revenues. A portion of the costs of governmental activities were paid (charges for services) by those who directly benefited from the programs (\$4.3 million).

Sewer Fund change in net position increased by \$87 thousand over 2015 primarily due to an decrease in in total expenses of \$78 thousand.

### Normal Impacts

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

#### Revenues:

**Economic Condition** - Reflect a declining, stable, or growing economic environment and has a substantial impact on property, business, mercantile 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 significant authority to impose and periodically increase/decrease rates (real estate tax millage, sewer fees, building fees, user fees, etc.).

**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 longer average maturity on capital funds. Market conditions cause investment income to fluctuate with the economic conditions.

## Expenditures:

**Introduction of New Programs** - Within the functional expense categories (Public Safety, Public Works, etc.), individual programs may be added or deleted to meet changing community needs.

**Increase in Authorized Personnel** - Changes in service demand may cause the Township Board of Supervisors to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent over 50% of the Township's program expenses.

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

**Inflation** - While overall inflation appears to be reasonably modest, the Township may experience unusual commodity-specific increases. The increases in oil prices affect cost of fuel as well as paving materials.

## Current Year Impacts

### Governmental Funds

Revenues for the Township's governmental funds were \$16.7 million in 2016. Sources of revenue were comprised of the following items:

**Table 4**  
Governmental Funds - Revenues by Source  
For the Years Ended December 31  
(in thousands)

	<u>2016</u>	<u>2015</u>	<u>Changes</u>
Taxes	\$ 9,958	\$ 9,436	\$ 522
Licenses and Permits	1,030	765	265
Fines and Forfeitures	89	111	(22)
Interest and Rents	271	249	22
Intergovernmental	2,040	1,660	380
Charges for Services	3,183	3,347	(164)
Miscellaneous	125	146	(21)
Total Revenues	<u>\$ 16,696</u>	<u>\$ 15,714</u>	<u>\$ 982</u>

Overall revenues increased compared to 2015 by \$1.0 million. Taxes comprised the largest source of Township revenues (60%), amounting to \$10.0 million for 2016. Property taxes represent \$3.4 million (20.4% of total revenues) with business, earned income, and deed transfer taxes accounting for "other taxes". The Board of Supervisors has worked to decrease reliance upon our tax ratable base (approximately \$213 million), and instead have focused on income tax and on charging reasonable fees to users of Township-provided services. The area of charges for service and licenses and permits represents 25.2% of total revenues in 2016.

The cost of all governmental funds this year was \$15.9 million, down approximately \$122 thousand from 2015. As the chart below indicates, Public Safety (police and emergency service) is the largest program and their expenses totaled \$7.2 million. The second largest program expense is Sanitation totaling \$1.8 million. Capital Outlay is the third largest expense for the Township at \$1.5 million.

**Table 5**  
**Governmental Funds - Expenditures by Function**  
**For the Years Ended December 31**  
**(in thousands)**

	<u>2016</u>	<u>2015</u>	<u>Changes</u>
Current:			
General Government	\$ 1,198	\$ 1,003	\$ 195
Public Safety	7,229	6,703	526
Sanitation	1,752	1,726	26
Public Works	1,354	1,540	(186)
Culture and Recreation	1,340	1,370	(30)
Benefits	-	7	(7)
Debt Service:			
Principal	1,288	1,165	123
Interest	201	216	(15)
Capital Outlay	1,513	2,267	(754)
Total Expenditures	<u>\$ 15,875</u>	<u>\$ 15,997</u>	<u>\$ (122)</u>

The total expenditures of all governmental fund programs and services decreased by less than 1% from 2015. The decrease in governmental funds' expenditures was due to a decrease in expenditures for Public Works, Culture and recreation, and Capital Outlay. These decreases offset increases in Public Safety, General Government, and Sanitation.

### **Enterprise Fund**

Total operating revenues of the Sewer Fund were \$5.5 million as compared to total operating expenses of \$5.4 million. The Sewer Fund recovers its costs primarily through user charges and connection fees. Rates are based on a flat rate for residential and a flat rate plus usage formula for commercial. The user charges are set to accommodate projection for capital improvement charges by Philadelphia Water Department. For business-type activities, total operating expenses decreased by around 1.4% due to a decrease in operational costs for 2016.

**Table 6**  
**Enterprise Fund Revenues and Expenses**  
**For the Years Ending December 31**  
**(in thousands)**

	<u>2016</u>	<u>2015</u>	<u>Changes</u>
Operating Revenues:			
Sewer Sales	\$ 5,481	\$ 5,497	\$ (16)
Other Revenues	36	21	15
Total Operating Revenues	<u>5,517</u>	<u>5,518</u>	<u>(1)</u>
Operating Expenses:			
Sewer Operations	4,515	4,626	(111)
General and Administrative	727	705	22
Depreciation	190	180	10
Total Operating Expenses	<u>5,432</u>	<u>5,511</u>	<u>(79)</u>
Operating Income/(Loss)	85	7	78
Nonoperating Revenues (Expenses):			
Interest Income	2	1	1
Total Net Nonoperating Revenues (Expenses)	<u>2</u>	<u>1</u>	<u>1</u>
Other Financing Sources			
Transfer In	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Position	<u>\$ 87</u>	<u>\$ 8</u>	<u>\$ 79</u>

## THE TOWNSHIP'S FUNDS

As the Township completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$8.4 million. Of this \$8.4 million, \$986 thousand is restricted for items such as Street Light, Fire Protection, Rescue Squad, Highway Aid, Debt Service, and Capital Projects and \$3.6 million is assigned to indicate that it is not available for new spending because it has already been assigned to items such as Library, Hydrant, Operating Reserve, Sanitation, Township Beautification, and Other Capital Projects. Approximately 45% (\$3.7 million) of the total fund balance represents the unassigned fund balance, or resources available for appropriation.

The net increase in fund balance for all governmental funds was \$0.8 million.

## General Fund Budgetary Highlights

In total, General Fund revenues ended the year over budget by \$0.5 million. The over budget mainly occurred due to an increase in charges for services and licenses and permits.

Expenditure variances occurred due to the Township incurring fewer expenses than the adopted budget for 2016.

## Capital Assets

At the end of 2016, on a government-wide basis, the Township had \$17.7 million invested in a broad range of capital assets net of accumulated depreciation, including police equipment, buildings, park facilities, roads, bridges, sewer lines, and pumping stations (See Table 7). This amount represents a net increase (including additions and deletions) of \$37 thousand.

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in Note 4.

**Table 7**  
Change in Capital Assets  
(in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 5,221	\$ -	\$ -	\$ 5,221
Construction in Progress	166	-	-	166
Intangibles	5	-	-	5
Total Non-Depreciable Capital Assets	<u>5,392</u>	<u>-</u>	<u>-</u>	<u>5,392</u>
<b>Depreciable Capital Assets:</b>				
Infrastructure	22,445	958	-	23,403
Library Books	680	80	(79)	681
Buildings and Improvements	6,100	-	-	6,100
Machinery and Equipment	4,622	475	(36)	5,061
Accumulated Depreciation	<u>(21,578)</u>	<u>(1,466)</u>	<u>105</u>	<u>(22,939)</u>
Total Depreciable Capital Assets, Net	<u>12,269</u>	<u>47</u>	<u>(10)</u>	<u>12,306</u>
<b>Total Governmental Activities Capital Assets, Net of Accumulated Depreciation</b>	<u><u>\$ 17,661</u></u>	<u><u>\$ 47</u></u>	<u><u>\$ (10)</u></u>	<u><u>\$ 17,698</u></u>
<b>Business-type Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 21	\$ -	\$ -	\$ 21
<b>Depreciable Capital Assets:</b>				
Infrastructure	5,887	-	-	5,887
Buildings and Improvements	539	-	-	539
Machinery and Equipment	1,062	118	-	1,180
Accumulated Depreciation	<u>(4,560)</u>	<u>(190)</u>		<u>(4,750)</u>
Total Depreciable Capital Assets, Net	<u>2,928</u>	<u>(72)</u>	<u>-</u>	<u>2,856</u>
<b>Total Business Type Activities Capital Assets, Net of Accumulated Depreciation</b>	<u><u>\$ 2,949</u></u>	<u><u>\$ (72)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,877</u></u>

## Debt

The borrowing limit of the Township under the Debt Act is computed as a percentage of the Township's "Borrowing Base." The "Borrowing Base" is calculated as the annual arithmetic average of total "Revenue" (as defined by the Debt Act) for the three full fiscal years ended next preceding the date of incurring debt. The Township's remaining non-electoral debt borrowing capacity is well under percentages allowed. At year-end, the Township had \$8.1 million in bonds and notes outstanding versus \$9.4 million last year.

