

WARRINGTON TOWNSHIP
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2016



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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

Emphasis of Matter

For the year ended December 31, 2016, Warrington Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. 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 56, pension plan information on pages 57 through 62 and postemployment benefits other than pension funding progress on page 63 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
July 24, 2017

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

FINANCIAL HIGHLIGHTS

- The assets of Warrington Township exceeded its liabilities at the close of the most recent fiscal year by \$66.6 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 net assets have a deficit balance.
- The Township's total net position decreased by \$0.8 million. As of the close of the current fiscal year, Warrington Township's Governmental Funds reported combined ending fund balances of \$12.8 million. Approximately \$4.4 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 \$3.9 million or 33.35% of General Fund expenditures.
- Warrington Township's total debt increased by \$4 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 non-major 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 non-major 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 \$66.6 million at the close of the most recent fiscal year.

The largest portion of Warrington Township's net position (89.6%) is net investment in capital assets.

Governmental Activities

Governmental activities increased Warrington Township's net position by \$0.4 million.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

Table 1

**Condensed Statements of Net Position (In Thousands of Dollars)
December 31, 2016 and 2015**

	Governmental Activities	
	2016	2015
ASSETS		
Current and other assets	\$ 15,238	\$ 10,841
Capital assets		
Depreciable	37,067	37,053
Nondepreciable	6,090	5,702
TOTAL ASSETS	58,395	53,596
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	1,133	1,425
LIABILITIES		
Long-term liabilities outstanding	31,365	26,952
Other liabilities	1,519	1,788
TOTAL LIABILITIES	32,884	28,740
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on defeasance of debt	29	26
Deferred inflows related to pensions	54	62
TOTAL DEFERRED INFLOWS OF RESOURCES	83	88
NET POSITION		
Net investment in capital assets	25,949	25,061
Restricted	7,482	5,414
Unrestricted	(6,870)	(4,282)
TOTAL NET POSITION	\$ 26,561	\$ 26,193

Business-Type Activities		Totals	
2016	2015	2016	2015
\$ 10,721	\$ 11,488	\$ 25,959	\$ 22,329
45,292	46,272	82,359	83,325
2,579	2,888	8,669	8,590
<u>58,592</u>	<u>60,648</u>	<u>116,987</u>	<u>114,244</u>
158	204	1,291	1,629
17,837	19,346	49,202	46,298
734	844	2,253	2,632
<u>18,571</u>	<u>20,190</u>	<u>51,455</u>	<u>48,930</u>
55	61	84	87
54	62	108	124
<u>109</u>	<u>123</u>	<u>192</u>	<u>211</u>
33,768	34,220	59,717	59,281
-	-	7,482	5,414
6,302	6,319	(568)	2,037
<u>\$ 40,070</u>	<u>\$ 40,539</u>	<u>\$ 66,631</u>	<u>\$ 66,732</u>

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

Table 2

Condensed Statements of Changes in Net Position (In Thousands of Dollars)
Years Ended December 31, 2016 and 2015

	Governmental Activities	
	2016	2015
REVENUE		
Program revenue		
Charges for services	\$ 2,575	\$ 2,797
Operating grants and contributions	1,642	1,819
Capital grants and contributions	-	866
General revenue		
Taxes	11,182	9,919
Grants and contributions not restricted to specific programs	12	11
Investment earnings	474	484
Miscellaneous	607	777
Gain on disposal of assets	16	22
TOTAL REVENUE	16,508	16,695
EXPENDITURES		
Administration	1,906	1,777
Police department	8,278	8,278
Highway/public works	4,928	4,730
Health, welfare and sanitation	152	129
Culture and recreation	736	736
Interest on long-term debt	290	517
Water and sewer	-	-
TOTAL EXPENDITURES	16,290	16,167
CHANGE IN NET POSITION BEFORE TRANSFERS	218	528
TRANSFERS	150	105
CHANGE IN NET POSITION	368	633
NET POSITION AT BEGINNING OF YEAR, restated for business-type activities	26,193	25,560
NET POSITION AT END OF YEAR	\$ 26,561	\$ 26,193

Business-Type Activities		Totals	
2016	2015	2016	2015
\$ 7,006	\$ 7,251	\$ 9,581	\$ 10,048
1,004	-	2,646	1,819
8	505	8	1,371
-	-	11,182	9,919
-	-	12	11
49	58	523	542
-	-	607	777
-	-	16	22
<u>8,067</u>	<u>7,814</u>	<u>24,575</u>	<u>24,509</u>
-	-	1,906	1,777
-	-	8,278	8,278
-	-	4,928	4,730
-	-	152	129
-	-	736	736
-	-	290	517
<u>9,072</u>	<u>8,606</u>	<u>9,072</u>	<u>8,606</u>
<u>9,072</u>	<u>8,606</u>	<u>25,362</u>	<u>24,773</u>
(1,005)	(792)	(787)	(264)
<u>(150)</u>	<u>(105)</u>	<u>-</u>	<u>-</u>
(1,155)	(897)	(787)	(264)
<u>41,225</u>	<u>41,437</u>	<u>67,418</u>	<u>66,997</u>
\$ <u>40,070</u>	\$ <u>40,540</u>	\$ <u>66,631</u>	\$ <u>66,733</u>

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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 \$12.8 million, an increase of \$4.3 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 \$3.9 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 33.4% of total General Fund expenditures.

