

WARRINGTON TOWNSHIP
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2015



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Supervisors
Warrington Township
Warrington, 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 Warrington Township as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Warrington Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Warrington Township's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Warrington Township as of December 31, 2015, 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 (GAAP).

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

Emphasis of Matter

For the year ended December 31, 2015, Warrington Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 14, budgetary comparison information on page 59, pension plan information on pages 60 through 65 and postemployment benefits other than pension funding progress on page 66 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 Warrington Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Oaks, Pennsylvania
May 24, 2016

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

FINANCIAL HIGHLIGHTS

- The assets of Warrington Township exceeded its liabilities at the close of the most recent fiscal year by \$66.7 million (net position). Of this amount, no funds may be used to meet the government's ongoing obligations to citizens and creditors as the unrestricted governmental net position has a deficit balance.
- The Township's total net position decreased by \$0.3 million. As of the close of the current fiscal year, Warrington Township's Governmental Funds reported combined ending fund balances of \$8.4 million. Approximately \$2.5 million of this total amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.4 million or 19.35% of General Fund expenditures.
- Warrington Township's total debt increased by \$0.2 million during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental Funds

Warrington Township maintains six individual Governmental Funds. Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund, Capital Improvement Fund, 2012 Road Improvements Fund, Open Space Fund, Debt Service Fund, and the 2014 Capital Projects Fund which are considered major funds. Individual fund data for each of the nonmajor Governmental Funds is provided in the form of *combining statements* elsewhere in this report.

Other Information

The combining statements referred to earlier in connection with nonmajor Governmental Funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 64 to 67 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Warrington Township, assets exceeded liabilities by \$66.7 million at the close of the most recent fiscal year.

The largest portion of Warrington Township's net position (88.8%) is net investment in capital assets.

Governmental Activities

Governmental activities decreased Warrington Township's net position by \$0.6 million.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

Table 1

**Condensed Statements of Net Position (In Thousands of Dollars)
December 31, 2015 and 2014**

| | Governmental Activities | |
|--|-------------------------|------------------|
| | 2015 | 2014 |
| ASSETS | | |
| Current and other assets | \$ 10,841 | \$ 12,674 |
| Capital assets | | |
| Depreciable | 37,053 | 33,208 |
| Nondepreciable | 5,702 | 7,728 |
| TOTAL ASSETS | <u>53,596</u> | <u>53,610</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions | <u>1,425</u> | <u>-</u> |
| LIABILITIES | | |
| Long-term liabilities outstanding | 26,952 | 24,519 |
| Other liabilities | 1,788 | 1,926 |
| TOTAL LIABILITIES | <u>28,740</u> | <u>26,445</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred gain on defeasance of debt | 26 | 23 |
| Deferred inflows related to pensions | <u>62</u> | <u>-</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>88</u> | <u>23</u> |
| NET POSITION | | |
| Net investment in capital assets | 25,061 | 24,520 |
| Restricted | 5,414 | 7,556 |
| Unrestricted | <u>(4,282)</u> | <u>(4,934)</u> |
| TOTAL NET POSITION | <u>\$ 26,193</u> | <u>\$ 27,142</u> |

| <u>Business-Type Activities</u> | | <u>Totals</u> | |
|---------------------------------|------------------|------------------|------------------|
| <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| \$ 11,488 | \$ 13,262 | \$ 22,329 | \$ 25,936 |
| 46,272 | 46,832 | 83,325 | 80,040 |
| 2,888 | 1,457 | 8,590 | 9,185 |
| <u>60,648</u> | <u>61,551</u> | <u>114,244</u> | <u>115,161</u> |
| 204 | - | 1,629 | - |
| 19,346 | 19,474 | 46,298 | 43,993 |
| 844 | 821 | 2,632 | 2,747 |
| <u>20,190</u> | <u>20,295</u> | <u>48,930</u> | <u>46,740</u> |
| 61 | 68 | 87 | 91 |
| 62 | - | 124 | - |
| <u>123</u> | <u>68</u> | <u>211</u> | <u>91</u> |
| 34,220 | 38,807 | 59,281 | 63,327 |
| - | - | 5,414 | 7,556 |
| 6,319 | 2,381 | 2,037 | (2,553) |
| <u>\$ 40,539</u> | <u>\$ 41,188</u> | <u>\$ 66,732</u> | <u>\$ 68,330</u> |

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

Table 2**Condensed Statements of Changes in Net Position (In Thousands of Dollars)
Years Ended December 31, 2015 and 2014**

| | Governmental Activities | |
|---|-------------------------|------------------|
| | 2015 | 2014 |
| REVENUE | | |
| Program revenue | | |
| Charges for services | \$ 2,797 | \$ 2,557 |
| Operating grants and contributions | 1,819 | 1,475 |
| Capital grants and contributions | 866 | 344 |
| General revenue | | |
| Taxes | 9,919 | 9,605 |
| Grants and contributions not restricted to specific programs | 11 | 12 |
| Investment earnings | 484 | 466 |
| Miscellaneous | 777 | 722 |
| Gain on disposal of assets | 22 | - |
| | <u>16,695</u> | <u>15,181</u> |
| TOTAL REVENUE | | |
| | <u>16,695</u> | <u>15,181</u> |
| EXPENDITURES | | |
| Administration | 1,777 | 1,667 |
| Police department | 8,278 | 7,721 |
| Highway/public works | 4,730 | 4,773 |
| Health, welfare and sanitation | 129 | 141 |
| Culture and recreation | 736 | 649 |
| Interest on long-term debt | 517 | 531 |
| Water and sewer | - | - |
| | <u>16,167</u> | <u>15,482</u> |
| TOTAL EXPENDITURES | | |
| | <u>16,167</u> | <u>15,482</u> |
| CHANGE IN NET POSITION BEFORE TRANSFERS | 528 | (301) |
| TRANSFERS | <u>105</u> | <u>105</u> |
| CHANGE IN NET POSITION | 633 | (196) |
| NET POSITION AT BEGINNING OF YEAR, restated | <u>25,560</u> | <u>27,338</u> |
| NET POSITION AT END OF YEAR | <u>\$ 26,193</u> | <u>\$ 27,142</u> |

| Business-Type Activities | | Totals | |
|--------------------------|------------------|------------------|------------------|
| 2015 | 2014 | 2015 | 2014 |
| \$ 7,251 | \$ 7,922 | \$ 10,048 | \$ 10,479 |
| - | - | 1,819 | 1,475 |
| 505 | 21 | 1,371 | 365 |
| - | - | 9,919 | 9,605 |
| - | - | 11 | 12 |
| 58 | 27 | 542 | 493 |
| - | - | 777 | 722 |
| - | - | 22 | - |
| <u>7,814</u> | <u>7,970</u> | <u>24,509</u> | <u>23,151</u> |
| - | - | 1,777 | 1,667 |
| - | - | 8,278 | 7,721 |
| - | - | 4,730 | 4,773 |
| - | - | 129 | 141 |
| - | - | 736 | 649 |
| - | - | 517 | 531 |
| <u>8,606</u> | <u>7,459</u> | <u>8,606</u> | <u>7,459</u> |
| <u>8,606</u> | <u>7,459</u> | <u>24,773</u> | <u>22,941</u> |
| (792) | 511 | (264) | 210 |
| <u>(105)</u> | <u>(105)</u> | <u>-</u> | <u>-</u> |
| (897) | 406 | (264) | 210 |
| <u>41,437</u> | <u>40,782</u> | <u>66,997</u> | <u>68,120</u> |
| <u>\$ 40,540</u> | <u>\$ 41,188</u> | <u>\$ 66,733</u> | <u>\$ 68,330</u> |

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Funds

As of the end of the current fiscal year, Warrington Township's Governmental Funds reported combined ending fund balances of \$8.4 million, a decrease of \$1.4 million in comparison with the prior year.

The General Fund is the chief operating fund of Warrington Township. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned and total fund balance to total fund expenditures. Total fund balance represents 26.0% of total General Fund expenditures.

The fund balance of Warrington Township's General Fund increased by \$112,628 during the current fiscal year.

Proprietary Fund

Warrington Township's Proprietary Fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$6.3 million. The activity in net position was a decrease of \$0.9 million.

General Fund Budgetary Highlights

The following is a summarized snapshot analysis of noteworthy budgetary highlights relating to all revenues and expenditures comprising the 2015 Township Budget:

Revenues - Warrington Township was able to post strong overall revenues in most major operating categories:

- The Earned Income Tax (EIT), which represents approximately 32.3% of all General Fund operating revenues, posted total revenues of \$4.3 million, a \$48,000 increase over the amount received in 2014.
- The Real Estate Transfer Tax revenue amounted to \$984,000, an increase of approximately \$259,000 as compared to 2014, and still exceeded budget (\$750,000) by approximately \$234,000.
- Charges for Services which derives its revenues primarily from permits for residential and commercial development saw an increase in 2015. Revenue totaled \$1.9 million as compared to the \$1.4 million in revenue for 2014.
- Another revenue category that performed above expectations was the Park and Recreation Assessment. This revenue, also generated from a fee assessed on residential and commercial development totaled \$499,000 approximately \$17,000 over the budget and \$141,000 more than received in 2014.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

Expenditures - General Fund expenditures totaled \$12.53 million, representing a 4.59% increase over 2014. Increases were primarily due to, capital projects completed at Township parks, and increases in Healthcare, Worker's Compensation Costs and Salary increases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Warrington Township's investment in capital assets for its governmental and business-type activities as of December 31, 2015, amounts to \$91.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, parks facilities, roads, highways and bridges, vehicles, machinery and equipment. The total increase in Warrington Township's investment in capital assets for the current fiscal year was 3%.

The following comprise major project expenditures in 2015:

- Work was completed for the construction of a new public works and salt storage facility. The project was bid out in 2012 with the bids received being almost double the budgeted allocated fund. The project was redesigned and re-bid in early 2013. Expenditures for the project totaled \$4.1 million.
- Road paving expenditures totaled over \$606,000.
- The re-plastering and tiling of the Mary Barness swim club pools totaled \$144,482.
- Vehicles were purchased for the fire, police and codes departments: 2 unmarked vehicles, a patrol vehicle, a Rescue truck, a Mack Dump truck, a street sweeper, a JCB Wheel loader with attachments, and a codes vehicle. Total - \$1.3 million
- Work continued on the Neshaminy Gardens Storm Drainage Project. Expenditures for the year totaled \$146,000.

Table 3

Capital Assets (Net of Depreciation, In Thousands of Dollars)

| | Governmental Activities | | Business-Type Activities | | Totals | |
|----------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| CAPITAL ASSETS | | | | | | |
| Land and improvements | \$ 4,835 | \$ 4,793 | \$ 162 | \$ 162 | \$ 4,997 | \$ 4,955 |
| Infrastructure | 57,041 | 56,074 | 82,733 | 80,606 | 139,774 | 136,680 |
| Buildings and improvements | 8,757 | 4,668 | 5,839 | 5,839 | 14,596 | 10,507 |
| Machinery and equipment | 5,985 | 4,925 | 1,947 | 1,910 | 7,932 | 6,835 |
| Construction in progress | 867 | 2,935 | 2,727 | 1,295 | 3,594 | 4,230 |
| | <u>77,485</u> | <u>73,395</u> | <u>93,408</u> | <u>89,812</u> | <u>170,893</u> | <u>163,207</u> |
| Accumulated depreciation | <u>(34,730)</u> | <u>(32,459)</u> | <u>(44,248)</u> | <u>(41,523)</u> | <u>(78,978)</u> | <u>(73,982)</u> |
| CAPITAL ASSETS, net | <u>\$ 42,755</u> | <u>\$ 40,936</u> | <u>\$ 49,160</u> | <u>\$ 48,289</u> | <u>\$ 91,915</u> | <u>\$ 89,225</u> |

WARRINGTON TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2015

Long-Term Debt

At the end of the current fiscal year, Warrington Township had total bonded debt outstanding of \$36,882,271. This amount comprises debt that is backed by the full faith and credit of the Township. The remainder of the outstanding debt is capital leases.