The following is a summary of the Township's outstanding long-term debt for the year ended December 31, 2016 which is presented in detail in the notes to financial statements as Note 7.

**Table 8**  
**Change in Debt**  
**For the Year Ended December 31, 2016**  
**(in thousands)**

Issue	Original Amount	Interest Rate	Final Maturity	Beginning Balance	Additions	Retirements	Ending Balance
2010	13,355	2% to 2.75%	2022	8,580	-	(1,175)	7,405
2015	799	1.50%	2022	799	-	(113)	686
				<u>\$ 9,379</u>	<u>\$ -</u>	<u>\$ (1,288)</u>	<u>\$ 8,091</u>
			Governmental Activities	\$ 9,379	\$ -	\$ (1,288)	\$ 8,091
			Business-type Activities	-	-	-	-
			Total Primary Government	<u>\$ 9,379</u>	<u>\$ -</u>	<u>\$ (1,288)</u>	<u>\$ 8,091</u>

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

The elected officials of Lower Southampton Township considered many factors when setting the calendar-year 2017 budget, tax rates, and fees. One of those factors is the economy. Unemployment in Bucks County is typically below that of the state. In December 2016, the unemployment rate (4.1%) was 1.3% percent below the state level (5.4%). Overall employment data is not compiled for municipalities, but such data is compiled for the County of Bucks in which the Township is located.

The cost of the collection of sanitation will remain the same for budget year 2017 at \$300 annually.

The Real Estate Millage Rate remained the same for calendar year 2017.

The user fees for business-type activity (sewer rates) for residential and commercial users had a slight increase effective the second quarter of 2017 to cover increased treatment and capital costs of service provider.

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives.

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

If you have questions about this report or need additional financial information, contact the Finance Office at the Township of Lower Southampton, 1500 Desire Avenue, Feasterville, PA 19053.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 7,149,307	\$ 4,200,872	\$ 11,350,179
Receivables:			
Accounts	20,120	1,434,087	1,454,207
Taxes	1,891,078	-	1,891,078
Restricted:			
Cash	124,552	-	124,552
Investments	33,193	-	33,193
Capital Assets Not Being Depreciated	5,392,534	20,828	5,413,362
Capital Assets Net of Accumulated Depreciation	12,305,757	2,856,223	15,161,980
<b>Total Assets</b>	<b>26,916,541</b>	<b>8,512,010</b>	<b>35,428,551</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pensions	1,182,107	-	1,182,107
Deferred Amount of Refunding	502,018	-	502,018
<b>Total Deferred Outflows of Resources</b>	<b>1,684,125</b>	<b>-</b>	<b>1,684,125</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>28,600,666</b>	<b>8,512,010</b>	<b>37,112,676</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable and Accrued Expenses	503,976	393,365	897,341
Unearned Revenue	700	-	700
Deposits Held in Escrow	157,745	-	157,745
Other Liabilities	13,013	-	13,013
Long-Term Liabilities:			
Due Within One Year	1,307,917	-	1,307,917
Due After One Year	13,543,402	34,725	13,578,127
<b>Total Liabilities</b>	<b>15,526,753</b>	<b>428,090</b>	<b>15,954,843</b>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	10,513,425	2,877,051	13,390,476
Restricted for:			
Program Purposes	569,623	-	569,623
Unrestricted	1,990,865	5,206,869	7,197,734
<b>Total Net Position</b>	<b>\$ 13,073,913</b>	<b>\$ 8,083,920</b>	<b>\$ 21,157,833</b>

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



**LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
General Government - Administration	\$ 1,424,021	\$ 491,854	\$ 27,595	\$ -	\$ (904,572)	\$ -	\$ (904,572)
Public Safety	7,428,238	1,154,620	651,354	-	(5,622,264)	-	(5,622,264)
Sanitation	1,752,471	1,901,369	-	-	148,898	-	148,898
Public Works	2,242,732	-	536,393	765,758	(940,581)	-	(940,581)
Culture and Recreation	1,588,562	753,917	59,476	-	(775,169)	-	(775,169)
Interest Expense	201,552	-	-	-	(201,552)	-	(201,552)
<b>Total Governmental Activities</b>	<b>14,637,576</b>	<b>4,301,760</b>	<b>1,274,818</b>	<b>765,758</b>	<b>(8,295,240)</b>	<b>-</b>	<b>(8,295,240)</b>
<b>Business-Type Activities:</b>							
Sewer Operations	5,432,922	5,517,684	-	-	-	84,762	84,762
<b>Total Primary Government</b>	<b>\$ 20,070,498</b>	<b>\$ 9,819,444</b>	<b>\$ 1,274,818</b>	<b>\$ 765,758</b>	<b>\$ (8,295,240)</b>	<b>\$ 84,762</b>	<b>\$ (8,210,478)</b>
	<b>General Revenues:</b>						
	<b>Taxes:</b>						
					3,005,566	-	3,005,566
					427,929	-	427,929
					5,292,488	-	5,292,488
					1,076,511	-	1,076,511
					130,820	-	130,820
					(3,277)	-	(3,277)
					270,621	2,355	272,976
					125,265	-	125,265
					<b>10,325,923</b>	<b>2,355</b>	<b>10,328,278</b>
					<b>2,030,683</b>	<b>87,117</b>	<b>2,117,800</b>
					<b>11,043,230</b>	<b>7,996,803</b>	<b>19,040,033</b>
					<b>\$ 13,073,913</b>	<b>\$ 8,083,920</b>	<b>\$ 21,157,833</b>