The fund balance of Warrington Township's General Fund increased by \$681,392 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 \$1.2 million.

General Fund Budgetary Highlights

The following is a summarized snapshot analysis of noteworthy budgetary highlights relating to all revenues and expenditures comprising the 2016 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 32.7% of all General Fund operating revenues, posted total revenues of \$4.5 million, more than a \$183,000 increase over the amount received in 2015.
- The Real Estate Transfer Tax revenue amounted to \$1,465,000, an increase of approximately \$482,000 as compared to 2015, and still exceeded budget (\$775,000) by approximately \$690,000.
- Charges for Services which derives its revenues primarily from permits for residential and commercial development saw a decrease in 2016. Revenue totaled \$1.7 million as compared to the \$1.9 million in revenue for 2015.
- Local Services Tax totaled \$511,000, an increase of \$67,000 as compared to 2015, and exceeded budget (\$425,000) by \$86,000.

Expenditures - General Fund expenditures totaled \$11.82 million, representing a 5.67% decrease over 2015. Decreases were primarily the result of 2015 expenditures that were not incurred in 2016 including costs for the Twin Oaks Day Camp and a fire truck.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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, 2016, amounts to \$91.0 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 decrease in Warrington Township's investment in capital assets for the current fiscal year was 1%.

The following comprise major project expenditures in 2016:

- Road paving expenditures totaled \$967,897.
- Storm drain rehabilitation at Warrington Village totaled \$112,324.
- Police patrol and administration vehicles with equipment were purchased or leased for a total of \$147,297.
- Township administration, codes, and sewer vehicles purchases totaled \$72,460.
- Computer hardware/software upgrades and new accounting software purchases totaled \$95,302.
- Public Works purchased vehicles and equipment, which includes large dump truck, utility truck, hook truck, JCB skid steer, and leased a Mack truck and street sweeper for a total of \$431,839.
- Trails and open space improvements including a walking trail from Street Road to County Line Road, acquisition of a 6.4 acre property located at Stump Road, in addition to a feasibility study of open space totaled \$349,434.
- Palomino Greyhorse Streambank Stabilization totaled \$640,145.
- Barness Park Improvements involving expanding and paving a parking lot, a new park entrance, drainage improvements, parking lot paving and baseball field lighting totaled \$1,493,851.
- Completed Neshaminy Gardens Storm Drainage Project. Expenditures for the year totaled \$16,931.

WARRINGTON TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2016

Table 3
Capital Assets (Net of Depreciation, In Thousands of Dollars)

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
CAPITAL ASSETS						
Land and improvements	\$ 4,965	\$ 4,835	\$ 162	\$ 162	\$ 5,127	\$ 4,997
Infrastructure	59,111	57,041	83,034	82,733	142,145	139,774
Buildings and improvements	8,757	8,757	7,321	5,839	16,078	14,596
Machinery and equipment	6,419	5,985	1,992	1,947	8,411	7,932
Construction in progress	1,125	867	2,417	2,727	3,542	3,594
	<u>80,377</u>	<u>77,485</u>	<u>94,926</u>	<u>93,408</u>	<u>175,303</u>	<u>170,893</u>
Accumulated depreciation	<u>(37,220)</u>	<u>(34,730)</u>	<u>(47,055)</u>	<u>(44,248)</u>	<u>(84,275)</u>	<u>(78,978)</u>
CAPITAL ASSETS, net	\$ <u>43,157</u>	\$ <u>42,755</u>	\$ <u>47,871</u>	\$ <u>49,160</u>	\$ <u>91,028</u>	\$ <u>91,915</u>

Long-Term Debt

At the end of the current fiscal year, Warrington Township had total bonded debt outstanding of \$40,820,672. 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	
	2016	2015	2016	2015	2016	2015
General obligation bonds and notes	\$ 24,996	\$ 20,342	\$ -	\$ -	\$ 24,996	\$ 20,342
Revenue bonds	-	-	15,825	16,540	15,825	16,540
Capital leases	<u>1,058</u>	<u>1,256</u>	<u>-</u>	<u>-</u>	<u>1,058</u>	<u>1,256</u>
	\$ <u>26,054</u>	\$ <u>21,598</u>	\$ <u>15,825</u>	\$ <u>16,540</u>	\$ <u>41,879</u>	\$ <u>38,138</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Warrington Township's economy was healthy in 2016 judging by the many residential and commercial developments started and/or completed. New developments underway or completed during 2016 include: Warrington Point, High Grove Manor (residential and commercial), Gander Mountain and Valley Gate (Penrose Office/Retail building) to name a few. Not only does development create jobs, but it also increases the Real Estate Tax base and generates additional tax revenue from the Earned Income and Local Services Tax. Additionally, each new development pays a Parks and Recreation Assessment which generates money to improve the Township's many parks.