Table 4
Outstanding Debt (In Thousands of Dollars)

| | Governmental Activities | | Business-Type Activities | | Totals | |
|------------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| General obligation bonds and notes | \$ 20,342 | \$ 21,562 | \$ - | \$ - | \$ 20,342 | \$ 21,562 |
| Revenue bonds | - | - | 16,540 | 17,225 | 16,540 | 17,225 |
| Capital leases | 1,256 | 517 | - | - | 1,256 | 517 |
| | <u>\$ 21,598</u> | <u>\$ 22,079</u> | <u>\$ 16,540</u> | <u>\$ 17,225</u> | <u>\$ 38,138</u> | <u>\$ 39,304</u> |

Warrington Township maintains an Aa2 rating from Moody's for general obligation debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the 2016 budget, the continuation of several large commercial and residential development projects will mean a larger than normal year receipts for several revenue categories including, Charges for Services (Building Permits), Real Estate Transfer Tax, the Park and Recreation Fee and to a lesser extent, Earned Income Tax and Real Estate Tax. Of course new development also places additional burdens on Township resources (Police, Code Inspections, and Fire) and the Township's infrastructure (streets, parks, sewer and water lines, and the sewer treatment plant). It is an ongoing balancing act to provide services with limited resources. In 2016, the Township is planning on borrowing \$5 million to fund Capital Improvements including:

- Storm drainage rehabilitation
- Road resurfacing
- Culvert replacement
- Tennis court reconstruction
- Facility rehabilitation

WARRINGTON TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2015

2016 Adopted Spending Plan

For 2016, we have adopted a fiscally conservative and balanced budget. Expenditures are \$12.76 million as compared to the \$13.18 million spent in 2015. The table below shows the 2012-2015 General Fund budget summaries.

Table 5
General Fund Budget Summaries: 2012 - 2016 (In Millions)

| | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Actual | 2016 Adopted |
|--------------------------------|----------------|----------------|----------------|----------------|-----------------|
| Expenditures | \$ 9.56 | \$ 11.17 | \$ 12.72 | \$ 13.18 | \$ 12.76 |
| Revenues | <u>10.29</u> | <u>12.21</u> | <u>12.89</u> | <u>13.42</u> | <u>12.65</u> |
| Net change in fund balance | <u>\$ 0.72</u> | <u>\$ 1.05</u> | <u>\$ 0.17</u> | <u>\$ 0.24</u> | <u>\$ 0.11</u> |
| Ending fund balance | <u>\$ 1.77</u> | <u>\$ 2.22</u> | <u>\$ 2.40</u> | <u>\$ 2.63</u> | <u>\$ 2.52</u> |
| % fund balance to expenditures | <u>18.51%</u> | <u>25.16%</u> | <u>18.87%</u> | <u>19.95%</u> | <u>19.71%</u> |

New Ideas for Enhanced Services to the Residents

During the budget building process, there were many good ideas submitted by Department Heads for new or enhanced services to the residents of Warrington:

- Providing a full-time Ambulance crew at Fire Station #78 (Pickertown Rd.) to provide coverage to that end of the Township now covered by Chalfont Ambulance.
- Adding an additional full-time Police officer to provide additional patrol.
- Adding an additional full-time Water/Sewer Operator to increase efficiency and provide additional preventative maintenance on the Wastewater Treatment plant.

While all of these services would benefit the residents, due to budget constraints, they were not recommended for the 2016 Budget.

2016 Taxes/Fees

The Adopted 2016 General Fund budget is a balanced budget with no tax increase for the General fund.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

2016 Cost Drivers and Budget Variations

The Adopted 2016 budget reflects a decrease in expenditures as compared to 2015. Below are some of the noteworthy cost drivers which impact 2016 revenues and expenditures:

Twin Oaks Day Camp

Earlier in 2015, the Board of Supervisors voted to close Twin Oaks Day Camp. A continuous declining enrollment and upkeep costs of the camp were the primary reasons. Expenditures will decrease by an estimated \$80,000, which represents the operational costs of running the camp. There will also be a loss of an estimated \$80,000 in revenue from camp registrations.

Fringe Benefits

Total fringe benefits will increase by roughly 3% for 2016. While the last few years have been in the 7 - 10% range for annual increases, there are two primary reasons why the increase is less for 2016: When two Codes Department employees retired in early 2015, the decision was made to outsource this work to a third party, therefore we have two less full-time employees. Additionally, Health care, the biggest component of overall fringe benefit costs will increase 3.89%, the lowest rate increase in many years. This is due to the lower than normal claims paid out by the trust that handles our health insurance (Delaware Valley Health Insurance Trust). The Township also implemented a new Health Plan at a lower cost in anticipation of the "Cadillac Tax" which will go into effect in 2018. All new employees (except Police Officers) will be enrolled in this new plan.

Residential and Commercial Development

Development is projected to continue at above "normal" years levels of activity, but not as strong as 2015. Therefore, the following revenues are budgeted at less than 2015 year-end projections:

| | <u>2015 Actual</u> | <u>2016 Budget</u> | <u>Difference</u> |
|----------------------------------|------------------------|------------------------|-------------------|
| Real estate transfer tax | \$ 984,000 | \$ 775,000 | \$ 209,000 |
| Public safety (building permits) | 1,283,000 | 1,078,000 | 205,000 |
| Park and rec assessment | <u>476,000</u> | <u>375,000</u> | <u>101,000</u> |
| | <u>\$ 2,743,000</u> | <u>\$ 2,228,000</u> | <u>\$ 515,000</u> |

*This fee is transferred to the Capital Improvement Fund, so there will be a decrease in revenue to the Capital Improvement Fund in 2016.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

The table below lists all major 2016 budget variances items that are \geq \$50,000 than the 2015 adopted budget:

2016 Budget Variances \geq \$50,000

| <u>Revenues</u> | <u>Expenses</u> | <u>Explanation</u> | <u>Cumulative Variance</u> |
|-----------------|-----------------|---------------------------------------|--------------------------------|
| \$ (157,200) | \$ - | SAFER Grant (Grant ends) | \$ (157,200) |
| (65,000) | - | Fireman's relief from state | (222,200) |
| (68,500) | - | Public safety (building permits) | (290,700) |
| (72,000) | - | Recreation program fees (camp closed) | (362,700) |
| (84,000) | - | Park and recreation assessment fee | (446,700) |
| (110,000) | - | Transfer from reserves (fund balance) | (556,700) |
| 100,000 | - | General Fund transfer (fire capital) | (446,700) |
| - | 100,000 | General Fund transfer (fire capital) | (546,700) |
| - | 65,000 | Fireman's relief from state | (481,700) |
| - | - | Recreation program expenses | |
| - | 60,900 | (primarily-camp closure) | (420,800) |
| - | 232,000 | Transfer to other funds | (188,800) |

GENERAL FUND FISCAL TREND ANALYSIS: 2016 - 2019

Long Range Forecast for Revenues

As mentioned above, the General Fund balance is projected to be a healthy 19.71% by the end of 2016. While this represents a sufficient "rainy day" fund according to GFOA, we must look at trends over time and projected future activities in the Township to ascertain a true picture of where the township will stand, financially speaking, in the long run. We are in the middle of a building boom which is projected to curtail sometime in 2017, as the number of large tracts of land for development, are running out. While tax revenue such as Real Estate Taxes, and Earned Income Taxes should continue to rise over time as we have a larger tax base and more people working in the Township, there are also other revenue categories that will suffer once the building boom ends. Real Estate Transfer Tax in which we receive a percentage of each property sold within the Township will decrease as fewer properties are sold. Additionally, less development means less building permits, which means less permitting revenue received. There will also be a substantial decrease in the Park and Recreation fee revenue as development projects dwindle.

Another revenue category that could possibly decline is Cable Television Franchise Fees. While this revenue stream has steadily risen over the years, as more and more households opt for video steaming services such as Netflix, this would mean less money for Comcast and Verizon, which in turn would reduce the fees received from both companies.

As previously discussed, the SAFER Grant used to hire a paid career firefighting staff runs out in 2016. The paid firefighters cost (salaries/benefits/equipment/uniforms/supplies) approximately \$300,000 per year - beginning in 2017, this entire amount will need to come out of the General Fund.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2015

Other considerations include the maintenance and upkeep on the expanding parks, open space and trail system. As the Board has made it a priority to acquire and develop open space, there will be manpower and other costs associated with these improvements to the Township. Salaries and Benefits for Township employees are the largest expense any municipality incurs, Warrington is no exception. Health care costs, while only modestly increasing in 2016, traditionally rise at a near double digit pace. And of course, even a modest increase in salaries has a significant impact on the budget as salaries are the largest component of the General Fund.

Moody's and the other interested financial parties will be watching us very carefully as we attempt to balance future budgets with declining revenues and escalating expenses. While we are recommend drawing down \$110,000 from our reserves, we strongly encourage the Board to not consider this a permanent solution and we must have the fiscal discipline to preserve the fund balance.

The table below summarizes our fiscal trend projections through 2019 based on current tax policies and cost trends.

2015 - 2019 Fiscal Trend Analysis (In Millions)

| | 2015 Actual | 2016 Forecast | 2017 Forecast | 2018 Forecast | 2019 Forecast |
|------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Expenditures | \$ 12.81 | \$ 12.76 | \$ 12.80 | \$ 13.05 | \$ 13.28 |
| Revenues | <u>12.82</u> | <u>12.65</u> | <u>12.04</u> | <u>12.08</u> | <u>12.18</u> |
| Net change in fund balance | \$ <u>0.13</u> | \$ <u>0.11</u> | \$ <u>0.76</u> | \$ <u>0.97</u> | \$ <u>1.10</u> |
| Ending fund balance | \$ <u>2.33</u> | \$ <u>2.52</u> | \$ <u>1.76</u> | \$ <u>0.85</u> | \$ <u>(0.25)</u> |
| % fund balance to net expenditures | <u>18.20%</u> | <u>19.71%</u> | <u>13.75%</u> | <u>6.51%</u> | <u>-1.88%</u> |

The Township property tax rate for 2016 is 12.84 mills. This is no increase from 2015's levy.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Warrington Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Open Records Officer by completing a Request Form found on our website (www.warringtontownship.org) or at the Township Office located at 852 Easton Road, Warrington, Pennsylvania 18976-2090.