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

**LOWER SOUTHAMPTON TOWNSHIP  
BALANCE SHEET – GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	General	2010 General Obligation	Capital Reserve	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 5,703,654	\$ 717,346	\$ 154,360	\$ 175,317	\$ 398,630	\$ 7,149,307
Receivables:						
Accounts	20,120	-	-	-	-	20,120
Taxes	1,761,870	-	-	93,995	35,213	1,891,078
Due From Other Funds	203,238	-	-	-	-	203,238
Restricted:						
Cash	124,552	-	-	-	-	124,552
Investments	33,193	-	-	-	-	33,193
<b>Total Assets</b>	<b>\$ 7,846,627</b>	<b>\$ 717,346</b>	<b>\$ 154,360</b>	<b>\$ 269,312</b>	<b>\$ 433,843</b>	<b>\$ 9,421,488</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Accounts Payable and Accrued Expenses	\$ 332,799	\$ 136,331	8,860	\$ -	\$ 13,131	\$ 491,121
Due to Other Funds	-	164,306	38,932	-	-	203,238
Unearned Revenue	700	-	-	-	-	700
Other Current Liabilities	13,013	-	-	-	-	13,013
Escrows Payable	157,745	-	-	-	-	157,745
<b>Total Liabilities</b>	<b>504,257</b>	<b>300,637</b>	<b>47,792</b>	<b>-</b>	<b>13,131</b>	<b>865,817</b>
Deferred Inflows of Resources:						
Unavailable Revenue - Property Taxes	63,665	-	-	87,588	32,813	184,066
<b>Total Deferred Inflow of Resources</b>	<b>63,665</b>	<b>-</b>	<b>-</b>	<b>87,588</b>	<b>32,813</b>	<b>184,066</b>
Fund Balances:						
Restricted for:						
Street Light	-	-	-	-	22,648	22,648
Fire Protection	-	-	-	-	42,323	42,323
Rescue Squad	-	-	-	-	18,503	18,503
Highway Aid	-	-	-	-	304,425	304,425
Capital Projects	-	416,709	-	-	-	416,709
Debt Service	-	-	-	181,724	-	181,724
Assigned to:						
Library Reserve	41,157	-	-	-	-	41,157
Library	138,460	-	-	-	-	138,460
Hydrant	9,736	-	-	-	-	9,736
Operating Reserve	1,723,723	-	-	-	-	1,723,723
Sanitation	1,539,744	-	-	-	-	1,539,744
Township Beautification	77,326	-	-	-	-	77,326
Other Capital Projects	-	-	106,568	-	-	106,568
Unassigned	3,748,559	-	-	-	-	3,748,559
<b>Total Fund Balances</b>	<b>7,278,705</b>	<b>416,709</b>	<b>106,568</b>	<b>181,724</b>	<b>387,899</b>	<b>8,371,605</b>
<b>Total Liabilities, Deferred Inflow of Resources, and Fund Balances</b>	<b>\$ 7,846,627</b>	<b>\$ 717,346</b>	<b>\$ 154,360</b>	<b>\$ 269,312</b>	<b>\$ 433,843</b>	<b>\$ 9,421,488</b>

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

LOWER SOUTHAMPTON TOWNSHIP  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF  
NET POSITION  
DECEMBER 31, 2016

Total fund balances for governmental funds \$ 8,371,605

Total net position reported for governmental activities in the statement of net position is different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital Assets Not Being Depreciated	5,392,534
Capital Assets Net of \$22,938,280 Accumulated Depreciation	12,305,757

Total Capital Assets	17,698,291
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Some of the Township's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. 184,066

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position.

Balances at December 31, 2015 are:

Liability for Other Postemployment Benefits	(489,026)
Compensated Absences	(705,813)
Unamortized Premium	(63,400)
Accrued Interest on Bonds and Loan	(12,855)
Bonds Payable	(7,405,000)
Note Payable	(685,738)
Net Pension Liability	(5,502,342)
Deferred Outflows of Resources	1,684,125
	(13,180,049)

Total net position of governmental activities	\$ 13,073,913
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The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	2010 General Obligation	Capital Reserve	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 7,957,142	\$ -	\$ -	\$ 1,455,690	\$ 544,770	\$ 9,957,602
Licenses and Permits	1,030,225	-	-	-	-	1,030,225
Fines and Forfeitures	88,690	-	-	-	-	88,690
Interest and Rents	268,819	1,405	397	-	-	270,621
Intergovernmental	511,412	-	765,758	-	763,406	2,040,576
Charges for Services	3,182,845	-	-	-	-	3,182,845
Miscellaneous Income	78,695	-	-	-	46,570	125,265
Total Revenues	13,117,828	1,405	766,155	1,455,690	1,354,746	16,695,824
<b>EXPENDITURES</b>						
Current:						
General Government - Administration	1,197,801	-	-	500	-	1,198,301
Public Safety	6,535,945	-	112,045	-	581,066	7,229,056
Sanitation	1,752,165	-	-	-	-	1,752,165
Public Works	828,597	-	-	-	525,355	1,353,952
Culture and Recreation	1,339,632	-	-	-	-	1,339,632
Debt Service:						
Principal	-	-	113,077	1,175,000	-	1,288,077
Interest	-	-	7,988	192,756	-	200,744
Capital Outlay	178,725	349,086	985,210	-	-	1,513,021
Total Expenditures	11,832,865	349,086	1,218,320	1,368,256	1,106,421	15,874,948
Excess of Revenues Over (Under) Expenditures	1,284,963	(347,681)	(452,165)	87,434	248,325	820,876
Other Financing Sources (Uses)						
Operating Transfer In (Out)	(375,000)	-	375,000	-	-	-
Proceeds from Sale of Capital Equipment	7,229	-	-	-	-	7,229
Total Other Financing Sources (Uses)	(367,771)	-	375,000	-	-	7,229
Net Change in Fund Balances	917,192	(347,681)	(77,165)	87,434	248,325	828,105
Fund Balances - January 1, 2016	6,361,513	764,390	183,733	94,290	139,574	7,543,500
Fund Balances - December 31, 2016	\$ 7,278,705	\$ 416,709	\$ 106,568	\$ 181,724	\$ 387,899	\$ 8,371,605

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

**LOWER SOUTHAMPTON TOWNSHIP  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds \$ 828,105

The change in net position reported for governmental activities in the statement of activities is different because:

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. This is the amount by which capital outlays (\$1,513,021) exceeded depreciation (\$1,465,622) in the current period. 47,399

The net book value of the capital asset disposals. (10,506)

Bond and Note proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of note principal and payments for other long-term obligations are expenditures in the governmental funds but reduce the liabilities in the statement of net position.

Principal Repayments on Note and General Obligation Bonds	\$ 1,288,077	
Payments to Reduce Capital Leases	180	
Net adjustment		1,288,257

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available. This is the change in unearned real estate tax revenue from 12/31/15 to 12/31/16. (24,288)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in compensated absences, liability for other postemployment benefits, bond premium, deferred amount on refunding, accrued interest, and pension expense

Compensated Absences	(47,727)	
Liability for Other Postemployment Benefits	(3,429)	
Bond Premium	10,566	
Deferred Amount on Bond Refunding	(83,669)	
Accrued Interest on Bonds	(808)	
Pension Expense	26,783	
		(98,284)

Change in net position of governmental activities	\$ 2,030,683	
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The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF NET POSITION – ENTERPRISE FUND  
DECEMBER 31, 2016

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Total</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and Cash Equivalents	4,200,872	\$ 4,200,872
Accounts Receivables	1,434,087	1,434,087
Total Current Assets	<u>5,634,959</u>	<u>5,634,959</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated	20,828	20,828
Capital Assets Net of Accumulated Depreciation	2,856,223	2,856,223
Total Noncurrent Assets	<u>2,877,051</u>	<u>2,877,051</u>
Total Assets	<u>8,512,010</u>	<u>8,512,010</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	393,365	393,365
Total Current Liabilities	<u>393,365</u>	<u>393,365</u>
Long-Term Liabilities:		
Compensated Absences	34,725	34,725
Total Noncurrent Liabilities	<u>34,725</u>	<u>34,725</u>
Total Liabilities	<u>428,090</u>	<u>428,090</u>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	2,877,051	2,877,051
Unrestricted Net Position	<u>5,206,869</u>	<u>5,206,869</u>
Total Net Position	<u>\$ 8,083,920</u>	<u>\$ 8,083,920</u>

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

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Total</u>
Operating Revenues		
Sewer Sales	5,481,487	\$ 5,481,487
Other Revenues	36,197	36,197
Total Operating Revenues	<u>5,517,684</u>	<u>5,517,684</u>
Operating Expenses		
Sewer Operations	4,515,162	4,515,162
General and Administrative	727,686	727,686
Depreciation Expenses	190,074	190,074
Total Operating Expenses	<u>5,432,922</u>	<u>5,432,922</u>
Operating Income	<u>84,762</u>	<u>84,762</u>
Nonoperating Revenues		
Interest Income	2,355	2,355
Total Nonoperating Revenues	<u>2,355</u>	<u>2,355</u>
Changes In Net Position	87,117	87,117
Total Net Position - Beginning of Year	<u>7,996,803</u>	<u>7,996,803</u>
Total Net Position - End of Year	<u>\$ 8,083,920</u>	<u>\$ 8,083,920</u>