The other side to generating additional revenue for one-time revenue of Real Estate Transfer Taxes, Building Permits, and Park & Recreation fees, as well as permanent revenue of Real Estate Tax, Earned Income Tax, and Local Services Tax, is that additional residents and additional businesses put a strain on Township resources such as Police and Fire protection and infrastructure of roads, water, sewer, and parks. The police have reported large increases in the number of calls they respond to, especially from commercial businesses. Likewise, more residents and businesses mean more cars which cause more wear and tear on the roadway system.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

The Township has taken on many projects in the last three years and was able to absorb the cost of these additional services due to the larger than normal revenue that development has brought to the township. Some of the projects over the last five years that were completed without passing any of the costs on to the taxpayers include:

Year	Estimated Annual Cost	Funding	Types of Projects Completed
2014	\$80,000	\$4 million Bond Issue	Public Works Complex, Road Paving, Palomino Basin Retrofit
2014	\$325,000	General Fund	Paid Career Firefighters
2016	\$380,000	\$6 million Bank Loan	Road Paving, Warrington Village Storm Sewer Rehabilitation, Park & Recreation Improvements

Just these three projects, which total \$785,000 is the equivalent of over two mills in real estate taxes (each mill generates approximately \$350,000). The township was able to do this due to the extraordinary amount of development that has taken place during that period.

In preparing for 2017, it was noted that the development climate in Warrington Township is changing. There are fewer developments slated to be started in 2017 than in any of the last four years. The Board of Supervisors will be taking a more careful look at the request for zoning changes (the Planning Commission is currently working on updating the Comprehensive Plan) and less large tracts of land are available to develop. This reduction in development, coupled with the need to pay for additional projects/services provided to the residents over the last three years has created a shortfall of approximately \$500,000 for 2017. To balance the budget, the staff recommended a .5 mill increase in the Debt Service Fund (the fund used to pay off the 2014 and 2016 bond issue/bank loan). Staff also recommended that a one-time credit, in the amount of \$190,000, be taken from the Rate Stabilization Fund provided by the Health Plan Benefits Administrator, Delaware Valley Health Insurance Trust to reduce health care premiums. The remaining \$105,000 was achieved through less than anticipated increases in health plan and Worker's Compensation premiums and by reducing the amounts initially requested by Department for equipment and services. While these equipment requests may have been needed, it was recommended that they be deferred.

2016 Adopted Spending Plan

For 2017, a fiscally conservative and balanced budget was adopted. Expenditures are estimated at \$12.87 million as compared to the \$13.34 million spent in 2016, representing a 3.52% decrease over 2016. The table below shows the 2013-2017 General Fund budget summaries.

Table 5
General Fund Budget Summaries: 2013 - 2017 (In Millions)

Description	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Adopted
EXPENDITURES	11.16	12.82	13.98	13.34	12.88
REVENUES	13.02	12.92	14.09	14.02	12.88
NET CHANGE IN FUND BALANCE	1.86	.10	.11	.68	.0
ENDING FUND BALANCE	3.05	3.15	3.26	3.94	3.94
% FUND BALANCE TO EXPENDITURES	27.33 %	24.57%	23.32%	29.54%	30.59%

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

New Ideas for Enhanced Services to the Residents

During the budget building process, there were several requests submitted by Department Heads for new or enhanced services by adding additional personnel:

- Adding a two man (weekday/daytime) paid firefighting crew to Station 29.
- Adding two additional full-time police officers to provide additional patrols.
- Adding a Human Resources Manager.

While all of these would provide enhanced services to residents, only the addition of the police officer and a part-time Human Resource Manager were recommended due to budget constraints.

2017 Taxes/Fees

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

2017 Cost Drivers and Budget Variations

The Adopted 2017 budget reflects a decrease in expenditures as compared to 2016. Below are some of the noteworthy cost drivers which impact 2017 revenues and expenditures:

Fringe Benefits

Total fringe benefits will increase by only 3.27% for the General Fund. Traditionally, fringe benefit costs have increased by over 6% per year led by big increases in health care and Worker's Compensation premium costs. Staff researched some options for healthcare plans and surveyed the employees. The Township implemented the conversion to the Police Health Care Plan for all non-police employees. This plan is at a lower cost than the previous plan which will allow the township to save on health care premiums. Additionally, the township's tax burden will be reduced when the Affordable Health Care "Cadillac Tax" goes into effect in 2020. All employees (except Police Officers) will be enrolled in this new plan. Additionally, all new employees (hired beginning in 2015) including Police Officers, will be enrolled in a "new employee" plan which has higher co-pays than the Police Plan.

Residential and Commercial Development

Development is projected to continue, but not at the same levels as the last four years. In addition to strong development in 2016, there were also two large properties (Shops at Valley Square – \$407,500/Penn's Woods Condos-Kansas Rd- \$107,189) that sold in 2016 which brought in unexpected Real Estate Transfer Tax. As development is projected to decrease in 2017, the following revenues are budgeted at less than 2016 year-end projections:

<i>Category</i>	2016 Actual	2017 Budget	Difference
Real Estate Transfer tax	\$1,465,000	\$750,000	(\$715,000)
Public Safety (Building Permits)	1,155,000	972,500	(182,500)
Park and Recreation Assessment*	328,000	205,000	(123,000)
Total	\$2,948,000	\$1,927,500	-\$1,020,500

*This fee is transferred to the Capital Improvement Fund, so there will be a decrease in revenue to the Capital Improvement Fund in 2017.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

The table below lists all major 2017 budget variances items that are \$50,000 greater than or less than the 2016 adopted budget:

2017 Budget Variances ≥ \$50,000

REVENUES	EXPENSES	EXPLANATION	CUMULATIVE VARIANCE
\$235,000		Real Estate Tax - .6 mill tax increase	\$235,000
65,000		Earned Income Tax	300,000
(82,800)		SAFER Grant – Firefighters	217,200
(105,500)		Public Safety (Permits)	111,700
(170,000)		Park and Recreation Assessment Fee	(58,300)
190,000		Refund of Prior Year Expenditures (Health Premium Credit)	131,700
	\$207,500	Police Officer Salaries (2 new officers + wage increase)	(75,800)
	75,500	Police Officer Benefits (2 new officers + cost increase)	(151,300)
	56,000	Public Works Salaries (Director was contractor in 2016)	(207,300)
	208,000	Transfers to Other Funds	700