WARRINGTON TOWNSHIP
STATEMENT OF NET POSITION
DECEMBER 31, 2015

| | Governmental Activities | Business-Type Activities | Totals |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 8,015,558 | \$ 6,610,252 | \$ 14,625,810 |
| Investments | - | 3,718,987 | 3,718,987 |
| Receivables | 2,146,231 | 1,520,684 | 3,666,915 |
| Internal balances | 658,898 | (658,898) | - |
| Other assets | 20,808 | 476 | 21,284 |
| Notes receivable | - | 197,474 | 197,474 |
| Net pension asset | - | 99,409 | 99,409 |
| Capital assets | | | |
| Land | 4,834,347 | 161,764 | 4,996,111 |
| Construction in progress | 867,291 | 2,726,681 | 3,593,972 |
| Infrastructure | 57,040,786 | - | 57,040,786 |
| Buildings and improvements | 8,756,874 | - | 8,756,874 |
| Machinery, vehicles and equipment | 5,985,135 | - | 5,985,135 |
| Utility system | - | 90,519,447 | 90,519,447 |
| Accumulated depreciation | (34,729,633) | (44,247,561) | (78,977,194) |
| TOTAL ASSETS | 53,596,295 | 60,648,715 | 114,245,010 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 1,424,584 | 203,781 | 1,628,365 |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 999,248 | 843,899 | 1,843,147 |
| Due to Fiduciary Funds | 10,750 | - | 10,750 |
| Unearned revenues | 97,776 | - | 97,776 |
| Escrows payable | 679,747 | - | 679,747 |
| Long-term liabilities | | | |
| Portion due or payable within one year | | | |
| Bonds, notes and capital leases | 1,541,181 | 715,000 | 2,256,181 |
| Accrued interest | 50,771 | 62,597 | 113,368 |
| Portion due or payable after one year | | | |
| Bonds, notes and capital leases | 20,057,013 | 16,510,000 | 36,567,013 |
| Bond discounts | (77,712) | - | (77,712) |
| Bond premiums | 824,136 | 2,057,211 | 2,881,347 |
| Compensated absences | 305,117 | 726 | 305,843 |
| Net pension liability | 2,744,267 | - | 2,744,267 |
| Net OPEB obligation | 1,507,028 | - | 1,507,028 |
| TOTAL LIABILITIES | 28,739,322 | 20,189,433 | 48,928,755 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred gain on defeasance of debt | 26,030 | 61,449 | 87,479 |
| Deferred inflows related to pensions | 61,556 | 61,555 | 123,111 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 87,586 | 123,004 | 210,590 |
| NET POSITION | | | |
| Net investment in capital assets | 25,060,696 | 34,220,685 | 59,281,381 |
| Restricted | 5,414,968 | - | 5,414,968 |
| Unrestricted | (4,281,693) | 6,319,374 | 2,037,681 |
| TOTAL NET POSITION | \$ 26,193,971 | \$ 40,540,059 | \$ 66,734,030 |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

| Functions/Programs | Expenses | Program Revenues | | |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| GOVERNMENTAL ACTIVITIES | | | | |
| General government | \$ 1,777,429 | \$ 729,241 | \$ 4,799 | \$ - |
| Public safety | 8,276,777 | 1,539,645 | 827,241 | - |
| Public works | 4,729,976 | - | 676,461 | 856,170 |
| Sanitation | 129,301 | 150,836 | 64,940 | - |
| Culture and recreation | 736,191 | 377,630 | 245,375 | 10,000 |
| Interest on long-term debt | 516,831 | - | - | - |
| TOTAL GOVERNMENTAL ACTIVITIES | 16,166,505 | 2,797,352 | 1,818,816 | 866,170 |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Water and sewer | 8,606,179 | 7,250,526 | - | 505,216 |
| TOTAL TOWNSHIP ACTIVITIES | \$ 24,772,684 | \$ 10,047,878 | \$ 1,818,816 | \$ 1,371,386 |

GENERAL REVENUES

Taxes

Property taxes

Earned income tax

Local services tax

Real estate transfer tax

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on disposal of assets

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

| <u>Net (Expense) Revenue and Changes in Net Position</u> | | |
|--|----------------------|----------------------|
| <u>Governmental</u> | <u>Business-Type</u> | |
| <u>Activities</u> | <u>Activities</u> | <u>Totals</u> |
| \$ (1,043,389) | \$ - | \$ (1,043,389) |
| (5,909,891) | - | (5,909,891) |
| (3,197,345) | - | (3,197,345) |
| 86,475 | - | 86,475 |
| (103,186) | - | (103,186) |
| (516,831) | - | (516,831) |
| <u>(10,684,167)</u> | <u>-</u> | <u>(10,684,167)</u> |
| <u>-</u> | <u>(850,437)</u> | <u>(850,437)</u> |
| <u>(10,684,167)</u> | <u>(850,437)</u> | <u>(11,534,604)</u> |
| 4,295,624 | - | 4,295,624 |
| 4,195,712 | - | 4,195,712 |
| 444,128 | - | 444,128 |
| 983,697 | - | 983,697 |
| 11,215 | - | 11,215 |
| 484,177 | 57,783 | 541,960 |
| 777,342 | - | 777,342 |
| 21,928 | - | 21,928 |
| 104,500 | (104,500) | - |
| <u>11,318,323</u> | <u>(46,717)</u> | <u>11,271,606</u> |
| 634,156 | (897,154) | (262,998) |
| <u>25,559,815</u> | <u>41,437,213</u> | <u>66,997,028</u> |
| <u>\$ 26,193,971</u> | <u>\$ 40,540,059</u> | <u>\$ 66,734,030</u> |

WARRINGTON TOWNSHIP

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2015

| | <u>General Fund</u> | 2012 Road Improvements Fund |
|---|---------------------|-----------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,348,142 | \$ - |
| Accounts receivable | 468,908 | - |
| Taxes receivable | 1,053,422 | - |
| Due from other funds | 1,880,396 | - |
| Prepaid expenses | 20,808 | - |
| | <u>5,771,676</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 5,771,676</u> | <u>\$ -</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts payable | \$ 311,662 | \$ - |
| Due to other funds | 1,172,728 | - |
| Due to Fiduciary Funds | 10,750 | - |
| Escrow payables | 679,747 | - |
| Unearned revenues | 79,292 | - |
| Accrued expenses | 239,004 | - |
| | <u>2,493,183</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>2,493,183</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenues, property taxes | 18,318 | - |
| | <u>18,318</u> | <u>-</u> |
| FUND BALANCES | | |
| Nonspendable, prepaid expenses | 20,808 | - |
| Restricted | | |
| Capital improvements | - | - |
| Emergency services | 815,945 | - |
| Open space and parkland improvements | - | - |
| Assigned, capital projects | - | - |
| Unassigned | 2,423,422 | - |
| | <u>3,260,175</u> | <u>-</u> |
| TOTAL FUND BALANCES | <u>3,260,175</u> | <u>-</u> |
| | | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 5,771,676</u> | <u>\$ -</u> |

See accompanying notes to the basic financial statements.

| <u>Open Space Fund</u> | <u>2014 Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------|---|------------------------------|---|---|
| \$ 3,003,391 | \$ 1,673,153 | \$ 329,181 | \$ 661,691 | \$ 8,015,558 |
| - | - | - | - | 468,908 |
| - | - | 2,060 | - | 1,055,482 |
| 209,008 | - | 34,530 | 996,369 | 3,120,303 |
| - | - | - | - | 20,808 |
| <u>\$ 3,212,399</u> | <u>\$ 1,673,153</u> | <u>\$ 365,771</u> | <u>\$ 1,658,060</u> | <u>\$ 12,681,059</u> |
| | | | | |
| \$ 6,600 | \$ 437,699 | \$ - | \$ 4,283 | \$ 760,244 |
| 198,439 | - | 316,216 | 774,022 | 2,461,405 |
| - | - | - | - | 10,750 |
| - | - | - | - | 679,747 |
| - | - | - | - | 79,292 |
| - | - | - | - | 239,004 |
| <u>205,039</u> | <u>437,699</u> | <u>316,216</u> | <u>778,305</u> | <u>4,230,442</u> |
| | | | | |
| - | - | 2,060 | - | 20,378 |
| | | | | |
| - | - | - | - | 20,808 |
| - | 1,235,454 | - | 356,209 | 1,591,663 |
| - | - | - | - | 815,945 |
| 3,007,360 | - | - | - | 3,007,360 |
| - | - | - | 525,826 | 525,826 |
| - | - | 47,495 | (2,280) | 2,468,637 |
| <u>3,007,360</u> | <u>1,235,454</u> | <u>47,495</u> | <u>879,755</u> | <u>8,430,239</u> |
| | | | | |
| <u>\$ 3,212,399</u> | <u>\$ 1,673,153</u> | <u>\$ 365,771</u> | <u>\$ 1,658,060</u> | <u>\$ 12,681,059</u> |

WARRINGTON TOWNSHIP

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2015

| | |
|--|----------------------|
| TOTAL GOVERNMENTAL FUNDS BALANCES | \$ 8,430,239 |
| <p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p> | |
| Land | 4,834,347 |
| Construction in progress | 867,291 |
| Infrastructure | 57,040,786 |
| Buildings and improvements | 8,756,874 |
| Machinery, vehicles and equipment | 5,985,135 |
| Accumulated depreciation | (34,729,633) |
| <p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p> | |
| Bond discounts | 77,712 |
| Deferred gain on defeasance of debt | (26,030) |
| <p>Deferred inflows and outflows related to pension activities are not financial resources and therefore are not reported in the governmental funds.</p> | |
| | 1,363,028 |
| <p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the governmental activities on the statement of net position.</p> | |
| | 621,841 |
| <p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p> | |
| Accrued interest | (50,771) |
| Bonds, notes and capital leases | (21,598,194) |
| Bond premiums | (824,136) |
| Compensated absences | (305,117) |
| Net pension liability | (2,744,267) |
| Net OPEB obligation | (1,507,028) |
| <p>Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p> | |
| | <u>1,894</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 26,193,971</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

| | <u>General Fund</u> | <u>2012 Road Improvements Fund</u> |
|--|---------------------|--|
| REVENUES | | |
| Taxes | | |
| Property | \$ 2,774,293 | \$ - |
| Transfer | 983,697 | - |
| Earned income | 4,345,930 | - |
| Other | 444,128 | - |
| Fees and fines | 186,632 | - |
| Licenses and permits | 590,141 | - |
| Intergovernmental | 938,944 | - |
| Charges for services | 1,934,629 | - |
| Investment income and rent | 468,586 | 117 |
| Miscellaneous | 777,342 | - |
| | <u>13,444,322</u> | <u>117</u> |
| TOTAL REVENUES | | |
| EXPENDITURES | | |
| Current | | |
| General government | 1,635,973 | - |
| Public safety | 8,437,479 | - |
| Public works | 1,920,490 | - |
| Sanitation | 129,301 | - |
| Culture and recreation | 346,482 | - |
| Debt service | | |
| Principal | 48,440 | - |
| Interest and other charges | 9,034 | - |
| | <u>12,527,199</u> | <u>-</u> |
| TOTAL EXPENDITURES | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | |
| | <u>917,123</u> | <u>117</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Proceeds from long-term debt, net | 500,000 | - |
| Proceeds from capital leases | - | - |
| Proceeds from sale of capital assets | 38,510 | - |
| Transfers in | 104,500 | - |
| Transfers out | (1,447,505) | - |
| | <u>(804,495)</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | | |
| NET CHANGE IN FUND BALANCES | | |
| | 112,628 | 117 |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR | | |
| | <u>3,147,547</u> | <u>(117)</u> |
| FUND BALANCES AT END OF YEAR | | |
| | <u>\$ 3,260,175</u> | <u>\$ -</u> |

See accompanying notes to the basic financial statements.

| <u>Open Space Fund</u> | <u>2014 Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------|---|------------------------------|---|---|
| \$ - | \$ - | \$ 1,561,138 | \$ - | \$ 4,335,431 |
| - | - | - | - | 983,697 |
| - | - | - | - | 4,345,930 |
| - | - | - | - | 444,128 |
| - | - | - | - | 186,632 |
| - | - | - | - | 590,141 |
| 47,000 | - | - | 656,152 | 1,642,096 |
| - | - | - | - | 1,934,629 |
| 7,386 | 6,174 | 450 | 1,464 | 484,177 |
| <u>245,375</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,022,717</u> |
| <u>299,761</u> | <u>6,174</u> | <u>1,561,588</u> | <u>657,616</u> | <u>15,969,578</u> |
| - | - | - | 22,483 | 1,658,456 |
| - | - | - | 108,107 | 8,545,586 |
| 174,650 | 2,237,032 | - | 1,185,576 | 5,517,748 |
| - | - | - | - | 129,301 |
| 23,790 | - | - | 144,690 | 514,962 |
| - | - | 1,035,702 | 316,762 | 1,400,904 |
| - | - | 601,217 | 75,987 | 686,238 |
| <u>198,440</u> | <u>2,237,032</u> | <u>1,636,919</u> | <u>1,853,605</u> | <u>18,453,195</u> |
| <u>101,321</u> | <u>(2,230,858)</u> | <u>(75,331)</u> | <u>(1,195,989)</u> | <u>(2,483,617)</u> |
| - | - | - | - | 500,000 |
| - | - | - | 420,376 | 420,376 |
| - | - | - | 21,928 | 60,438 |
| 48,000 | - | 475,000 | 972,505 | 1,600,005 |
| - | - | - | (48,000) | (1,495,505) |
| <u>48,000</u> | <u>-</u> | <u>475,000</u> | <u>1,366,809</u> | <u>1,085,314</u> |
| 149,321 | (2,230,858) | 399,669 | 170,820 | (1,398,303) |
| <u>2,858,039</u> | <u>3,466,312</u> | <u>(352,174)</u> | <u>708,935</u> | <u>9,828,542</u> |
| <u>\$ 3,007,360</u> | <u>\$ 1,235,454</u> | <u>\$ 47,495</u> | <u>\$ 879,755</u> | <u>\$ 8,430,239</u> |

WARRINGTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

| | |
|--|-------------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ (1,398,303) |
| <p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$4,255,251) exceeds depreciation (\$2,436,148) in the current period.</p> | 1,819,103 |
| <p>Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount by which amortization exceeds capital outlays in the current period.</p> | 70,176 |
| <p>Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year.</p> | (39,807) |
| <p>Governmental Funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.</p> | (150,218) |
| <p>Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.</p> | 1,401,036 |
| <p>Capital leases are revenues in the Governmental Funds, but these amounts increase the long-term liabilities in the statement of net position.</p> | (920,376) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:</p> | |
| Accrued interest not reflected in Governmental Funds | 9,099 |
| Pension plan expense | 94,762 |
| <p>In the statement of activities, certain operating expenses--compensated absences (vacations, comp time and sick leave)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p> | (31,831) |
| <p>Net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.</p> | <u>(219,485)</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 634,156</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015

| | Enterprise Fund <u>Water and Sewer Fund</u> |
|---------------------------------------|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 6,610,252 |
| Investments | 3,718,987 |
| Accounts receivable | 1,509,212 |
| Other receivables | 11,472 |
| Notes receivable | 27,360 |
| Prepaid expenses | 476 |
| Net pension asset | 99,409 |
| | <u>11,977,168</u> |
| TOTAL CURRENT ASSETS | |
| NONCURRENT ASSETS | |
| Notes receivable | 170,114 |
| Capital assets | |
| Land | 161,764 |
| Utility system | 46,271,886 |
| Construction in progress | 2,726,681 |
| | <u>49,330,445</u> |
| TOTAL NONCURRENT ASSETS | |
| TOTAL ASSETS | <u>61,307,613</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | <u>203,781</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | 833,828 |
| Salaries payable | 10,071 |
| Accrued interest payable | 62,597 |
| Due to other funds | 658,898 |
| | <u>2,280,394</u> |
| TOTAL CURRENT LIABILITIES | |
| NONCURRENT LIABILITIES | |
| Compensated absences | 726 |
| Bonds payable | 16,510,000 |
| Bond premiums | 2,057,211 |
| | <u>18,567,937</u> |
| TOTAL NONCURRENT LIABILITIES | |
| TOTAL LIABILITIES | <u>20,848,331</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred gain on defeasance of debt | 61,449 |
| Deferred inflows related to pensions | 61,555 |
| | <u>123,004</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | |
| NET POSITION | |
| Net investment in capital assets | 34,220,685 |
| Unrestricted | 6,319,374 |
| | <u>40,540,059</u> |
| TOTAL NET POSITION | <u>\$ 40,540,059</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIPSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015

| | Enterprise Fund |
|--|---------------------------------|
| | <u>Water and Sewer Fund</u> |
| OPERATING REVENUES | |
| Charges for services | \$ 5,581,422 |
| Other revenues | <u>490,891</u> |
| TOTAL OPERATING REVENUES | <u>6,072,313</u> |
| OPERATING EXPENSES | |
| Water and sewer operations | 3,223,801 |
| General and administrative | 1,333,012 |
| Depreciation | <u>2,725,019</u> |
| TOTAL OPERATING EXPENSES | <u>7,281,832</u> |
| OPERATING LOSS | <u>(1,209,519)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest and investment revenue | 57,783 |
| Connection fees | 99,399 |
| Tapping fees | 1,161,645 |
| Interest expense | <u>(1,324,347)</u> |
| TOTAL NONOPERATING EXPENSES | <u>(5,520)</u> |
| LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS | (1,215,039) |
| TRANSFERS OUT | (104,500) |
| CAPITAL CONTRIBUTIONS | <u>422,385</u> |
| CHANGE IN NET POSITION | (897,154) |
| NET POSITION AT BEGINNING OF YEAR, restated | <u>41,437,213</u> |
| NET POSITION AT END OF YEAR | <u>\$ 40,540,059</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015

| | Enterprise Fund <u>Water and Sewer Fund</u> |
|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 7,222,465 |
| Payments to employees | (1,131,920) |
| Payments to suppliers | <u>(3,407,011)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>2,683,534</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers to other funds | (104,500) |
| Due to other funds | <u>463,643</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>359,143</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition, construction and improvements of capital assets | (3,174,534) |
| Interest paid on bonds | <u>(1,446,624)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(4,621,158)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Payments received on notes receivable | 11,297 |
| Sale of investments | 6,263,864 |
| Earnings on investments | <u>57,783</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>6,332,944</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 4,754,463 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>1,855,789</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 6,610,252</u> |

WARRINGTON TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015

| | Enterprise Fund <u>Water and Sewer Fund</u> |
|--|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating loss | \$ (1,209,519) |
| Connection fees, tapping fees and other miscellaneous activity | 1,261,044 |
| Adjustments to reconcile operating loss to net cash provided by operating activities | |
| Depreciation | 2,725,019 |
| Pension expense | 7,537 |
| Increase in | |
| Accounts receivable | (110,761) |
| Other receivables | (131) |
| Increase (decrease) in | |
| Accounts payable | 42,894 |
| Accrued salaries and benefits | <u>(32,549)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u>2,683,534</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2015

| | <u>Pension Trust Funds</u> |
|---|--------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 203,044 |
| Investments | 17,060,162 |
| Due from other funds | 11,595 |
| Receivable from pension administrator | <u>13,010</u> |
| TOTAL ASSETS | <u>\$ 17,287,811</u> |
| LIABILITIES | |
| Due to other funds | <u>\$ 10,750</u> |
| NET POSITION | |
| Held in trust for benefits and other purposes | <u>17,277,061</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 17,287,811</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2015

| | <u>Pension Trust Funds</u> |
|---|--------------------------------|
| ADDITIONS | |
| Contributions | |
| Employer | \$ 527,063 |
| Plan members | 181,315 |
| State | 384,242 |
| TOTAL CONTRIBUTIONS | <u>1,092,620</u> |
| Investment earnings | |
| Net decrease in fair value of investments | (511,428) |
| Dividends | 419,805 |
| Investment activity expense | (55,294) |
| INVESTMENT EARNINGS, net | <u>(146,917)</u> |
| TOTAL ADDITIONS | <u>945,703</u> |
| DEDUCTIONS | |
| Benefits | 774,170 |
| Administrative | 17,070 |
| TOTAL DEDUCTIONS | <u>791,240</u> |
| CHANGE IN NET POSITION | 154,463 |
| NET POSITION AT BEGINNING OF YEAR | <u>17,122,598</u> |
| NET POSITION AT END OF YEAR | <u>\$ 17,277,061</u> |

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Warrington Township (the "Township") is a municipal corporation existing and operating under the Second Class Township Code of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Township (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Township have been addressed. Financial accountability is present if the Township appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township.

The Township has determined that no outside agency meets the above criteria; therefore, no other agency has been included in the Township's financial statements. In addition, the Township is not aware of any entity which would exercise such oversight that would result in the Township being considered a component unit of the entity.

Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for Governmental Funds, the Proprietary Fund and Fiduciary Funds, even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Under this basis, certain revenues (those susceptible to accrual, readily measurable and available as to amount and anticipated as being readily collectible) are recorded on the accrual basis. Property taxes, franchise taxes and licenses associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are recognized only when received in cash. Expenditures, with the exception of interest requirements on long-term debt, are accounted for on the accrual basis of accounting.

The Township reports the following major Governmental Funds:

- The *General Fund* is the Township's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *2012 Road Improvements Fund* accounts for road repairs and maintenance throughout the Township.
- The *Open Space Fund* accounts for open space and parkland improvements throughout the Township.
- The *Capital Improvement Fund* accounts for capital purchases and construction for various projects throughout the Township.
- The *2014 Capital Projects Fund* accounts for capital projects throughout the Township.
- The *Debt Service Fund* accounts for payments of principal and interest on long-term debt.

The Township reports the following major Proprietary Fund:

- The *Water and Sewer Fund* accounts for the activities of the Township's water and sewer treatment systems.

Additionally, the Township reports the following Fiduciary Fund Types:

- The *Pension Trust Funds* are used to account for the activities of the Police and Non-Uniform Employees Pension Plans, which accumulate resources for pension benefit payments to qualified employees.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Proprietary Fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting - The Township follows the procedures outlined below, which comply with legal requirements in establishing the budgetary data reflected in the financial statements:

1. Budgets are legally adopted on an annual basis for most Township funds, which is consistent with generally accepted accounting principles. The operating budget includes proposed expenditures and the means of financing them.
2. During November, the Township holds budget hearings for the purpose of receiving oral and written comments from interested parties in regard to the proposed budget for the following year. The Township makes available to the public its proposed operating budget for all funds.
3. No later than December 31, the budget is legally adopted through the passage of an ordinance.
4. All budget revisions require the approval of the Township's Board of Supervisors. There were budget revisions made during the year. The Board authorized the use of unallocated fund balance in 2015.
5. Budgets for the funds are prepared on the modified accrual basis of accounting.

All appropriations lapse at year-end. Supplemental appropriations can be made at any time.

As a matter of state law, expenditures cannot exceed total appropriations by fund.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrance Accounting - Encumbrance accounting, under which purchase orders and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds for which budgets are prepared. Encumbrances outstanding at year-end lapse. Encumbrances do not constitute expenditures or liabilities under accounting principles generally accepted in the United States of America.

Assets, Liabilities and Equity

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

With the exception of Pension Trust Funds, state statutes authorize the Township to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Township to invest in certificates of deposit of banks, savings and loans, credit unions and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository.

The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a credit union's, savings and loan's, or savings bank's assets, net of its liabilities. The Township may also invest in shares of registered investment companies, provided that investments of the company are authorized investments, as noted above.

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

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

Investments for the Township are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Real Estate Taxes - Real estate taxes are recorded as revenues when the taxes are levied. All property tax receivables are shown net of an allowance for uncollectibles. At December 31, 2015, all tax receivables were deemed to be fully collectible. There is no tax receivable allowance due to the materiality of the outstanding receivables.

Real estate taxes are levied on January 1 on property values assessed as of the same date. Taxes are billed February 1 and are due on June 30 of each year. A 2% discount is provided for taxes paid prior to April 1. A 10% penalty is applied to taxes paid after June 1. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

Earned Income Taxes - A 1% earned income tax is imposed on all residents and on nonresidents who work within the Township limits. This tax is recorded as revenue when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.

Provision for Estimated Uncollectible Receivables - At December 31, 2015, all trade receivables were deemed to be fully collectible.