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

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF CASH FLOWS – ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Totals</u>
Cash Flows From Operating Activities		
Receipts from Customers	\$ 5,562,419	\$ 5,562,419
Payments to Employees	(729,800)	(729,800)
Payments to Suppliers	(4,761,315)	(4,761,315)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	71,304	71,304
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(118,266)	(118,266)
	<hr/>	<hr/>
Net Cash Used in Capital and Related Financing Activities	(118,266)	(118,266)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Interest Income	2,355	2,355
	<hr/>	<hr/>
Net Cash Provided by Investing Activities	2,355	2,355
	<hr/>	<hr/>
Net Decrease in Cash and Cash Equivalents	(44,607)	(44,607)
	<hr/>	<hr/>
Cash and Cash Equivalents, Beginning of Year	4,245,479	4,245,479
	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	<u>\$ 4,200,872</u>	<u>\$ 4,200,872</u>

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



LOWER SOUTHAMPTON TOWNSHIP  
 STATEMENT OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities		
Operating Income	\$ 84,762	\$ 84,762
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation Expense	190,074	190,074
Change in Assets and Liabilities		
Accounts Receivable	44,735	44,735
Compensated Absences	(2,114)	(2,114)
Accounts Payable and Accrued Expenses	(246,153)	(246,153)
Net Cash Provided by Operating Activities	<u>\$ 71,304</u>	<u>\$ 71,304</u>

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

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS  
DECEMBER 31, 2016

	Police Pension	Agency Funds	Total Fiduciary Funds
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 813,101	\$ 224,641	\$ 1,037,742
Investments:			
Mutual Funds	13,864,558	-	13,864,558
Total Assets	<u>\$ 14,677,659</u>	<u>\$ 224,641</u>	<u>\$ 14,902,300</u>
<b><u>LIABILITIES</u></b>			
Funds Held in Escrow	-	224,641	224,641
Total Liabilities	<u>-</u>	<u>\$ 224,641</u>	<u>224,641</u>
<b><u>NET POSITION</u></b>			
Net Position Held in Trust for Employees' Pension Benefits	14,677,659	-	14,677,659
Total Net Position	<u>\$ 14,677,659</u>	<u>-</u>	<u>\$ 14,677,659</u>

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

LOWER SOUTHAMPTON TOWNSHIP  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 POLICE PENSION TRUST FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Police Pension</u>
<b><u>ADDITIONS</u></b>	
Contributions:	
Employer - State Funding	\$ 424,341
Employer - Other	503,563
Member	<u>141,088</u>
Total Contributions	<u>1,068,992</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	1,025,758
Interest and Dividends	<u>1,083</u>
Total Investment Income	1,026,841
Less: Investment Expense	<u>131,260</u>
Net Investment Income	<u>895,581</u>
Total Additions	<u>1,964,573</u>
<b><u>DEDUCTIONS</u></b>	
Benefit Payments	1,488,851
Administrative Expense	4,600
Other	<u>12,498</u>
Total Deductions	<u>1,505,949</u>
Change in Net Position	458,624
Net Position Held in Trust for Employees' Pension Benefits:	
Beginning of Year	<u>14,219,035</u>
End of Year	<u><u>\$ 14,677,659</u></u>

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

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lower Southampton Township (the "Township") operates under the Second Class Township Code under the laws of the Commonwealth of Pennsylvania. The operations of the Township are vested in a board of supervisors. The Township provides the following services: general administrative services, public improvements, public safety, culture and recreation and maintenance and repairs of highways and streets programs. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB").

A summary of the Township's significant accounting policies is as follows:

A) Reporting Entity

Consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No. 34*, the criteria used by the Township to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Township reviews the applicability of the following criteria.

The Township is financially accountable for:

- Organizations that make up the legal Township entity.
- Legally separate organizations if Township officials appoint a voting majority of the organization's governing body and the Township is able 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 as defined below.

*Impose Its Will* — If the Township can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

*Financial Benefit or Burden* — Exists if the Township (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the Township and there is a potential for the organization to provide a specific financial benefits to or impose specific financial burdens on the Township.

Based on the foregoing criteria, management of the Township has determined that no entities should be included in the financial statements of the Township.

B) Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government as a whole. 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

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B) Government-Wide and Fund Financial Statements (Continued)

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 direct expenses of a given function or segment are affected 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, the proprietary fund and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

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 funds and agency fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the 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.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collectable within 180 days of the end of the current fiscal period with the exception of property taxes which must be received within 60 days of year end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating grants, capital grants, and interest 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 only when the Township receives cash.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the primary 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 2010 General Obligation Bond Fund is a Capital Projects Fund used to account for 2010 General Obligation Bond Proceeds that are restricted or committed for expenditure for capital construction and acquisitions related to capital activity.
- The Capital Reserve Fund is a Capital Projects Fund that accounts for revenue sources that have been assigned for capital purchases.
- The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The Township also has the following non-major funds:

Non-major Special Revenue Funds: The Street Light Fund, Fire Protection Fund, Rescue Squad Fund, and Highway Aid Fund are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)

The Township's enterprise fund is a proprietary fund. In the fund financial statements, the proprietary fund is presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary fund is presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on their balance sheet. The proprietary fund types operating statement presents increases (revenues) and decreases (expenses) in total net position.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets in the proprietary funds are capitalized as assets in the fund financial statements, rather than reported as an expenditure.

The Township reports the following major proprietary funds:

- The Sewer Fund is used to account for the fiscal activities of the sewer treatment systems.

The Township's fiduciary funds are presented in the fund financial statements by type (pension trust fund and agency fund). Since, by definition, the assets of these funds are held for the benefit of a third party (individuals, private organizations, and/or other governments) and cannot be used to satisfy obligations of the Township, these funds are not incorporated into the government-wide financial statements. The Township's fiduciary funds are presented on the accrual basis of accounting.

The Township reports the following fiduciary funds:

- The Pension Trust Funds account for the revenue (i.e., member contributions, Township contributions, and net investment income) and the expenses (i.e., contributions refunded, retirement allowances, and death benefits paid) of the Police Pension Trust Fund.
- The Agency Funds that consist of Escrow Funds maintained with the Township for funds held for sewer and land development and fire.

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Township considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

2. Receivables and Payables

- Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to 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." All receivables are shown net of an allowance for doubtful accounts.

- Accounts Receivable

Accounts receivable consist of billed sewer charges that have not been collected at December 31. The Township evaluates the collectability of individual receivables and, if necessary, records an allowance for doubtful accounts. The Township's policy is to file a lien against the respective property for delinquent sewer customers; however, the Township is required to provide continuous service to these customers.

- Unbilled Revenue Receivable

The Township bills residential sewer customers on a quarterly basis. Revenue earned for services provided through December 31 but unbilled is recorded in the accompanying financial statements as Accounts Receivable.

3. Investments

Investments for the Township are reported at fair value.

4. Restricted Investments

Certain investments are classified as restricted investments on the balance sheet because they are maintained in separate accounts and their use is limited. These investments primarily relate to developer escrow accounts.

5. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment and infrastructure assets, with initial, individual costs that equal or exceed \$10,000 and estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In accordance with GASB Statement No. 34, the Township's infrastructure has been capitalized retroactively to 1980.



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlay of capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment and infrastructure assets are depreciated using the straight line method over the following intended useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-80
Library Books	10
Buildings and Improvements	30-50
Machinery and Equipment	5-15

6. Compensated Absences

Township policy permits employees to accumulate any earned, but unused sick time. These benefits are payable to employees upon separation of services. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported. The computed liability is in compliance with GASB 16, *Accounting for Compensated Absences*. Vacation carries over on a limited basis and is payable upon separation of service from the Township.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Unearned and Unavailable Revenues

Revenues that are received but not earned are recorded as unearned revenue in the government-wide and enterprise fund financial statements. In the Township's governmental funds, unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable and unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Position or Fund Balances (Continued)

monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Township has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

9. Net Position/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets 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 in this category.
- *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 Township, not restricted for any project or other purpose.