GENERAL FUND FISCAL TREND ANALYSIS: 2016 - 2019

Long Range Forecast for Revenues

As mentioned above, the General Fund balance is projected to be 22.46% (available cash divided by 2016 expenditures) by the end of 2017. 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 determine a clearer picture of where the township will stand, financially speaking, in the long run. We are nearing the end 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 new properties are built. 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 streaming services such as Netflix, this would mean less revenue for Comcast and Verizon, which in turn would reduce the franchise fees received from both companies.

The SAFER Grant used to hire a paid career firefighting staff was fully utilized in 2016. The paid firefighters' costs (salaries/benefits/equipment/uniforms/supplies) are approximately \$325,000 per year. Beginning in 2017, this entire amount will be borne by the General Fund.

WARRINGTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

On the expenditure side, consideration must be given to 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 Township is no exception. While we have made changes to curtail healthcare expenses, such as changing plans for a majority of the staff, healthcare costs traditionally rise at a near double digit pace.

The Township property tax rate for 2017 is 13.34 mills. This is an increase of .5 mills attributed to the Debt Service Fund.

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, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 12,752,660	\$ 8,401,380	\$ 21,154,040
Receivables	2,349,123	1,493,972	3,843,095
Internal balances	65,460	(65,460)	-
Due from other governments	-	638,658	638,658
Other assets	631	476	1,107
Notes receivable	-	167,264	167,264
Net pension asset	-	84,687	84,687
Bond discounts	69,655	-	69,655
Capital assets			
Land	4,965,355	161,764	5,127,119
Construction in progress	1,124,534	2,417,495	3,542,029
Infrastructure	59,111,089	-	59,111,089
Buildings and improvements	8,756,874	-	8,756,874
Machinery, vehicles and equipment	6,419,174	-	6,419,174
Utility system	-	92,346,593	92,346,593
Accumulated depreciation	(37,219,896)	(47,054,675)	(84,274,571)
TOTAL ASSETS	58,394,659	58,592,154	116,986,813
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,133,488	157,568	1,291,056
LIABILITIES			
Accounts payable and accrued expenses	522,994	734,211	1,257,205
Due to Fiduciary Funds	25,050	-	25,050
Unearned revenues	89,996	-	89,996
Escrows payable	880,824	-	880,824
Long-term liabilities			
Portion due or payable within one year			
Bonds, notes and capital leases	1,783,406	730,000	2,513,406
Accrued interest	60,679	59,142	119,821
Portion due or payable after one year			
Bonds, notes and capital leases	24,270,685	15,095,000	39,365,685
Bond premiums	742,998	1,942,920	2,685,918
Compensated absences	290,197	10,081	300,278
Net pension liability	2,498,706	-	2,498,706
Net OPEB obligation	1,718,641	-	1,718,641
TOTAL LIABILITIES	32,884,176	18,571,354	51,455,530
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on defeasance of debt	28,935	54,621	83,556
Deferred inflows related to pensions	53,861	53,861	107,722
TOTAL DEFERRED INFLOWS OF RESOURCES	82,796	108,482	191,278
NET POSITION			
Net investment in capital assets	25,949,596	33,767,623	59,717,219
Restricted	7,481,682	-	7,481,682
Unrestricted	(6,870,103)	6,302,263	(567,840)
TOTAL NET POSITION	\$ 26,561,175	\$ 40,069,886	\$ 66,631,061

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 1,905,845	\$ 670,894	\$ -	\$ -
Public safety	8,278,199	1,500,477	595,121	-
Public works	4,928,365	-	795,964	-
Sanitation	152,009	146,409	65,721	-
Culture and recreation	735,805	257,616	185,550	-
Interest on long-term debt	289,876	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	16,290,099	2,575,396	1,642,356	-
BUSINESS-TYPE ACTIVITIES				
Water and sewer	9,072,282	7,005,521	1,004,449	7,590
TOTAL TOWNSHIP ACTIVITIES	\$ 25,362,381	\$ 9,580,917	\$ 2,646,805	\$ 7,590

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 for business-type activities

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (1,234,951)	\$ -	\$ (1,234,951)
(6,182,601)	-	(6,182,601)
(4,132,401)	-	(4,132,401)
60,121	-	60,121
(292,639)	-	(292,639)
<u>(289,876)</u>	<u>-</u>	<u>(289,876)</u>
 <u>(12,072,347)</u>	 <u>-</u>	 <u>(12,072,347)</u>
 <u>-</u>	 <u>(1,054,722)</u>	 <u>(1,054,722)</u>
 <u>(12,072,347)</u>	 <u>(1,054,722)</u>	 <u>(13,127,069)</u>
 4,420,396	 -	 4,420,396
4,782,622	-	4,782,622
511,880	-	511,880
1,465,269	-	1,465,269
11,666	-	11,666
474,376	49,549	523,925
607,206	-	607,206
16,136	-	16,136
150,000	(150,000)	-
<u>12,439,551</u>	<u>(100,451)</u>	<u>12,339,100</u>
 367,204	 (1,155,173)	 (787,969)
 <u>26,193,971</u>	 <u>41,225,059</u>	 <u>67,419,030</u>
\$ <u><u>26,561,175</u></u>	\$ <u><u>40,069,886</u></u>	\$ <u><u>66,631,061</u></u>