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines a capital asset as an asset with an initial, individual cost equal to or greater than \$7,500 and must have an estimated useful life in excess of two years. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Prior to January 1, 2003, Governmental Funds' infrastructure assets were not capitalized. These assets have been valued at estimated historical cost.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation has been provided over the estimated useful lives of property, plant and equipment using the straight-line method as follows:

| | <u>Years</u> |
|---|--------------|
| Buildings | 20-40 |
| Building improvements | 20-40 |
| Roads, curbs, walks and bridges | 25-75 |
| Storm sewers | 100 |
| Lighting | 20 |
| Trucks and heavy equipment | 8-15 |
| Vehicles | 8 |
| Water/sewer | |
| Buildings, improvements, water mains, pipes | 30 |
| Vehicles | 5 |
| Machinery and equipment | 30 |
| Office furniture and equipment | 10 |

Long-Term Obligations - In the government-wide financial statements and the Proprietary Fund Type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position.

Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond premiums or discounts are reported as deferred charges. Bonds payable are reported net of deferred amounts on refunding, which represent the difference between the reacquisition price and the net carrying amount of old debt that has been defeased in refunding transactions since 1993. This deferred amount is amortized as a component of interest expense over the lesser of the remaining life of the old debt or the life of the new debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt are reported as other financing uses.

Cash and Cash Equivalents - For purposes of reporting cash flows for the Proprietary Fund, all highly liquid investments with original maturities of three months or less are considered short-term investments.

Compensated Absences - Unused vacation and sick benefits lapse at year-end for all employees, without approval of the Township. As of December 31, 2015, there were no material amounts of leave accumulated for governmental activities.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Concentrations of Credit Risk - The Township's revenues and receivables for taxes and utility service are mostly derived from residents and businesses located in the Township and are, therefore, subject to the economic conditions of the area.

GASB Statement No. 54

The Township has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by the passage of a resolution by the Board of Supervisors.
- **Assigned** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of Supervisors or by an official or body to which the Board of Supervisors delegates the authority. As of December 31, 2015, the Board has not delegated the authority to assign fund balance.
- **Unassigned** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 14). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category. The deferred outflow of resources related to pensions is reported in the government-wide statement of net position and the proprietary fund statement of net position and is the result of changes in plan assumptions and the net difference between projected and actual earnings on pension plan investments.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualifies for reporting in this category. The deferred inflow of resources related to pensions is reported in the government-wide statement of net position and the proprietary fund statement of net position and is the result of differences between expected and actual experience of the pension plan. The deferred gain on defeasance of debt is reported in the government-wide statement of net position and results from the difference 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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2015, \$953,044 of the Township's bank balance of \$15,114,584 was insured by the FDIC; the remaining \$14,161,540 was exposed to custodial credit risk, collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania Legislature, which permits the institution to pool collateral for all governmental deposits and has the collateral held by a custodian in the institution's name.

Investments

As of December 31, 2015, the Township had the following investments:

| <u>Investment Type</u> | <u>Investment Maturities</u> | |
|-------------------------|------------------------------|---------------------------|
| | <u>Fair Value</u> | <u>Less Than One Year</u> |
| PROPRIETARY FUNDS | | |
| Certificates of deposit | \$ <u>3,718,987</u> | \$ <u>3,718,987</u> |
| PENSION ACTIVITIES | | |
| Mutual funds | \$ <u>17,060,162</u> | \$ <u>17,060,162</u> |

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Township's formal investment policy does not address interest rate risk.

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of Government Funds as described in Note A. It is the Township's formal investment policy that the investment portfolio maintains an average AA rating by Standard & Poor's.

Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5% of the Township's investments are in certificates of deposit and mutual funds. These investments are 37% and 63%, respectively, of the Township's total investments.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE C - CAPITAL ASSETS

Changes in capital asset activity for the year ended December 31, 2015, were as follows:

| | Balance January 1, 2015 | Increases | Decreases | Balance December 31, 2015 |
|---|-------------------------------|-------------------------|---------------------------|---------------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 4,792,917 | \$ 41,430 | \$ - | \$ 4,834,347 |
| Construction in progress | 2,935,129 | 2,020,881 | (4,088,719) | 867,291 |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | <u>7,728,046</u> | <u>2,062,311</u> | <u>(4,088,719)</u> | <u>5,701,638</u> |
| Capital assets being depreciated | | | | |
| Infrastructure | 56,073,873 | 966,913 | - | 57,040,786 |
| Buildings and improvements | 4,668,155 | 4,088,719 | - | 8,756,874 |
| Machinery, vehicles and equipment | 4,924,467 | 1,226,027 | (165,359) | 5,985,135 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED | <u>65,666,495</u> | <u>6,281,659</u> | <u>(165,359)</u> | <u>71,782,795</u> |
| Accumulated depreciation | | | | |
| Infrastructure | (27,701,150) | (1,827,603) | - | (29,528,753) |
| Buildings and improvements | (1,210,449) | (208,217) | - | (1,418,666) |
| Machinery, vehicles and equipment | (3,547,245) | (400,328) | 165,359 | (3,782,214) |
| TOTAL ACCUMULATED DEPRECIATION | <u>(32,458,844)</u> | <u>(2,436,148)</u> | <u>165,359</u> | <u>(34,729,633)</u> |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | <u>33,207,651</u> | <u>3,845,511</u> | <u>-</u> | <u>37,053,162</u> |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net | <u>\$ 40,935,697</u> | <u>\$ 5,907,822</u> | <u>\$ (4,088,719)</u> | <u>\$ 42,754,800</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------------|
| GOVERNMENTAL ACTIVITIES | |
| Administrative | \$ 119,128 |
| Police and emergency services | 251,221 |
| Public works, including depreciation of general infrastructure, except park systems | 1,791,215 |
| Parks and recreation, including depreciation relating to park systems | <u>274,584</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$ 2,436,148</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE C - CAPITAL ASSETS (Continued)

| | Balance January 1, 2015 | Increases | Decreases | Balance December 31, 2015 |
|---|-------------------------------|-------------------------|---------------------------|---------------------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 161,764 | \$ - | \$ - | \$ 161,764 |
| Construction in progress | 1,294,679 | 2,507,006 | (1,075,004) | 2,726,681 |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | 1,456,443 | 2,507,006 | (1,075,004) | 2,888,445 |
| Capital assets being depreciated | | | | |
| Collection, distribution, reserve, treatment systems | 80,605,932 | 2,127,054 | - | 82,732,986 |
| Buildings and improvements | 5,839,038 | - | - | 5,839,038 |
| Equipment and vehicles | 1,910,036 | 37,387 | - | 1,947,423 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED | 88,355,006 | 2,164,441 | - | 90,519,447 |
| Accumulated depreciation | | | | |
| Collection, distribution, reserve, treatment systems | (37,308,721) | (2,477,597) | - | (39,786,318) |
| Buildings and improvements | (2,536,275) | (191,475) | - | (2,727,750) |
| Equipment and vehicles | (1,677,546) | (55,947) | - | (1,733,493) |
| TOTAL ACCUMULATED DEPRECIATION | (41,522,542) | (2,725,019) | - | (44,247,561) |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | 46,832,464 | (560,578) | - | 46,271,886 |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net | \$ 48,288,907 | \$ 1,946,428 | \$ (1,075,004) | \$ 49,160,331 |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables are as follows:

| | <u>Due from Other Funds</u> | <u>Due to Other Funds</u> |
|---------------------------|---------------------------------|-------------------------------|
| GOVERNMENTAL FUNDS | | |
| General Fund | \$ 1,880,396 | \$ 1,172,728 |
| Open Space Fund | 209,008 | 198,439 |
| Debt Service Fund | 34,530 | 316,216 |
| Other Governmental Funds | 996,369 | 774,022 |
| PROPRIETARY FUND | | |
| Water and Sewer Fund | <u>-</u> | <u>658,898</u> |
| | <u>\$ 3,120,303</u> | <u>\$ 3,120,303</u> |

Interfund balances are primarily a result of:

1. Reimbursement of payroll and payables charged to other funds.
2. Cash receipts collected in one fund but belonging to another.
3. Funding cash deficits.

Interfund transfers are as follows:

| | <u>Transfer Out</u> | <u>Transfer In</u> |
|--------------------------|-------------------------|------------------------|
| General Fund | \$ 1,447,505 | \$ 104,500 |
| Debt Service Fund | - | 475,000 |
| Open Space Fund | - | 48,000 |
| Other Governmental Funds | 48,000 | 972,505 |
| Water and Sewer Fund | <u>104,500</u> | <u>-</u> |
| | <u>\$ 1,600,005</u> | <u>\$ 1,600,005</u> |

Interfund balances are primarily a result of:

1. Reimbursement of payroll and payables charged to other funds.
2. Reimbursement for debt payments.
3. Various funds financing capital projects.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE E - LONG-TERM DEBT

Summary of Activity

Long-term liability activity for the year ended December 31, 2015, was as follows:

| | Balance January 1, 2015 | Additions | Reductions | Balance December 31, 2015 | Due Within One Year |
|---|-------------------------------|---------------------|-----------------------|---------------------------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds and Notes | | | | | |
| Series of 1997 | \$ 291,778 | \$ - | \$ (84,507) | \$ 207,271 | \$ 90,266 |
| Series of 2012 A | 5,120,000 | - | (515,000) | 4,605,000 | 540,000 |
| Series of 2012 B | 2,580,000 | - | (185,000) | 2,395,000 | 190,000 |
| Series of 2013 | 9,080,000 | - | (345,000) | 8,735,000 | 345,000 |
| Series of 2014 | 4,490,000 | - | (90,000) | 4,400,000 | 90,000 |
| TOTAL GENERAL OBLIGATION BONDS AND NOTES | 21,561,778 | - | (1,219,507) | 20,342,271 | 1,255,266 |
| Bond premiums | 905,274 | - | (81,138) | 824,136 | - |
| Deferred issuance discount | (85,769) | - | 8,057 | (77,712) | - |
| Deferred gain on defeasance | 23,125 | - | 2,905 | 26,030 | - |
| Capital leases | 517,076 | 920,377 | (181,530) | 1,255,923 | 285,915 |
| Compensated absences | 273,286 | 31,831 | - | 305,117 | - |
| Net pension liability | 1,476,001 | 1,268,266 | - | 2,744,267 | - |
| Net OPEB obligation | 1,287,543 | 219,485 | - | 1,507,028 | - |
| TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES | \$ 25,958,314 | \$ 2,439,959 | \$ (1,471,213) | \$ 26,927,060 | \$ 1,541,181 |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| General Obligation Bonds, | | | | | |
| Series of 2014 | \$ 17,225,000 | \$ - | \$ (685,000) | \$ 16,540,000 | \$ 715,000 |
| Deferred issuance premium | 2,171,500 | - | (114,290) | 2,057,210 | - |
| Deferred gain on defeasance | 68,277 | - | (6,828) | 61,449 | - |
| Compensated absences | 13,082 | - | (12,356) | 726 | - |
| TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES | \$ 19,477,859 | \$ - | \$ (818,474) | \$ 18,659,385 | \$ 715,000 |

Payments on the bonds, notes and loans payable pertaining to the Township's governmental activities are made by the Debt Service Fund.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE E - LONG-TERM DEBT (Continued)

Governmental and Business-Type Activities Debt

The Township issues general obligation bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. The original amount of bonds and notes payable issued in prior years was \$57,050,000.

General obligation notes are direct obligations and pledge the full faith and credit of the Township. These notes are generally issued as 15-20 year serial notes with varying amounts of principal maturing each year.