10. 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 two items that qualifies for reporting in this category, the deferred loss on refunding and those related to pensions. Deferred loss on refunding is the result of differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions are described further in Note 5. The components of deferred outflows of resources, other than the difference between the projected and actual investment earnings, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all members of the plan beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on plan investments is amortized over a 5 year closed period beginning the year in which the difference occurs (current year).

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

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. Under the modified accrual basis of accounting, the governmental funds report unavailable revenue from property taxes as a deferred inflow of resources.

11. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable*- This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted*- This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed*- This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Township's Board of Supervisors who are the highest level of decision-making authority for the Township. These amounts cannot be used for any other purpose unless the Township's Board of Supervisors removes or changes the specified use by taking the same type of action (ordinance) that was employed when the funds were initially committed.
- *Assigned*- This classification includes amounts that are constrained by the Township's intent to be used for a specific purpose but are neither restricted nor committed. This intent can only be expressed by the Township's Board of Supervisors.
- *Unassigned*- This classification includes all other spendable amounts not included in other classifications.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed for their intended purposes. The Township has not established a formal policy for its use of unrestricted fund balance amounts. As such, the Township uses Committed fund balances first, followed by Assigned resources, and then Unassigned resources, as appropriate opportunities arise.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

12. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

13. Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

14. Adoption of Governmental Accounting Standards

The Township adopted the requirements of GASB Statement No. 72 "*Fair Value Measurement and Application*". The adoption of this statement resulted in the modification of Note 2.

The Township adopted the requirement of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". The adoption of this statement had no effect on previously reported amounts.

The Township adopted the requirements of GASB Statement No. 76 "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The adoption of this statement had no effect on previously reported amounts.

The Township adopted the requirements of GASB Statement No. 77, "*Tax Abatement Disclosures*". The adoption of this statement had no effect on previously reported amounts.

The Township adopted the requirements of GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The adoption of this statement had no effect on previously reported amounts.

The Township adopted the requirements of GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The adoption of this statement had no effect on previously reported amounts.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

15. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The Township is required to adopt statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Township is required to adopt statement No. 75 for its calendar year 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*". The Township is required to adopt statement No. 80 for its calendar year 2017 financial statements

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The Township is required to adopt statement No. 81 for its calendar year 2017 financial statements

In March 2016, the GASB issued Statement No. 82, "*Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*". The Township is required to adopt statement No. 82 for its calendar year 2017 financial statements

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations*". The Township is required to adopt statement No. 83 for its calendar year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*". The Township is required to adopt statement No. 84 for its calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017*". The Township is required to adopt statement No. 85 for its calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues*". The Township is required to adopt statement No. 86 for its calendar year 2018 financial statements

The Township has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

E) Budgets and Budgetary Accounting

Legal Requirements

Commonwealth of Pennsylvania statutes require that Township Governments establish budgetary systems and adopt annual operating budgets. The Township's annual budget includes all the funds of the Township, and is based on estimates of revenues and expenditures approved by the Township Supervisors. The Township adopted the 2016 budget on the same basis of accounting as reported in the financial statements. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

Township Budget Process

1. During the fall, the Finance Director of the Township prepares a preliminary budget which is submitted to the Supervisors for review.
2. The Supervisors review the preliminary projections of revenues and expenditures incorporating any revisions or adjustments.
3. The supervisors advertise that the proposed budget is available for public inspection for 20 days prior to final adoption.
4. After the 20-day inspection period, but prior to December 31, the supervisors adopt the final budget by enacting an appropriate resolution.
5. Formal budgetary process is employed as a planning device. The adopted budget is on the modified accrual basis. Budget amounts are as originally adopted, or as amended by the supervisors.

Level of Control

The Township maintains budgetary control at the individual fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at year-end.

Management Amendment Authority

During the course of the year, departmental needs may change, emergencies may occur or additional revenue may arise. As a result, funds are transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by Township supervisors.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE 2: DEPOSITS AND INVESTMENTS**

The Township can deposit or invest funds as authorized for local government units by the Local Government Unit Debt Act.

Authorized types of investments include a) U.S. Treasury bills; b) obligations of the United States of America, the Commonwealth of Pennsylvania or any of their agencies or instrumentalities, which are secured by the full faith and credit of such entity; c) checking or savings accounts, certificates of deposit, or share accounts, provided such amounts are insured and the depository collateralizes any deposits in excess of such insurance; d) shares of a registered investment company, provided that investments of that company are in authorized investments as noted above; e) any investment authorized by 20 Pa.C.S Ch. 73 (relating to fiduciaries investments) for any pension or retirement fund.

The Township's Police Pension Plan Investment Policy states that the investment recommendations are intended to provide competitive results when measured against their peers, benchmarks and other established rating criteria.

As of December 31, 2016, all of the Township's Police Pension investments in Cash Equivalents were rated AAA by Standard & Poor's.

*Custodial Credit Risk.* For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2016, \$10,810,874 of the Township's deposits were exposed to custodial credit risk, as they were collateralized with securities held by the pledging financial institution's trust department or agent and uninsured. None of the Township's investments were exposed to custodial credit risk at December 31, 2016. The Township does not have a written policy to limit its exposure to custodial credit risk.

*Fair Value.* The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. 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 Police Pension Plan investments in mutual funds of \$13,864,558 are valued using quoted market prices (Level 1 inputs).

**NOTE 3: REAL ESTATE TAXES**

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 based on the assessed value listed as of the prior December 31 for the real property located in the Township through April 30; face amount, May 1 through June 30, and 10% penalty after June 30. The Township bills these taxes which are collected by the Township and remitted to the Township. Real estate taxes levied for 2016 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2016 and expected to be collected within the first sixty (60) days of 2017 are recognized as revenue in 2016. Net receivables estimated to be collectible subsequent to March 1, are reflected in deferred revenue. Prior years levies are recorded using these same principles and remaining receivables are annually reevaluated as to collectibility.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE 3: REAL ESTATE TAXES (CONTINUED)**

The rate of real estate taxation in 2016 was 4.37 mills for general purposes, 0.83 mills for street light purposes, 1.25 mills for fire purposes, .42 mills for recreation purposes, .43 mills for rescue squad purposes, and 6.78 mills for debt service purposes on a total Township taxable assessed valuation of \$212,256,740.

**NOTE 4: CAPITAL ASSETS**

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

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 5,220,738	\$ -	\$ -	\$ 5,220,738
Construction in Progress	166,436	-	-	166,436
Intangibles	5,360	-	-	5,360
<b>Total Capital Assets, Not Being Depreciated</b>	<b>5,392,534</b>	<b>-</b>	<b>-</b>	<b>5,392,534</b>
<b>Capital Assets, Being Depreciated</b>				
Infrastructure	22,444,626	958,108	-	23,402,734
Library Books	679,953	80,413	(79,580)	680,786
Buildings and Improvements	6,099,565	-	-	6,099,565
Machinery and Equipment	4,622,468	474,500	(36,016)	5,060,952
<b>Total Capital Assets, Being Depreciated</b>	<b>33,846,612</b>	<b>1,513,021</b>	<b>(115,596)</b>	<b>35,244,037</b>
<b>Less Accumulated Depreciation for:</b>				
Infrastructure	15,458,873	257,059	-	15,715,932
Library Books	356,848	71,645	(79,580)	348,913
Buildings and Improvements	2,997,763	774,449	-	3,772,212
Machinery and Equipment	2,764,264	362,469	(25,510)	3,101,223
<b>Total Accumulated Depreciation</b>	<b>21,577,748</b>	<b>1,465,622</b>	<b>(105,090)</b>	<b>22,938,280</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>12,268,864</b>	<b>47,399</b>	<b>(10,506)</b>	<b>12,305,757</b>
<b>Total Governmental Activities Capital Assets, Net</b>	<b>\$ 17,661,398</b>	<b>\$ 47,399</b>	<b>\$ (10,506)</b>	<b>\$ 17,698,291</b>