WARRINGTON TOWNSHIP

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Open Space Fund
ASSETS		
Cash and cash equivalents	\$ 1,692,358	\$ 2,342,122
Accounts receivable	531,946	-
Taxes receivable	940,016	-
Due from other funds	5,008,542	507,600
Prepaid expenses	631	-
TOTAL ASSETS	<u>\$ 8,173,493</u>	<u>\$ 2,849,722</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 348,808	\$ -
Due to other funds	2,772,563	559,239
Due to Fiduciary Funds	25,050	-
Escrow payables	880,824	-
Unearned revenues	71,512	-
Accrued expenses	115,380	-
TOTAL LIABILITIES	<u>4,214,137</u>	<u>559,239</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues, property taxes	<u>17,789</u>	<u>-</u>
FUND BALANCES		
Nonspendable, prepaid expenses	631	-
Restricted		
Capital improvements	-	-
Emergency services	-	-
Open space and parkland improvements	-	2,290,483
Assigned		
Debt service	-	-
Capital projects	-	-
Highways and streets	-	-
Unassigned	<u>3,940,936</u>	<u>-</u>
TOTAL FUND BALANCES	<u>3,941,567</u>	<u>2,290,483</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 8,173,493</u>	<u>\$ 2,849,722</u>

See accompanying notes to the basic financial statements.

2016 Capital Projects Fund	Capital Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,986,279	\$ 489,960	\$ 678,565	\$ 1,563,376	\$ 12,752,660
-	-	-	-	531,946
-	-	2,051	-	942,067
2,130	2,323,355	34,530	51,362	7,927,519
-	-	-	-	631
<u>\$ 5,988,409</u>	<u>\$ 2,813,315</u>	<u>\$ 715,146</u>	<u>\$ 1,614,738</u>	<u>\$ 22,154,823</u>
\$ 2,079	\$ 4,142	\$ -	\$ 52,585	\$ 407,614
1,140,687	2,522,031	493,587	373,952	7,862,059
-	-	-	-	25,050
-	-	-	-	880,824
-	-	-	-	71,512
-	-	-	-	115,380
<u>1,142,766</u>	<u>2,526,173</u>	<u>493,587</u>	<u>426,537</u>	<u>9,362,439</u>
-	-	2,051	-	19,840
-	-	-	-	631
4,845,643	287,142	-	58,414	5,191,199
-	-	-	-	-
-	-	-	-	2,290,483
-	-	219,508	-	219,508
-	-	-	897,861	897,861
-	-	-	231,926	231,926
-	-	-	-	3,940,936
<u>4,845,643</u>	<u>287,142</u>	<u>219,508</u>	<u>1,188,201</u>	<u>12,772,544</u>
<u>\$ 5,988,409</u>	<u>\$ 2,813,315</u>	<u>\$ 715,146</u>	<u>\$ 1,614,738</u>	<u>\$ 22,154,823</u>

WARRINGTON TOWNSHIP

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2016

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 12,772,544
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:

Land	4,965,355
Construction in progress	1,124,534
Infrastructure	59,111,089
Buildings and improvements	8,756,874
Machinery, vehicles and equipment	6,419,174
Accumulated depreciation	(37,219,896)

Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Bond discounts	69,655
Deferred gain on defeasance of debt	(28,935)

Deferred inflows and outflows related to pension activities are not financial resources and therefore are not reported in the governmental funds.

1,079,627

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.

875,110

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(60,679)
Bonds, notes and capital leases	(26,054,091)
Bond premiums	(742,998)
Compensated absences	(290,197)
Net pension liability	(2,498,706)
Net OPEB obligation	(1,718,641)

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.

1,356

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>26,561,175</u>
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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, 2016**

	General Fund	Open Space Fund
REVENUES		
Taxes		
Property	\$ 2,829,445	\$ -
Transfer	1,465,269	-
Earned income	4,529,353	-
Other	511,880	-
Fees and fines	240,731	-
Licenses and permits	609,408	-
Intergovernmental	842,561	93,750
Charges for services	1,695,013	-
Investment income and rent	451,966	9,007
Miscellaneous	691,497	91,800
TOTAL REVENUES	<u>13,867,123</u>	<u>194,557</u>
EXPENDITURES		
Current		
General government	1,636,694	-
Public safety	7,741,308	-
Public works	1,942,994	33,470
Sanitation	152,009	-
Culture and recreation	260,435	315,964
Refund of prior year revenue	84,291	
Debt service		
Principal	-	-
Interest and other charges	-	-
TOTAL EXPENDITURES	<u>11,817,731</u>	<u>349,434</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,049,392</u>	<u>(154,877)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from long-term debt, net	-	-
Proceeds from capital leases	-	-
Proceeds from sale of capital assets	-	-
Transfers in	150,000	38,000
Transfers out	(1,518,000)	(600,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,368,000)</u>	<u>(562,000)</u>
NET CHANGE IN FUND BALANCES	681,392	(716,877)
FUND BALANCES AT BEGINNING OF YEAR	<u>3,260,175</u>	<u>3,007,360</u>
FUND BALANCES AT END OF YEAR	<u>\$ 3,941,567</u>	<u>\$ 2,290,483</u>

See accompanying notes to the basic financial statements.