Total Scheduled Annual Debt Service

The Township's total scheduled annual debt service on all long-term debt is as follows:

| Year Ending December 31, | Governmental Activities | | Business-Type Activities | |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2016 | \$ 1,255,266 | \$ 627,313 | \$ 715,000 | \$ 739,044 |
| 2017 | 1,322,005 | 584,963 | 730,000 | 717,594 |
| 2018 | 1,245,000 | 536,122 | 760,000 | 688,394 |
| 2019 | 1,285,000 | 500,362 | 790,000 | 657,994 |
| 2020 | 1,315,000 | 463,539 | 820,000 | 626,394 |
| 2021 | 1,360,000 | 417,602 | 855,000 | 585,394 |
| 2022 | 1,390,000 | 387,104 | 900,000 | 542,644 |
| 2023 | 1,470,000 | 354,259 | 945,000 | 497,644 |
| 2024 | 1,505,000 | 319,837 | 990,000 | 450,394 |
| 2025 | 1,545,000 | 283,488 | 740,000 | 400,894 |
| 2026 | 1,580,000 | 244,383 | 780,000 | 363,894 |
| 2027 | 590,000 | 202,812 | 815,000 | 324,894 |
| 2028 | 620,000 | 177,350 | 860,000 | 284,144 |
| 2029 | 680,000 | 159,000 | 885,000 | 258,344 |
| 2030 | 695,000 | 137,444 | 910,000 | 230,688 |
| 2031 | 710,000 | 115,412 | 940,000 | 202,250 |
| 2032 | 740,000 | 84,288 | 985,000 | 155,250 |
| 2033 | 505,000 | 51,750 | 1,035,000 | 106,000 |
| 2034 | 530,000 | 26,500 | 1,085,000 | 54,250 |
| | <u>\$ 20,342,271</u> | <u>\$ 5,673,528</u> | <u>\$ 16,540,000</u> | <u>\$ 7,886,104</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE F - CAPITAL LEASE

The Borough leases certain equipment under capital lease arrangements.

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of December 31, 2015.

| <u>Year Ending</u> <u>December 31,</u> | | |
|---|--|---------------------|
| 2016 | | \$ 325,012 |
| 2017 | | 223,054 |
| 2018 | | 200,625 |
| 2019 | | 200,625 |
| 2020 | | 164,242 |
| 2021-2023 | | <u>244,706</u> |
| | TOTAL MINIMUM LEASE PAYMENTS | 1,358,264 |
| | Amount representing interest | <u>(102,341)</u> |
| | PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS | <u>\$ 1,255,923</u> |

The gross value of this equipment on the statement of net position is \$2,614,881 with accumulated depreciation of \$1,199,377.

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Police Pension Plan investments are carried at fair value as reported by the investment managers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Plan Description

Plan Administration - The Township administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund. The plan does not issue separate, stand-alone financial statements.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Management of the plan is vested in the Pension Advisory Board, which consists of up to eight members--three Township residents appointed by the Township, the Chairman of the Board of Supervisors, one member of the Board of Supervisors, the Township Manager, one sworn police officer and one non-uniformed employee. The Pension Advisory Board is responsible for advising, reviewing, monitoring and making recommendations to the Board of Supervisors as to the administrative, operation and investment of the plan.

Plan Membership - At December 31, 2015, plan membership consisted of the following:

| | |
|---|------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 15 |
| Inactive plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>27</u> |
| | <u><u>42</u></u> |

Benefits Provided - The plan provides retirement benefits as well as death and disability benefits under Pennsylvania Act 600. All benefits vest after 12 years of credited service. Officers are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last 36 months of employment. Married officers will receive joint and 50% survivor annuity. Normal retirement is age 50 with at least 25 years of service. Officers may also receive a service increment equal to \$25 per month for each year of service in excess of 25 years up to a maximum of \$100 per month.

If a member dies in service, a benefit will be paid per Act 30 equal to 100% of salary. Covered employees are required by statute to contribute 4% of their compensation to the plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The benefit provisions of the Township's plan are established by Township ordinances.

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to 5% of the participant's pay.

In 2015, the MMO obligation for the plan was \$762,752 for the year 2015. Contributions of \$762,752 were made by the Township.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings. On-behalf payments of fringe benefits and salaries for the Township's employees were recognized as revenues and expenditures during the year.

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Advisory Board. It is the policy of the Pension Advisory Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The 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, 2015:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity | 50% |
| International equity | 21% |
| Fixed income | 28% |
| Real estate | 0% |
| Cash | 1% |
| | <u>100%</u> |

Concentrations - More than 5% of the Township's investments are in exchange traded funds and mutual fund assets. These investments are 31% and 69%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 0.06%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2015, were as follows:

| | |
|---|---------------------|
| Total pension liability | \$ 15,199,066 |
| Plan fiduciary net position | <u>(12,355,388)</u> |
| NET PENSION LIABILITY | <u>\$ 2,843,678</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>81.29%</u> |

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------------|
| Inflation | 3% |
| Salary increases | 4.5% annual increase |
| Investment rate of return | 7.35% |

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2015 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity | 50% |
| International equity | 21% |
| Fixed income | 28% |
| Real estate | 0% |
| Cash | <u>1%</u> |
| | <u>100%</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. 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 to ultimately achieve a 100% funded status.

Changes in the Net Pension Liability

| | Governmental Activities: | | |
|-------------------------|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance at 12/31/2014 | \$ 13,807,329 | \$ 12,082,153 | \$ 1,725,176 |
| Changes for the year: | | | |
| Service cost | 395,778 | - | 395,778 |
| Interest cost | 1,057,529 | - | 1,057,529 |
| Changes for experience | 231,913 | - | 231,913 |
| Changes of assumptions | 249,376 | - | 249,376 |
| Contributions | | | |
| Employer | - | 762,752 | (762,752) |
| Member | - | 154,983 | (154,983) |
| Net investment income | - | (89,851) | 89,851 |
| Benefit payments | (542,859) | (542,859) | - |
| Administrative expenses | - | (11,790) | 11,790 |
| Net Changes | <u>1,391,737</u> | <u>273,235</u> | <u>1,118,502</u> |
| Balance at 12/31/2015 | <u>\$ 15,199,066</u> | <u>\$ 12,355,388</u> | <u>\$ 2,843,678</u> |

Changes in Assumptions

In the 2015 actuarial valuation, the assumed investment rate of return and the assumed discount rate were both adjusted to 7.35%. In prior years, the assumption was that both of those rates were 7.50%.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

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 7.35%, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.35%) or one percentage point higher (8.35%) than the current rate:

| | 1% Decrease <u>(6.35%)</u> | Current Discount Rate (7.35%) | 1% Increase <u>(8.35%)</u> |
|-----------------------|----------------------------------|-------------------------------------|----------------------------------|
| Net pension liability | \$ <u>4,773,419</u> | \$ <u>2,843,678</u> | \$ <u>1,229,870</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Township recognized pension expense of \$102,297. At December 31, 2015, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Governmental Activities</u> | |
|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference between expected and actual experience | \$ 206,145 | \$ - |
| Change of Assumptions | 221,668 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>792,986</u> | <u>-</u> |
| | <u>\$ 1,220,799</u> | <u>\$ -</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

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

| <u>Year Ending December 31:</u> | <u>Governmenta Activities</u> |
|-------------------------------------|-----------------------------------|
| 2016 | \$ 251,723 |
| 2017 | 251,723 |
| 2018 | 251,723 |
| 2019 | 251,723 |
| 2020 | 53,476 |
| Thereafter | 160,431 |

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 more than 48 months. The member's monthly pension shall be calculated as of their date of participation in the program and shall be distributed in a lump sum at retirement. As of December 31, 2015, one member has elected to participate in the DROP. The total DROP account balance is approximately \$129,394.

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Non-Uniform Employees' Pension Plan investments are carried at fair value as reported by the investment managers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

Plan Description

Plan Administration - The Township administers the Non-Uniform Employees' Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time non-uniform employees. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund. The plan does not issue separate, stand-alone financial statements.

Management of the Non-Uniform Employees' Pension Plan is vested in the Pension Advisory Board, which consists of up to eight members--three Township residents appointed by the Township, the Chairman of the Board of Supervisors, one member of the Board of Supervisors, the Township Manager, one sworn police officer and one non-uniformed employee. The Pension Advisory Board is responsible for advising, reviewing, monitoring and making recommendations to the Board of Supervisors as to the administrative, operation and investment of the Non-Uniform Employees' Pension Plan.

Plan Membership - At December 31, 2015, plan membership consisted of the following:

| | |
|---|------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 22 |
| Inactive plan members entitled to but not yet receiving benefits | 8 |
| Active plan members | <u>31</u> |
| | <u><u>61</u></u> |

Benefits Provided - The plan provides retirement benefits as well as death benefits. All benefits vest at 10% per year, graded up to 100% after ten years of credited service. Employees who retire at or after age 65 with 20 years of service are entitled to an annual retirement benefit, payable monthly, in the normal form of a ten-year certain and continuous annuity, in an amount equal to 50% of the final average compensation reduced proportionately for less than 30 years of service. Final average compensation is the employee's average monthly earnings over the last 60 months of compensation. Married employees will receive joint and 50% survivor annuity. Early retirement benefits equal the vested accrued benefit and begin at age 65. If benefits begin before age 65, they will be reduced by 3.33% for each year the benefits commence before age 65.

The benefit provisions of the plan are established by Township ordinances.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

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

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to 1% of the participant's pay.

In 2015, the MMO obligation for the plan was \$148,553 for the year 2015. Contributions of \$148,553 were made by the Township.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings. On-behalf payments of fringe benefits and salaries for the Township's employees were recognized as revenues and expenditures during the year.

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Advisory Board. It is the policy of the Pension Advisory Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The 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, 2015:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity | 45% |
| International equity | 26% |
| Fixed income | 28% |
| Cash | 1% |
| | <u>100%</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

Concentrations - More than 5% of the Township's investments are in exchange traded funds and mutual funds. These investments are 32% and 68%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2015, were as follows:

| | |
|--|---------------------|
| Total pension liability | \$ 4,722,853 |
| Plan fiduciary net position | <u>(4,921,673)</u> |
| NET PENSION LIABILITY | <u>\$ (198,820)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>104.21%</u> |

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------------|
| Inflation | 3% |
| Salary increases | 4.5% annual increase |
| Investment rate of return | 7.5% |

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

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

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2015 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|---|
| Domestic equity | 7.5% |
| International equity | 6.5% |
| Fixed income | 3.0% |
| Real estate | 6.5% |
| Cash | 1.0% |

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. 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 to ultimately achieve a 100% funded status.

Changes in the Net Pension Liability

| | <u>Governmental Activities:</u> | | |
|-------------------------|--|--|--|
| | <u>Total Pension Liability/(Asset) (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net Pension Liability/(Asset) (a)-(b)</u> |
| Balance at 12/31/2014 | \$ 2,271,064 | \$ 2,520,239 | \$ (249,175) |
| Changes for the year: | | | |
| Service cost | 72,140 | - | 72,140 |
| Interest cost | 165,641 | - | 165,641 |
| Changes for experience | (69,250) | - | (69,250) |
| Changes of assumptions | 37,503 | - | 37,503 |
| Contributions | | | |
| Employer | - | 74,277 | (74,277) |
| Member | - | 13,166 | (13,166) |
| Net investment income | - | (28,533) | 28,533 |
| Benefit payments | (115,656) | (115,656) | - |
| Administrative expenses | - | (2,640) | 2,640 |
| Net Changes | <u>90,378</u> | <u>(59,386)</u> | <u>149,764</u> |
| Balance at 12/31/2015 | <u>\$ 2,361,442</u> | <u>\$ 2,460,853</u> | <u>\$ (99,411)</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

| | Business-Type Activities: | | |
|-------------------------|-------------------------------------|----------------------------------|---|
| | Total | Plan | Net |
| | Pension Liability/(Asset) (a) | Fiduciary Net Position (b) | Pension Liability/(Asset) (a) - (b) |
| Balance at 12/31/2014 | \$ 2,271,034 | \$ 2,520,206 | \$ (249,172) |
| Changes for the year: | | | |
| Service cost | 72,140 | - | 72,140 |
| Interest cost | 165,640 | - | 165,640 |
| Changes for experience | (69,250) | - | (69,250) |
| Changes of assumptions | 37,502 | - | 37,502 |
| Contributions | | | |
| Employer | - | 74,276 | (74,276) |
| Member | - | 13,166 | (13,166) |
| Net investment income | - | (28,533) | 28,533 |
| Benefit payments | (115,655) | (115,655) | - |
| Administrative expenses | - | (2,640) | 2,640 |
| | <u>90,377</u> | <u>(59,386)</u> | <u>149,763</u> |
| Balance at 12/31/2015 | <u>\$ 2,361,411</u> | <u>\$ 2,460,820</u> | <u>\$ (99,409)</u> |

Changes in Assumptions

In the 2015 actuarial valuation, the assumed investment rate of return and the assumed discount rate were both adjusted to 7.35%. In prior years, the assumption was that both of those rates were 7.50%.