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

## NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 20,828	\$ -	\$ -	\$ 20,828
Total Capital Assets, Not Being Depreciated	<u>20,828</u>	<u>-</u>	<u>-</u>	<u>20,828</u>
Capital Assets, Being Depreciated				
Infrastructure	5,886,994	-	-	5,886,994
Buildings and Improvements	538,881	-	-	538,881
Machinery and Equipment	1,061,925	118,266	-	1,180,191
Total Capital Assets, Being Depreciated	<u>7,487,800</u>	<u>118,266</u>	<u>-</u>	<u>7,606,066</u>
Less Accumulated Depreciation for:				
Infrastructure	3,487,375	84,921	-	3,572,296
Buildings and Improvements	443,460	10,406	-	453,866
Machinery and Equipment	628,934	94,747	-	723,681
Total Accumulated Depreciation	<u>4,559,769</u>	<u>190,074</u>	<u>-</u>	<u>4,749,843</u>
Total Capital Assets, Being Depreciated, Net	<u>2,928,031</u>	<u>(71,808)</u>	<u>-</u>	<u>2,856,223</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 2,948,859</u>	<u>\$ (71,808)</u>	<u>\$ -</u>	<u>\$ 2,877,051</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General Government	\$ 104,846
Public Safety	223,825
Public Works	888,397
Culture and Recreation	<u>248,554</u>

Total Depreciation Expense, Governmental Activities \$ 1,465,622

Business-Type Activities

Sewer Operations	<u>\$ 190,074</u>
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Total Depreciation Expense, Business-Type Activities \$ 190,074

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 5: EMPLOYEES RETIREMENT PLANS

A. Police Pension Trust Fund

Plan Description

*Plan administration.* The Township administers a single employer defined benefit plan covering substantially all full-time members of the police force. Employees become eligible for participation in a plan upon employment and become vested after twelve years of service in the Police Pension Plan. The Police Pension Plan was established by municipal ordinance with the authority for municipal contributions required by Act 205, of the Pennsylvania legislature.

The police pension trust fund is under the direction of the Township Supervisors.

*Plan Membership.* At December 31, 2016, police pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	30
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>28</u>
	<u>60</u>

*Benefits provided.* The Police Pension Plan provides normal retirement, disability, and death benefits.

Participants are eligible for normal retirement after attainment of age 51 and completion of 25 years of service. Normal monthly retirement benefits are calculated as 50% of average monthly pay, based on the last 36 months of employment, plus a service increment of \$100 per month if the participant has completed 26 years of service plus an additional service increment of \$50 per month for each year of service in excess of 26 years of service. The maximum total service increment is \$300.

If a participant is totally and permanently disabled in the line of duty they are eligible for disability payments equal to the greater of 50% of their salary at the time of disability or 50% of their average monthly pay for the last 36 months of employment.

If a participant is eligible for retirement at the time of death, a monthly death benefit is payable to their surviving spouse, or eligible child, equal to 75% of the normal monthly retirement benefit.

An annual cost-of-living increase equal to 1% is made to retirees with a maximum total cost-of-living increase of 10%.

*Contributions.* Act 205 of the Pennsylvania legislature establishes actuarial funding standards for all municipal pension systems. Member contributions are established by the contractual requirements of the collectively bargained agreement with the police force and may be amended by subsequent collectively bargained agreements, subject to the applicable laws in the Commonwealth of Pennsylvania.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

In accordance with Act 205, the Township's contribution is actuarially determined on an annual basis using the entry age normal method. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Township is required to contribute the difference between the actuarially determined contribution and the contribution of plan members.

Members of the Police Pension Plan are required to contribute 5% of actual earnings and contributed \$141,088 in 2016. An interest rate of 4.0% is applied to the employees' accounts. If a return of member contributions is paid as a death benefit, member contributions are credited with 6% annual interest.

In addition, the Commonwealth of Pennsylvania allocates General Municipal Pension System State Aid to individual municipalities annually under Act 205 of the Pennsylvania legislature. The monies received must be contributed to the pension plans within a certain period of time. Including the State Aid, the Township contributed \$927,904 in 2016.

Investments

Investments in the plans are managed by the Smith Barney Investments and American Funds. Investments are recorded at fair value based on quoted market prices.

*Investment policy.* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Supervisors by a majority vote of its members. It is the policy of the Board of Supervisors to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	60%
International Equity	5%
Fixed Income	25%
Cash	10%
	<u>100%</u>

*Rate of return.* For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.40%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option Program (DROP) for a period of not less than one year nor more than five years. Monthly pensions under this program are calculated as of the date of participation in the program and are distributed in a lump sum at retirement. The DROP balance held in the Police Pension Plan at December 31, 2016 was \$282,774.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Net Pension Liability

Changes in the Township's net pension liability for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/15	\$ 19,952,760	\$ 14,219,035	\$ 5,733,725
Service Cost	287,884	-	287,884
Interest Cost	1,428,208	-	1,428,208
Changes of Benefit Terms	-	-	-
Changes for Experience	-	-	-
Changes of Assumptions	-	-	-
Contributions - Employer	-	927,904	(927,904)
Contributions - Member	-	141,088	(141,088)
Net Investment Income	-	895,581	(895,581)
Benefit Payments, including Refunds of Member Contributions	(1,488,851)	(1,488,851)	-
Administrative Expense	-	(4,600)	4,600
Other Changes	-	(12,498)	12,498
Net Changes	227,241	458,624	(231,383)
Balances at 12/31/16	<u>\$ 20,180,001</u>	<u>\$ 14,677,659</u>	<u>\$ 5,502,342</u>

Plan Fiduciary Net Position as a percentage of Total Pension Liability: 72.73%

*Actuarial assumptions.* The total pension liability was measured as of December 31, 2016 and determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	4.50%, average, including inflation
Investment Rate of Return	7.50%, including inflation
Postretirement Cost of Living Increase	1.00%, maximum of 10%

Mortality rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

*Expected long-term rate of return.* The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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 in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	5.50% - 7.50%
International Equity	4.50% - 6.50%
Fixed Income	1.00% - 3.00%
Cash	0.00% - 1.00%

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. 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.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Township, calculated using the discount rate of 7.5%, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Township's net pension liability	\$ 7,617,072	\$ 5,502,342	\$ 3,484,048

*Pension expense and deferred outflows of resources related to pensions:* For the year ended December 31, 2016, the Township recognized pension expense of \$786,884. At December 31, 2016 the Township reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 302,126
Net difference between projected and actual earnings on pension plan investments	879,981
Total	<u>\$ 1,182,107</u>

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

*Pension expense and deferred outflows of resources related to pensions (continued)*

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

Year ended December 31:	
2017	\$ 358,592
2018	358,592
2019	358,593
2020	106,330

**B. Non-Uniform Plan**

As established by municipal ordinance, the Township provides a defined contribution pension plan for all employees that are not eligible for the Police Pension Plan. Members are not required to contribute. The Township contributes on behalf of each member who was a participant on the last day of the plan year at 5% of the participant's total compensation and 5.7% for compensation in excess of \$20,000. At December 31, 2016 there were 43 plan members. Township contributions to the plan were \$187,383 for the year ended December 31, 2016.

NOTE 6: COMPENSATED ABSENCES

Vacation days not used in the calendar year earned may be accumulated and available to be used by township police officers in the first quarter of the following calendar year. The remaining full-time township employees earn vacation to be used by the end of the calendar year or it may be carried over into the following year, limited to the number of days equal to one year's vacation allowance.