2016 Capital Projects Fund	Capital Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,591,489	\$ -	\$ 4,420,934
-	-	-	-	1,465,269
-	-	-	-	4,529,353
-	-	-	-	511,880
-	-	-	-	240,731
-	-	-	-	609,408
-	-	-	656,155	1,592,466
-	-	-	-	1,695,013
4,086	2,276	1,584	5,457	474,376
-	-	-	-	783,297
<u>4,086</u>	<u>2,276</u>	<u>1,593,073</u>	<u>661,612</u>	<u>16,322,727</u>
15	58,485	-	123,240	1,818,434
-	-	-	204,511	7,945,819
1,118,530	1,518,141	-	944,368	5,557,503
-	-	-	-	152,009
22,106	14,334	-	-	612,839
				84,291
-	-	1,156,599	190,000	1,346,599
17,792	-	604,461	61,508	683,761
<u>1,158,443</u>	<u>1,590,960</u>	<u>1,761,060</u>	<u>1,523,627</u>	<u>18,201,255</u>
<u>(1,154,357)</u>	<u>(1,588,684)</u>	<u>(167,987)</u>	<u>(862,015)</u>	<u>(1,878,528)</u>
6,000,000	-	-	-	6,000,000
-	-	-	46,113	46,113
-	-	-	24,720	24,720
-	1,350,000	340,000	390,000	2,268,000
-	-	-	-	(2,118,000)
<u>6,000,000</u>	<u>1,350,000</u>	<u>340,000</u>	<u>460,833</u>	<u>6,220,833</u>
4,845,643	(238,684)	172,013	(401,182)	4,342,305
-	525,826	47,495	1,589,383	8,430,239
<u>\$ 4,845,643</u>	<u>\$ 287,142</u>	<u>\$ 219,508</u>	<u>\$ 1,188,201</u>	<u>\$ 12,772,544</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, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 4,342,305
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 (\$2,969,500) exceeds depreciation (\$2,567,170) in the current period.	402,330
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.	70,176
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.	(538)
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.	253,269
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. This amount is the net effect of these differences in the treatment of long-term debt.	(4,409,784)
Capital leases are revenues in the Governmental Funds, but these amounts increase the long-term liabilities in the statement of net position.	(46,113)
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:	
Accrued interest not reflected in Governmental Funds	(9,908)
Pension plan expense	(37,840)
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).	14,920
Net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	<u>(211,613)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>367,204</u></u>

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016

	Enterprise Fund <u>Water and Sewer Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 8,401,380
Accounts receivable	1,492,587
Due from other funds	101,008
Due from other governments	638,658
Other receivables	1,385
Notes receivable	19,660
Prepaid expenses	476
Net pension asset	<u>84,687</u>
TOTAL CURRENT ASSETS	<u>10,739,841</u>
NONCURRENT ASSETS	
Notes receivable	147,604
Capital assets	
Land	161,764
Utility system	45,291,918
Construction in progress	<u>2,417,495</u>
TOTAL NONCURRENT ASSETS	<u>48,018,781</u>
TOTAL ASSETS	<u>58,758,622</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>157,568</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	721,331
Salaries payable	12,880
Accrued interest payable	59,142
Due to other funds	166,468
Bonds payable	<u>730,000</u>
TOTAL CURRENT LIABILITIES	<u>1,689,821</u>
NONCURRENT LIABILITIES	
Compensated absences	10,081
Bonds payable	15,095,000
Bond premiums	<u>1,942,920</u>
TOTAL NONCURRENT LIABILITIES	<u>17,048,001</u>
TOTAL LIABILITIES	<u>18,737,822</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on defeasance of debt	54,621
Deferred inflows related to pensions	<u>53,861</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>108,482</u>
NET POSITION	
Net investment in capital assets	33,767,623
Unrestricted	<u>6,302,263</u>
TOTAL NET POSITION	<u>\$ 40,069,886</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, 2016

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 5,915,539
Other revenues	522,471
TOTAL OPERATING REVENUES	6,438,010
OPERATING EXPENSES	
Water and sewer operations	4,181,440
General and administrative	1,464,257
Depreciation	2,807,114
TOTAL OPERATING EXPENSES	8,452,811
OPERATING LOSS	(2,014,801)
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	49,549
Connection fees	83,234
Tapping fees	484,277
Grants and contributions	1,004,449
Interest expense	(619,471)
TOTAL NONOPERATING REVENUES	1,002,038
LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(1,012,763)
TRANSFERS IN	-
TRANSFERS OUT	(150,000)
CAPITAL CONTRIBUTIONS	7,590
CHANGE IN NET POSITION	(1,155,173)
NET POSITION AT BEGINNING OF YEAR, restated	41,225,059
NET POSITION AT END OF YEAR	\$ 40,069,886

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2016

	Enterprise Fund <u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,393,575
Payments to employees	(1,138,196)
Payments to suppliers	<u>(4,554,593)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>700,786</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(150,000)
Due to other funds	<u>(593,438)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(743,438)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition, construction and improvements of capital assets	(1,510,370)
Bond principal repayment	(715,000)
Interest paid on bonds	(744,045)
Grants and contributions	<u>1,004,449</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,964,966)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments received on notes receivable	30,210
Sale of investments	3,718,987
Earnings on investments	<u>49,549</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,798,746</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,791,128
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,610,252</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 8,401,380</u></u>