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 7.35%, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.35%) or one percentage point higher (8.35%) than the current rate:

| | 1% Decrease (6.35%) | Current Discount Rate (7.35%) | 1% Increase (8.35%) |
|-------------------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability (asset) | \$ <u>274,228</u> | \$ <u>(198,820)</u> | \$ <u>(738,467)</u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE H - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM EMPLOYEES' PENSION PLAN)
(Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Township recognized pension expense of \$7,959. At December 31, 2015, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|--|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference between expected and actual experience | \$ - | \$ 61,556 | \$ - | \$ 61,555 |
| Change of Assumptions | 33,336 | - | 33,335 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>170,449</u> | <u>-</u> | <u>170,447</u> | <u>-</u> |
| | <u>\$ 203,785</u> | <u>\$ 61,556</u> | <u>\$ 203,782</u> | <u>\$ 61,555</u> |

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

| <u>Year Ending December 31,</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|---------------------------------|--------------------------------|---------------------------------|
| 2016 | \$ 39,085 | \$ 39,084 |
| 2017 | 39,085 | 39,084 |
| 2018 | 39,085 | 39,084 |
| 2019 | 39,085 | 39,084 |
| 2020 | (3,528) | (3,527) |
| Thereafter | (10,583) | (10,582) |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE I - DEFINED CONTRIBUTION PLAN

The Township has established a defined contribution pension plan to provide pension benefits for its regular, full-time, non-uniformed employees. Under the plan, an individual received his own account within the Fund to which all contributions are made. The employee determines how his account is invested.

Under the plan, the Township contributes 2% to 7%, dependent on the employee's chosen contribution percentage, to range from 0% to 5%.

This plan was established effective May 13, 2014. Any full-time, permanent, non-uniformed employee of the Township hired before May 31, 2014, may opt to transfer into the defined contribution plan. Each full-time, permanent, non-uniformed employee hired on or after May 13, 2014, shall become eligible upon six months of service. For the year ended December 31, 2015, no contributions were made to this plan.

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Police OPEB Plan Description

In accordance with the Police Labor Contract effective January 1, 2005, the Township implemented a postretirement healthcare benefit plan for police employees who retire from the Township. All officers will be eligible for coverage upon retirement after reaching the minimum age of 50 years and the completion of 25 years of service, or after separation with a service connected disability. A retired officer's spouse and dependent children are also eligible for coverage under the plan. Plan benefits may be amended through Police Labor Contracts.

Eligible officers receive continued medical coverage in the Township's medical plan for Active Police Employees under the following conditions:

- Any retiree who is eligible for medical insurance through other employment or through his or her spouse shall not receive postretirement health payments. It shall be the retiree's responsibility to report any eligibility for any health benefit to the Township. All retirees receiving postretirement health payments shall be required on an annual basis to fill out a form certifying that the retiree is not eligible for health benefits from the retiree's employer or the employer of the retiree's spouse. If such a retiree thereafter loses eligibility for the payment, he or she may again become eligible for postretirement health payments by certifying that he or she no longer has outside health coverage under a separate employer's plan or a spouse's plan.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

- The Township will pay 70% of the premium cost for the retiree, spouse and dependent children for five years immediately following retirement. During the sixth and seventh year of retirement, the Township will pay 70% of the premium cost for the retiree only. The Township contribution is thereafter capped at 70% of the seventh year rate, and the retiree will continue to receive that benefit until the retiree is eligible for Medicare. Any premium increases for the eighth and subsequent years will be the responsibility of the retiree.
- The Township will pay 100% of the premium cost for Retired Police Chiefs, their spouses and dependent children.
- Coverage will terminate upon Medicare eligibility.
- Retiree health insurance will include the same coverage as for Active Police Employees: major medical, hospitalization, prescription, vision and dental coverage.

The plan does not issue a stand-alone report.

Funding Policy

Retirees are not required to make contributions to either plan. The contribution requirements of plan members have been established and may be amended through Police Labor Contracts (police). The Township is accounting for these expenditures on a “pay-as-you-go” basis. The costs of administering the plan are paid by the Township.

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 Statement 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 30 years.

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 are as follows:

| | |
|---|--------------------------------|
| Annual required contribution | \$ 317,823 |
| Interest on net OPEB obligation | 57,939 |
| Adjustments to annual required contribution | <u>(79,044)</u> |
| ANNUAL OPEB COST | 296,718 |
| Contributions made | <u>(77,233)</u> |
| INCREASE IN NET OPEB OBLIGATION | 219,485 |
| Net OPEB obligation at beginning of year | <u>1,287,543</u> |
| NET OPEB OBLIGATION AT END OF YEAR | <u><u>\$ 1,507,028</u></u> |

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Three-Year Trend Information

| <u>Fiscal Year Ended December 31,</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net Pension OPEB Obligation</u> |
|---|---------------------------------|---|--|
| 2013 | \$ 264,287 | 30% | \$ 1,059,959 |
| 2014 | 300,449 | 24% | 1,287,543 |
| 2015 | 296,718 | 26% | 1,507,028 |

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the funded status of the plan is as follows:

| | (a) <u>Actuarial Value of Assets</u> | (b) <u>Actuarial Accrued Liability</u> | (c) <u>Funded Ratio (a)/(b)</u> | (d) <u>Unfunded Actuarial Accrued Liability (b)-(a)</u> | (e) <u>Accrued Projected Annual Covered Payroll</u> | (f) <u>Liability as a Percentage of Payroll (d)/(e)</u> |
|--------|---|---|--|--|--|--|
| Police | \$ - | \$ 2,678,885 | 0% | \$ 2,678,885 | \$ 2,794,482 | 96% |

The projection of future benefit payments for an ongoing plan involves 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 basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan 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 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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

In the January 1, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment rate of return (net of administrative expenses) of 4.5% for the Police Plan, which is a blended rate of the expected long-term investment returns on plan assets. Annual salary increases are assumed to be 4.5% for the Police Plan. The inflation rate of healthcare costs is assumed to be 6.5% in 2014 and will decrease by .5% per year to 5.5% in 2016. Rates then gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later. The UAAL is being amortized based on a level dollar, 30-year open period over future years as part of the annual contribution requirement.

NOTE K - CONTRIBUTIONS IN AID OF CONSTRUCTION

Water and sewer systems and equipment, which are constructed and installed by developers in new housing developments in the Township, are generally dedicated upon completion of each section of the development. Upon dedication, the estimated cost to construct such property is recorded as an increase to property, plant and equipment and an increase to contributions in aid of construction.

NOTE L - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance.

NOTE M - CONTINGENT LIABILITIES

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

NOTE N - PRIOR PERIOD ADJUSTMENT

The Township implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension – An Amendment of GASB Statement No. 27, effective January 1, 2015.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments have to record any unfunded liability of their pension plans.

For the government-wide governmental activities, the Township has treated the beginning of year net pension liability of \$1,476,001 as having been recognized in the period incurred. The Township has adjusted beginning net position for the governmental activities from \$27,141,912 to \$25,559,815.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE N - PRIOR PERIOD ADJUSTMENT (Continued)

For the government-wide business-type activities, the Township has treated the beginning of year net pension asset of \$249,172 as having been recognized in the period incurred. The Township has adjusted beginning net position for the business activities from \$41,188,041 to \$41,437,213.

REQUIRED SUPPLEMENTARY INFORMATION

WARRINGTON TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Property | \$ 2,790,000 | \$ 2,790,000 | \$ 2,774,293 | \$ (15,707) |
| Transfer | 750,000 | 750,000 | 983,697 | 233,697 |
| Earned income | 4,275,000 | 4,275,000 | 4,345,930 | 70,930 |
| Other | 410,000 | 410,000 | 444,128 | 34,128 |
| Fees and fines | 170,000 | 170,000 | 186,632 | 16,632 |
| Licenses and permits | 536,500 | 536,500 | 590,141 | 53,641 |
| Intergovernmental | 920,800 | 920,800 | 938,944 | 18,144 |
| Charges for services | 1,782,500 | 1,782,500 | 1,934,629 | 152,129 |
| Investment income and rent | 385,000 | 385,000 | 468,586 | 83,586 |
| Miscellaneous | 695,600 | 695,600 | 777,342 | 81,742 |
| TOTAL REVENUES | 12,715,400 | 12,715,400 | 13,444,322 | 728,922 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 1,689,808 | 1,689,808 | 1,635,973 | 53,835 |
| Public safety | 7,699,193 | 7,699,193 | 8,437,479 | (738,286) |
| Public works | 2,295,043 | 2,295,043 | 1,920,490 | 374,553 |
| Sanitation | 148,536 | 148,536 | 129,301 | 19,235 |
| Culture and recreation | 332,445 | 332,445 | 346,482 | (14,037) |
| Debt service | | | | |
| Principal | - | - | 48,440 | (48,440) |
| Interest and other charges | - | - | 9,034 | (9,034) |
| TOTAL EXPENDITURES | 12,165,025 | 12,165,025 | 12,527,199 | (362,174) |
| EXCESS OF REVENUES OVER EXPENDITURES | 550,375 | 550,375 | 917,123 | 366,748 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 100,000 | 100,000 | 104,500 | (4,500) |
| Transfers out | (645,000) | (645,000) | (1,447,505) | 802,505 |
| TOTAL OTHER FINANCING SOURCES (USES) | (545,000) | (545,000) | (1,304,495) | 759,495 |
| NET CHANGE IN FUND BALANCE | 5,375 | 5,375 | (387,372) | (392,747) |
| FUND BALANCE AT BEGINNING OF YEAR | 3,147,547 | 3,147,547 | 3,147,547 | - |
| FUND BALANCE AT END OF YEAR | \$ 3,152,922 | \$ 3,152,922 | \$ 2,760,175 | \$ (392,747) |

WARRINGTON TOWNSHIP
SCHEDULE OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| TOTAL PENSION LIABILITY | | |
| Service cost | \$ 395,778 | \$ 366,456 |
| Interest | 1,057,529 | 980,495 |
| Changes for experience | 231,913 | - |
| Changes of assumptions | 249,376 | - |
| Benefit payments | <u>(542,859)</u> | <u>(507,570)</u> |
| NET CHANGE IN TOTAL PENSION LIABILITY | 1,391,737 | 839,381 |
| Total pension liability, beginning | <u>13,807,329</u> | <u>12,967,948</u> |
| TOTAL PENSION LIABILITY, ENDING (a) | <u>\$ 15,199,066</u> | <u>\$ 13,807,329</u> |
| PLAN FIDUCIARY NET POSITION | | |
| Contributions | | |
| Employer | \$ 762,752 | \$ 675,622 |
| Member | 154,983 | 114,668 |
| Net investment income | (89,851) | 790,792 |
| Benefit payments, including refunds of member contributions | (542,859) | (507,570) |
| Administrative expense | <u>(11,790)</u> | <u>(6,660)</u> |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 273,235 | 1,066,852 |
| Plan fiduciary net position, beginning | <u>12,082,153</u> | <u>11,015,301</u> |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | <u>\$ 12,355,388</u> | <u>\$ 12,082,153</u> |
| NET PENSION LIABILITY, ENDING (a)-(b) | <u>\$ 2,843,678</u> | <u>\$ 1,725,176</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>81.29%</u> | <u>87.51%</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 2,808,968</u> | <u>\$ 2,630,522</u> |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>101.24%</u> | <u>65.58%</u> |

Notes to Schedule:

Changes of assumptions. In 2015 amounts reported as changes of assumptions resulted from adjustment to the assumed investment rate of return, decreasing the rate from 7.50% to 7.35%.