Township police officers are entitled to accrue unlimited days of sick leave benefits and at retirement, are entitled to payment for all unused sick time up to a maximum of 40 days plus one unused sick day for each year of service at the pay rate in effect at retirement. In addition, the remaining Township employees accrue sick leave benefits up to a maximum of 12 days and at time of retirement are paid for each unused sick day up to a maximum of 12 days at the rate of pay in effect at retirement.

Applicable GASB pronouncements require accrual of sick pay that meet certain specific conditions. The Township has determined that such conditions apply to accumulated sick pay of Governmental Funds. To the extent sick pay liabilities in Governmental Funds are to be liquidated with available resources, they are accounted for as fund liabilities in the Fund Financial Statements; the remainder of the obligation is accounted for as a liability in the Government-wide financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 7: LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
<b>Bonds and Notes Payable:</b>					
General Obligation Bonded Debt	\$ 8,580,000	\$ -	\$ 1,175,000	\$ 7,405,000	\$ 1,190,000
Note Payable	798,815	-	113,077	685,738	107,351
Unamortized Bond Premium	73,966	-	10,566	63,400	10,566
<b>Total Bonds and Note Payable</b>	<b>9,452,781</b>	<b>-</b>	<b>1,298,643</b>	<b>8,154,138</b>	<b>1,307,917</b>
<b>Other Liabilities:</b>					
Liability for Other Postemployment Benefits	485,597	152,904	149,475	489,026	-
Net Pension Liability	5,733,725	696,521	927,904	5,502,342	-
Capital Leases	180	-	180	-	-
Compensated Absences	658,086	164,300	116,573	705,813	-
<b>Total Other Liabilities</b>	<b>6,877,588</b>	<b>1,013,725</b>	<b>1,194,132</b>	<b>6,697,181</b>	<b>-</b>
<b>Governmental Activities Long-term Liabilities</b>	<b>\$ 16,330,369</b>	<b>\$ 1,013,725</b>	<b>\$ 2,492,775</b>	<b>\$ 14,851,319</b>	<b>\$ 1,307,917</b>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b><u>Business-Type Activities</u></b>					
<b>Other Liabilities:</b>					
Compensated Absences	\$ 36,839	\$ 120,811	\$ 122,925	\$ 34,725	\$ -
<b>Total Other Liabilities</b>	<b>36,839</b>	<b>120,811</b>	<b>122,925</b>	<b>34,725</b>	<b>-</b>
<b>Business-Type Activities Long-term Liabilities</b>	<b>\$ 36,839</b>	<b>\$ 120,811</b>	<b>\$ 122,925</b>	<b>\$ 34,725</b>	<b>\$ -</b>

For the governmental funds, compensated absences are generally liquidated by the general fund.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

An analysis of debt service requirements to maturity on the governmental activities obligations follows:

	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
Year Ended December 31:			
2017	\$ 1,297,351	\$ 182,821	\$ 1,480,172
2018	1,317,390	232,627	1,550,017
2019	1,329,075	122,802	1,451,877
2020	1,350,787	90,152	1,440,939
2021	1,382,523	55,757	1,438,280
2022	1,413,612	19,585	1,433,197
Total	<u>\$ 8,090,738</u>	<u>\$ 703,744</u>	<u>\$ 8,794,482</u>

The following is a summary of the governmental activities portion of general obligation debt outstanding:

<u>Year</u>	<u>Amount of Original Issue</u>	<u>Purpose</u>	<u>Balance Outstanding December 31, 2016</u>
2010	13,355,000	General Bond Series, 2010 – General Obligation Bonds with interest rates ranging from 2.00% to 2.75%; principal payments due annually through November 15, 2022 for the current refunding of the General Obligation Bond Series 2002 and the advance refunding of the General Obligation Bonds, Series of 2002A, and the costs of issuing and insuring the bonds.	
			\$ 7,405,000
2015	798,815	Note Payable with the County of Bucks – The note bears an interest rate of 1.50% per year. The principal and interest of the note is due annually on July 1, with the note maturing on July 1, 2022.	<u>685,738</u>
		Total Governmental Activities	<u>\$ 8,090,738</u>

During 2015, the Township received public safety equipment from the County of Bucks and recorded a note payable in the amount of \$798,815. The note bears an interest rate of 1.50% per year. The principal and interest payment of the note is due annually on July 1, with the installments of the principal increasing from \$113,077 in 2016 to \$118,612 in 2022.



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE 8: INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances consisted of the following for the year ended December 31, 2016:

	Due From Other Funds	Due To Other Funds
Governmental Funds:		
General Fund	\$ 203,238	\$ -
2010 General Obligation Fund	-	164,306
Capital Reserve Fund	-	38,932
Total Governmental Funds	<u>203,238</u>	<u>203,238</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**NOTE 9: INTERFUND OPERATING TRANSFERS**

Interfund operating transfers consisted of the following for the year ended December 31, 2016:

	Transfer From Other Funds	Transfer To Other Funds
Governmental Funds:		
General Fund	\$ -	\$ 375,000
Capital Reserve Fund	375,000	-
Total Governmental Funds	<u>375,000</u>	<u>375,000</u>
 Total Interfund Operating Transfers	 <u>\$ 375,000</u>	 <u>\$ 375,000</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorization, including amounts provided as subsidies or matching funds for various grant programs, and to move restricted amounts to the funds meeting the restriction.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are various claims and suits pending against the Township and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Township's financial position at year end.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 11: POST-EMPLOYMENT BENEFIT PLAN

**Plan Description.** The Township administers a single-employer postemployment benefit plan (the Plan) that covers health and life insurance benefits for eligible retirees. In April 1981, the Township through binding arbitration established the benefit provisions for the Plan. The Plan does not issue a publicly available financial report.

**Funding Policy.** The contribution requirements of the Township are established and may be amended by resolution of the Board of Supervisors. The Plan does not require any contributions from Plan members. The Township funds the Plan on a pay-as-you-go basis. For 2016, the Township's estimated contribution was \$149,475 to the plan for current premiums.

**Annual OPEB Cost and Net OPEB Obligation.** The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation to the Plan:

	<b>Governmental Activities</b>	<b>Total Primary Government</b>
Annual required contribution	\$ 160,864	\$ 160,864
Interest on Net OPEB obligation	21,852	21,852
Adjustment to Arc	(29,812)	(29,812)
Annual OPEB Cost	152,904	152,904
Estimated contributions made	(149,475)	(149,475)
Increase in net OPEB obligation	3,429	3,429
Net OPEB obligation - beginning of year	485,597	485,597
Net OPEB obligation - end of year	<u>\$ 489,026</u>	<u>\$ 489,026</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the following fiscal years:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2014	\$ 154,461	65.27%	\$ 444,284
12/31/2015	\$ 153,582	73.10%	\$ 485,597
12/31/2016	\$ 152,904	97.76%	\$ 489,026

**Funded Status and Funding Progress.** As of January 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$1,614,373 and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,614,373. The covered payroll (annual payroll of active employees covered by the plan) was \$2,456,334, and the ratio of the UAAL to the covered payroll was 65.72%.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 11: POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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