WARRINGTON TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2016

	Enterprise Fund <u>Water and Sewer Fund</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (2,014,801)
Connection fees, tapping fees and other miscellaneous activity	567,511
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	2,807,114
Pension expense	53,241
(Increase) decrease in	
Accounts receivable	16,625
Other receivables	10,087
Due from other governments	(638,658)
Increase (decrease) in	
Accounts payable	(112,497)
Accrued salaries and benefits	<u>12,164</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>700,786</u></u>

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2016

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 189,300
Investments	18,561,097
Due from fiduciary funds	10,750
Due from governmental funds	25,050
Receivable from pension administrator	<u>11,765</u>
TOTAL ASSETS	<u>\$ 18,797,962</u>
LIABILITIES	
Due to fiduciary funds	\$ <u>10,750</u>
NET POSITION	
Held in trust for benefits and other purposes	<u>18,787,212</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,797,962</u>

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2016

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 439,727
Plan members	183,033
State	406,842
TOTAL CONTRIBUTIONS	<u>1,029,602</u>
Investment earnings	
Net decrease in fair value of investments	910,392
Dividends	434,085
Investment activity expense	(76,585)
INVESTMENT EARNINGS, net	<u>1,267,892</u>
TOTAL ADDITIONS	<u>2,297,494</u>
DEDUCTIONS	
Benefits	757,962
Administrative	29,381
TOTAL DEDUCTIONS	<u>787,343</u>
CHANGE IN NET POSITION	1,510,151
NET POSITION AT BEGINNING OF YEAR	<u>17,277,061</u>
NET POSITION AT END OF YEAR	<u>\$ 18,787,212</u>

See accompanying notes to the basic financial statements.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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 *Open Space Fund* accounts for open space and parkland improvements throughout the Township.
- The *2016 Capital Projects Fund* accounts for capital projects throughout the Township.
- The *Capital Fund* accounts for capital purchases and construction for various 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, 2016

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 2016.
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, 2016

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.

Statutes authorize the Township to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the Township may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value.

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.

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, 2016, 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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, 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.

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 and pipes	30
Vehicles	5
Machinery and equipment	30
Office furniture and equipment	10

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, there were no material amounts of leave accumulated for governmental activities.

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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, 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 17). 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.

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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016, \$939,301 of the Township's bank balance of \$16,158,368 was insured by the FDIC. Of the remaining \$15,219,068, \$7,110,342 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 and \$8,108,726 was held in PLGIT state investment pools which is both uninsured and not collateralized.

Investments

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

<u>Investment Type</u>	<u>Investment Maturities</u>	
	<u>Fair Value</u>	
	<u>Level 1 Inputs</u>	<u>Less Than One Year</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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

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 mutual funds. These investments are 100% of the Township's total investments.

NOTE C - CAPITAL ASSETS

Changes in capital asset activity for the year ended December 31, 2016, were as follows:

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 4,834,347	\$ 131,008	\$ -	\$ 4,965,355
Construction in progress	867,291	2,268,051	(2,010,808)	1,124,534
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	5,701,638	2,399,059	(2,010,808)	6,089,889
Capital assets being depreciated				
Infrastructure	57,040,786	2,070,303	-	59,111,089
Buildings and improvements	8,756,874	-	-	8,756,874
Machinery, vehicles and equipment	5,985,135	510,946	(76,907)	6,419,174
TOTAL CAPITAL ASSETS BEING DEPRECIATED	71,782,795	2,581,249	(76,907)	74,287,137
Accumulated depreciation				
Infrastructure	(29,528,753)	(1,913,627)	-	(31,442,380)
Buildings and improvements	(1,418,666)	(205,810)	-	(1,624,476)
Machinery, vehicles and equipment	(3,782,214)	(447,733)	76,907	(4,153,040)
TOTAL ACCUMULATED DEPRECIATION	(34,729,633)	(2,567,170)	76,907	(37,219,896)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	37,053,162	14,079	-	37,067,241
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	\$ 42,754,800	\$ 2,413,138	\$ (2,010,808)	\$ 43,157,130

Depreciation expense was charged to governmental functions as follows:

GOVERNMENTAL ACTIVITIES	
Administrative	\$ 122,620
Police and emergency services	261,305
Public works, including depreciation of general infrastructure, except park systems	1,839,339
Parks and recreation, including depreciation relating to park systems	343,906
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,567,170

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE C - CAPITAL ASSETS (Continued)

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 161,764	\$ -	\$ -	\$ 161,764
Construction in progress	2,726,681	1,353,841	(1,663,027)	2,417,495
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,888,445	1,353,841	(1,663,027)	2,579,259
Capital assets being depreciated				
Collection, distribution, reserve, treatment systems	82,732,986	300,608	-	83,033,594
Buildings and improvements	5,839,038	1,482,216	-	7,321,254
Equipment and vehicles	1,947,423	44,322	-	1,991,745
TOTAL CAPITAL ASSETS BEING DEPRECIATED	90,519,447	1,827,146	-	92,346,593
Accumulated depreciation				
Collection, distribution, reserve, treatment systems	(39,786,318)	(2,501,431)	-	(42,287,749)
Buildings and improvements	(2,727,750)	(240,872)	-	(2,968,622)
Equipment and vehicles	(1,733,493)	(64,811)	-	(1,798,304)
TOTAL ACCUMULATED DEPRECIATION	(44,247,561)	(2,807,114)	-	(47,054,675)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	46,271,886	(979,968)	-	45,291,918
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	\$ 49,160,331	\$ 373,873	\$ (1,663,027)	\$ 47,871,177