WARRINGTON TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 762,752 | \$ 675,622 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>762,752</u> | <u>675,622</u> |
| CONTRIBUTION (EXCESS) DEFICIENCY | <u>\$ -</u> | <u>\$ -</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 2,808,968</u> | <u>\$ 2,630,522</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>27.15%</u> | <u>25.68%</u> |

NOTES TO SCHEDULE

Valuation date January 1, 2013

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 8 years |
| Asset valuation method | Market value |
| Inflation | 3% |
| Salary increases | 4.5% |
| Investment rate of return | 7.5% |
| Retirement age | Latest of age 51, age at the completion of 25 years of service |
| Mortality | Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table |

WARRINGTON TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>0.06%</u> | <u>7.70%</u> |

WARRINGTON TOWNSHIP

SCHEDULE OF CHANGES IN THE NET NON-UNIFORM EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | |
| Service cost | \$ 144,280 | \$ 137,707 |
| Interest | 331,281 | 323,696 |
| Changes of experience | (138,500) | - |
| Changes of assumptions | 75,005 | - |
| Benefit payments | <u>(231,311)</u> | <u>(195,080)</u> |
| NET CHANGE IN TOTAL PENSION LIABILITY | 180,755 | 266,323 |
| Total pension liability, beginning | <u>4,542,098</u> | <u>4,275,775</u> |
| TOTAL PENSION LIABILITY, ENDING (a) | <u>\$ 4,722,853</u> | <u>\$ 4,542,098</u> |
| PLAN FIDUCIARY NET POSITION | | |
| Contributions | | |
| Employer | \$ 148,553 | \$ 133,220 |
| Member | 26,332 | 35,970 |
| Net investment income | (57,066) | 339,170 |
| Benefit payments, including refunds of member contributions | (231,311) | (195,080) |
| Administrative expense | <u>(5,280)</u> | <u>(6,130)</u> |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | (118,772) | 307,150 |
| Plan fiduciary net position, beginning | <u>5,040,445</u> | <u>4,733,295</u> |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | <u>\$ 4,921,673</u> | <u>\$ 5,040,445</u> |
| NET PENSION LIABILITY, ENDING (a)-(b) | <u>\$ (198,820)</u> | <u>\$ (498,347)</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>104.21%</u> | <u>110.97%</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 1,832,804</u> | <u>\$ 1,847,086</u> |
| NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>-10.85%</u> | <u>-26.98%</u> |

Notes to Schedule:

Changes of assumptions. In 2015 amounts reported as changes of assumptions resulted from adjustment to the assumed investment rate of return, decreasing the rate from 7.50% to 7.35%.

WARRINGTON TOWNSHIP
SCHEDULE OF NON-UNIFORM EMPLOYEES'
PENSION PLAN CONTRIBUTIONS
LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 148,553 | \$ 132,470 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>148,553</u> | <u>132,470</u> |
| CONTRIBUTION (EXCESS) DEFICIENCY | <u>\$ -</u> | <u>\$ -</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 1,832,804</u> | <u>\$ 1,847,086</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>8.11%</u> | <u>7.17%</u> |

NOTES TO THE SCHEDULE

Valuation date January 1, 2013

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 17 years |
| Asset valuation method | Market value |
| Inflation | 3% |
| Salary increases | 4.5% |
| Investment rate of return | 7.5% |
| Retirement age | Normal retirement age |
| Mortality | Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table |

WARRINGTON TOWNSHIP
SCHEDULE OF NON-UNIFORM EMPLOYEES'
PENSION PLAN INVESTMENT RETURNS
LAST TWO FISCAL YEARS

| | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>0.10%</u> | <u>7.70%</u> |

WARRINGTON TOWNSHIP
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2015

SCHEDULE OF FUNDING PROGRESS

Police Plan

| Actuarial Valuation Date <u>January 1,</u> | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (b)-(a) | (d) Funded Ratio (a)/(b) | (e) Annual Covered Payroll | (f) UAAL as a Percentage of Covered Payroll (c)/(e) |
|---|--|---|--|-----------------------------------|-------------------------------------|--|
| 2008 | \$ - | \$ 2,524,011 | \$ 2,524,011 | 0% | \$ 2,249,885 | 112% |
| 2011 | - | 2,321,248 | 2,321,248 | 0% | 2,585,436 | 90% |
| 2014 | - | 2,678,885 | 2,678,885 | 0% | 2,794,482 | 96% |

SUPPLEMENTARY INFORMATION SECTION

WARRINGTON TOWNSHIP
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2015

| | Special Revenue Fund <u>Highway Aid Fund</u> | <u>Capital Project Funds</u> | | Total Other Governmental Funds |
|--|---|------------------------------|----------------------------|--------------------------------------|
| | | Capital Fund | Capital Reserve Fund | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 68,387 | \$ 326,694 | \$ 266,610 | \$ 661,691 |
| Due from other funds | - | 903,705 | 92,664 | 996,369 |
| | <u>68,387</u> | <u>1,230,399</u> | <u>359,274</u> | <u>1,658,060</u> |
| TOTAL ASSETS | \$ 68,387 | \$ 1,230,399 | \$ 359,274 | \$ 1,658,060 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,508 | \$ - | \$ 2,775 | \$ 4,283 |
| Due to other funds | 69,159 | 704,573 | 290 | 774,022 |
| | <u>70,667</u> | <u>704,573</u> | <u>3,065</u> | <u>778,305</u> |
| TOTAL LIABILITIES | 70,667 | 704,573 | 3,065 | 778,305 |
| FUND BALANCES | | | | |
| Restricted | | | | |
| Capital improvements | - | - | 356,209 | 356,209 |
| Highway and street improvements | - | - | - | - |
| Assigned, capital projects | - | 525,826 | - | 525,826 |
| Unassigned | (2,280) | - | - | (2,280) |
| | <u>(2,280)</u> | <u>525,826</u> | <u>356,209</u> | <u>879,755</u> |
| TOTAL FUND BALANCES | (2,280) | 525,826 | 356,209 | 879,755 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 68,387 | \$ 1,230,399 | \$ 359,274 | \$ 1,658,060 |

WARRINGTON TOWNSHIP
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

| | Special Revenue Fund <u>Highway Aid Fund</u> | <u>Capital Project Funds</u> | | Total Other Governmenta Funds |
|---|---|------------------------------|-------------------------------------|-------------------------------------|
| | | <u>Capital Fund</u> | <u>Capital Reserve Fund</u> | |
| REVENUES | | | | |
| Intergovernmental | \$ 561,972 | \$ 94,180 | \$ - | \$ 656,152 |
| Investment income and rent | 103 | 749 | 612 | 1,464 |
| Miscellaneous | - | - | - | - |
| TOTAL REVENUES | <u>562,075</u> | <u>94,929</u> | <u>612</u> | <u>657,616</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | - | 22,483 | - | 22,483 |
| Public safety | - | - | 108,107 | 108,107 |
| Highways and roads | 415,270 | 227,060 | 543,246 | 1,185,576 |
| Culture and recreation | - | 144,690 | - | 144,690 |
| Debt service | | | | |
| Principal | 185,000 | - | 131,762 | 316,762 |
| Interest and other charges | 65,209 | - | 10,778 | 75,987 |
| TOTAL EXPENDITURES | <u>665,479</u> | <u>394,233</u> | <u>793,893</u> | <u>1,853,605</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | | | | |
| | <u>(103,404)</u> | <u>(299,304)</u> | <u>(793,281)</u> | <u>(1,195,989)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from capital leases | - | - | 420,376 | 420,376 |
| Proceeds from sale of capital assets | - | - | 21,928 | 21,928 |
| Transfers in | 53,505 | 580,000 | 339,000 | 972,505 |
| Transfers out | - | (48,000) | - | (48,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>53,505</u> | <u>532,000</u> | <u>781,304</u> | <u>1,366,809</u> |
| NET CHANGE IN FUND BALANCES | | | | |
| | (49,899) | 232,696 | (11,977) | 170,820 |
| FUND BALANCES AT BEGINNING OF YEAR | | | | |
| | <u>47,619</u> | <u>293,130</u> | <u>368,186</u> | <u>708,935</u> |
| FUND BALANCES AT END OF YEAR | | | | |
| | <u>\$ (2,280)</u> | <u>\$ 525,826</u> | <u>\$ 356,209</u> | <u>\$ 879,755</u> |

WARRINGTON TOWNSHIP

COMBINING SCHEDULE OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2015

| | Pension Trust Funds | | |
|---|--------------------------------|---|--|
| | <u>Police Pension Fund</u> | <u>Non-Uniform Employees Pension Fund</u> | <u>Total Pension Trust Funds</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 140,994 | \$ 62,050 | \$ 203,044 |
| Investments | 12,212,134 | 4,848,028 | 17,060,162 |
| Due from other funds | - | 11,595 | 11,595 |
| Receivable from pension administrator | <u>13,010</u> | <u>-</u> | <u>13,010</u> |
| TOTAL ASSETS | \$ <u>12,366,138</u> | \$ <u>4,921,673</u> | \$ <u>17,287,811</u> |
| LIABILITIES | | | |
| Due to other funds | <u>\$ 10,750</u> | <u>\$ -</u> | <u>\$ 10,750</u> |
| NET POSITION | | | |
| Held in trust for benefits and other purposes | <u>12,355,388</u> | <u>4,921,673</u> | <u>17,277,061</u> |
| TOTAL LIABILITIES AND NET POSITION | \$ <u>12,366,138</u> | \$ <u>4,921,673</u> | \$ <u>17,287,811</u> |

WARRINGTON TOWNSHIP**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS****YEAR ENDED DECEMBER 31, 2015**

| | Pension Trust Funds | | |
|---|--------------------------------|---|--|
| | <u>Police Pension Fund</u> | <u>Non-Uniform Employees Pension Fund</u> | <u>Total Pension Trust Funds</u> |
| ADDITIONS | | | |
| Contributions | | | |
| Employer | \$ 378,510 | \$ 148,553 | \$ 527,063 |
| Plan members | 154,983 | 26,332 | 181,315 |
| State | 384,242 | - | 384,242 |
| TOTAL CONTRIBUTIONS | <u>917,735</u> | <u>174,885</u> | <u>1,092,620</u> |
| Investment earnings | | | |
| Net decrease in fair value of investments | (348,155) | (163,273) | (511,428) |
| Dividends | 297,428 | 122,377 | 419,805 |
| Investment activity expense | (39,124) | (16,170) | (55,294) |
| INVESTMENT EARNINGS, net | <u>(89,851)</u> | <u>(57,066)</u> | <u>(146,917)</u> |
| TOTAL ADDITIONS | <u>827,884</u> | <u>117,819</u> | <u>945,703</u> |
| DEDUCTIONS | | | |
| Benefits | 542,859 | 231,311 | 774,170 |
| Administrative | 11,790 | 5,280 | 17,070 |
| TOTAL DEDUCTIONS | <u>554,649</u> | <u>236,591</u> | <u>791,240</u> |
| CHANGE IN NET POSITION | 273,235 | (118,772) | 154,463 |
| NET POSITION AT BEGINNING OF YEAR | <u>12,082,153</u> | <u>5,040,445</u> | <u>17,122,598</u> |
| NET POSITION AT END OF YEAR | <u>\$ 12,355,388</u> | <u>\$ 4,921,673</u> | <u>\$ 17,277,061</u> |