In the January 1, 2014, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include value of assets equal to their market value; salary increases composed of a 3% cost of living adjustment and a 1.5% real wage growth; interest rate of 4.5%; and health care costs trend of 6.5% in 2014 decreasing by 0.5% per year to an ultimate rate of 5.5% in 2016. The UAAL is being amortized using the level dollar method over a period of 30 years on an opened basis.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**LOWER SOUTHAMPTON TOWNSHIP**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS – LAST 10**  
**YEARS**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>			
Service Cost	\$ 287,884	\$ 275,487	\$ 317,150
Interest	1,428,208	1,363,867	1,316,910
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	453,190	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(1,488,851)	(679,500)	(653,746)
<b>Net change in total pension liability</b>	<b>227,241</b>	<b>1,413,044</b>	<b>980,314</b>
<b>Total pension liability - beginning</b>	<b>19,952,760</b>	<b>18,539,716</b>	<b>17,559,402</b>
<b>total pension liability - ending (a)</b>	<b>\$ 20,180,001</b>	<b>\$ 19,952,760</b>	<b>\$ 18,539,716</b>
 <b>Plan fiduciary net position</b>			
Contributions - employer	\$ 927,904	\$ 931,658	\$ 925,152
Contributions - employee	141,088	131,073	131,059
Net investment income	895,581	(195,527)	766,428
Benefit payments, including refunds of employee contributions	(1,488,851)	(679,500)	(653,746)
Administrative expense	(4,600)	(7,655)	(5,561)
Other	(12,498)	(8,938)	-
<b>Net change in plan fiduciary position</b>	<b>458,624</b>	<b>171,111</b>	<b>1,163,332</b>
 <b>Plan fiduciary net position - beginning</b>	<b>14,219,035</b>	<b>14,047,924</b>	<b>12,884,592</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 14,677,659</b>	<b>\$ 14,219,035</b>	<b>\$ 14,047,924</b>
 <b>Township's net pension liability - ending (a) - (b)</b>	<b>\$ 5,502,342</b>	<b>\$ 5,733,725</b>	<b>\$ 4,491,792</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>72.73%</b>	<b>71.26%</b>	<b>75.77%</b>
 <b>Covered - employee payroll</b>	<b>\$ 2,830,965</b>	<b>\$ 2,644,285</b>	<b>\$ 2,420,799</b>
 <b>Township net pension liability as a percentage of covered - employee payroll</b>	<b>194.36%</b>	<b>216.83%</b>	<b>185.55%</b>

**Notes to Schedule**

The Township adopted GASB 67 on a prospective basis in 2014, therefore only three years of information is available.

## LOWER SOUTHAMPTON TOWNSHIP

## SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST 10 YEARS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 927,904	\$ 931,059	\$ 925,152	\$ 736,629	\$ 694,456	\$ 860,629	\$ 419,870	\$ 542,577	\$ 331,059	\$ 324,749
Contributions in relation to the actuarially determined contribution	927,904	931,657	925,152	736,629	694,456	860,629	419,870	542,577	331,059	324,749
Contribution deficiency (excess)	\$ -	\$ (598)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll	2,830,965	2,644,285	2,477,142	2,490,756	2,490,756	2,344,598	2,344,598	2,121,162	2,121,162	1,849,893
Contributions as a percentage of covered - employee payroll	32.78%	35.23%	37.35%	29.57%	27.88%	36.71%	17.91%	25.58%	15.61%	17.56%

## Notes to Schedule

Valuation date: January 1, 2013

Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which contributions are reported.

## Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	11 years
Asset valuation method	Market value of assets as determined by trustee
Inflation	0.00%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.50%
Retirement age	Normal Retirement Age
Mortality	RP2000 Table. This table does not include projected mortality improvements.

LOWER SOUTHAMPTON TOWNSHIP  
SCHEDULE OF INVESTMENT RETURNS – LAST 10 YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	7.40%	-1.54%	6.40%

The Township adopted GASB 67 on a prospective basis in 2014, therefore only three years of information is available.

## LOWER SOUTHAMPTON TOWNSHIP

## SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
1/1/2008	\$ -	\$ 1,460,272	\$ 1,460,272	0.00%	\$ 2,315,371	63.07%
1/1/2011	-	2,172,443	2,172,443	0.00%	2,490,754	87.22%
1/1/2014	-	1,614,373	1,614,373	0.00%	2,456,334	65.72%

The Township adopted GASB 45 on a prospective basis in 2008 and completes its actuarial valuation every three years; therefore only three years are presented in the above schedule.



LOWER SOUTHAMPTON TOWNSHIP  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND  
 ACTUAL – GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Taxes	\$ 7,864,446	\$ 7,864,446	\$ 7,957,142	\$ 92,696
Licenses and Permits	677,500	677,500	1,030,225	352,725
Fines and Forfeitures	130,000	130,000	88,690	(41,310)
Interest and Rents	253,666	253,666	268,819	15,153
Intergovernmental	589,811	589,811	511,412	(78,399)
Charges for Services	3,038,780	3,038,780	3,182,845	144,065
Miscellaneous Income	62,900	62,900	78,695	15,795
<b>Total Revenues</b>	<b>12,617,103</b>	<b>12,617,103</b>	<b>13,117,828</b>	<b>500,725</b>
<b>Expenditures</b>				
Current:				
General Government - Administration	1,235,332	1,235,332	1,197,801	37,531
Public Safety	6,798,935	6,798,935	6,535,945	262,990
Sanitation	1,844,108	1,844,108	1,752,165	91,943
Public Works	876,547	876,547	828,597	47,950
Culture and Recreation	1,632,983	1,632,983	1,339,632	293,351
Capital Outlay	-	-	178,725	(178,725)
<b>Total Expenditures</b>	<b>12,387,905</b>	<b>12,387,905</b>	<b>11,832,865</b>	<b>555,040</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>229,198</b>	<b>229,198</b>	<b>1,284,963</b>	<b>1,055,765</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Equipment	10,000	10,000	7,229	(2,771)
Operating Transfer (Out)	(425,000)	(425,000)	(375,000)	50,000
<b>Total Other Financing Sources (Uses)</b>	<b>(415,000)</b>	<b>(415,000)</b>	<b>(367,771)</b>	<b>47,229</b>
<b>Net Change in Fund Balance</b>	<b>(185,802)</b>	<b>(185,802)</b>	<b>917,192</b>	<b>1,102,994</b>

**OTHER  
SUPPLEMENTARY  
INFORMATION**

LOWER SOUTHAMPTON TOWNSHIP  
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street Light	Fire Protection	Rescue Squad	Highway Aid (Liquid Fuels)	
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	34,985	41,128.00	18,092	304,425	\$ 398,630
Receivables:					
Taxes	11,644	17,536.00	6,033	-	35,213
Total Assets	\$ 46,629	\$ 58,664	\$ 24,125	\$ 304,425	\$ 433,843
<b><u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts Payable and Accrued Expenses	13,131	-	-	-	\$ 13,131
Total Liabilities	13,131	-	-	-	13,131
Deferred Inflow of Resources:					
Unavailable Revenue - Property Taxes	10,850	16,341	5,622	-	32,813
Total Deferred Inflow of Resources	10,850	16,341	5,622	-	32,813
Fund Balances:					
Restricted For:					
Street Light	22,648	-	-	-	22,648
Fire Protection	-	42,323	-	-	42,323
Rescue Squad	-	-	18,503	-	18,503
Highway Aid	-	-	-	304,425	304,425
Total Fund Balances	22,648	42,323	18,503	304,425	387,899
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 46,629	\$ 58,664	\$ 24,125	\$ 304,425	\$ 433,843

**LOWER SOUTHAMPTON TOWNSHIP**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street Light	Fire Protection	Rescue Squad	Highway Aid	
<b>REVENUES</b>					
Taxes	\$ 180,061	\$ 271,469	93,240	\$ -	\$ 544,770
Intergovernmental	-	227,013	-	536,393	763,406
Miscellaneous Income	23,743	-	-	22,827	46,570
Total Revenues	203,804	498,482	93,240	559,220	1,354,746
<b>EXPENDITURES</b>					
Current:					
Public Safety	-	491,013	90,053	-	581,066
Public Works	191,845	-	-	333,510	525,355
Total Expenditures	191,845	491,013	90,053	333,510	1,106,421
Excess of Revenues Over (Under) Expenditures	11,959	7,469	3,187	225,710	248,325
Net Change in Fund Balances	11,959	7,469	3,187	225,710	248,325
Fund Balances - January 1, 2016	10,689	34,854	15,316	78,715	139,574
Fund Balances - December 31, 2016	\$ 22,648	\$ 42,323	\$ 18,503	\$ 304,425	\$ 387,899