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables are as follows:

	Due from Other Funds	Due to Other Funds
GOVERNMENTAL FUNDS		
General Fund	\$ 5,008,542	\$ 2,772,563
Open Space Fund	507,600	559,239
2016 Capital Projects Fund	2,130	1,140,687
Capital Fund	2,323,355	2,522,031
Debt Service Fund	34,530	493,587
Other Governmental Funds	51,362	373,952
PROPRIETARY FUND		
Water and Sewer Fund	101,008	166,468
	\$ 8,028,527	\$ 8,028,527

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

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:

	Transfer Out	Transfer In
General Fund	\$ 1,518,000	\$ 150,000
Open Space Fund	600,000	38,000
Capital Fund	-	1,350,000
Debt Service Fund	-	340,000
Other Governmental Funds	-	390,000
Water and Sewer Fund	150,000	-
	<u>\$ 2,268,000</u>	<u>\$ 2,268,000</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, 2016

NOTE E - LONG-TERM DEBT

Summary of Activity

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds and Notes					
Series of 1997	\$ 207,271	\$ -	\$ (89,059)	\$ 118,212	\$ 118,212
Series of 2012 A	4,605,000	-	(540,000)	4,065,000	560,000
Series of 2012 B	2,395,000	-	(190,000)	2,205,000	195,000
Series of 2013	8,735,000	-	(345,000)	8,390,000	355,000
Series of 2014	4,400,000	-	(90,000)	4,310,000	95,000
Series of 2016	-	6,000,000	(92,540)	5,907,460	255,670
TOTAL GENERAL OBLIGATION BONDS AND NOTES	20,342,271	6,000,000	(1,346,599)	24,995,672	1,578,882
Bond premiums	824,136	-	(81,138)	742,998	-
Deferred issuance discount	(77,712)	-	8,057	(69,655)	-
Deferred gain on defeasance	26,030	-	2,905	28,935	-
Capital leases	1,255,923	46,113	(243,617)	1,058,419	204,524
Compensated absences	305,117	-	(14,920)	290,197	-
Net pension liability	2,744,267	-	(245,561)	2,498,706	-
Net OPEB obligation	1,507,028	211,613	-	1,718,641	-
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	<u>\$ 26,927,060</u>	<u>\$ 6,257,726</u>	<u>\$ (1,920,873)</u>	<u>\$ 31,263,913</u>	<u>\$ 1,783,406</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds, Series of 2014	\$ 16,540,000	\$ -	\$ (715,000)	\$ 15,825,000	\$ 730,000
Deferred issuance premium	2,057,210	-	(114,290)	1,942,920	-
Deferred gain on defeasance	61,449	-	(6,828)	54,621	-
Compensated absences	726	9,355	-	10,081	-
TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES	<u>\$ 18,659,385</u>	<u>\$ 9,355</u>	<u>\$ (836,118)</u>	<u>\$ 17,832,622</u>	<u>\$ 730,000</u>

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, 2016

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 \$41,745,000.

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.

In July 2016, the Township issued General Obligation Note, Series of 2016, in the amount of \$6,000,000 for the purpose of financing capital improvement projects.

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
2017	\$ 1,578,882	\$ 707,684	\$ 730,000	\$ 717,594
2018	1,506,070	653,446	760,000	688,394
2019	1,551,590	612,175	790,000	657,994
2020	1,587,210	569,724	820,000	626,394
2021	1,637,950	518,041	855,000	585,394
2022	1,673,820	481,675	900,000	542,644
2023	1,759,820	442,839	945,000	497,644
2024	1,800,930	402,298	990,000	450,394
2025	1,847,180	359,702	740,000	400,894
2026	1,888,560	314,218	780,000	363,894
2027	847,190	324,012	815,000	324,894
2028	887,590	288,159	860,000	284,144
2029	958,400	258,999	885,000	258,344
2030	984,650	226,195	910,000	230,688
2031	1,011,340	192,462	940,000	202,250
2032	1,053,520	149,163	985,000	155,250
2033	831,190	103,959	1,035,000	106,000
2034	869,360	65,531	1,085,000	54,250
2035	353,080	25,321	-	-
2036	367,340	11,057	-	-
	<u>\$ 24,995,672</u>	<u>\$ 6,706,660</u>	<u>\$ 15,825,000</u>	<u>\$ 7,147,060</u>

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016.

Year Ending <u>December 31,</u>	
2017	\$ 230,043
2018	207,614
2019	207,614
2020	171,230
2021	171,231
2022-2023	<u>143,936</u>
TOTAL MINIMUM LEASE PAYMENTS	1,131,668
Amount representing interest	<u>(73,249)</u>
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	\$ <u>1,058,419</u>

The gross value of this equipment on the statement of net position is \$1,651,294 with accumulated depreciation of \$489,284.

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, 2016

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, 2016, 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>28</u>
	<u>43</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, 2016

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 2016, the MMO obligation for the plan was \$748,774 for the year 2016. Contributions of \$748,774 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, 2016:

<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 35% and 65%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2016, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 8.16%. 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, 2016

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, 2016, were as follows:

Total pension liability	\$ 16,193,044
Plan fiduciary net position	<u>(13,609,650)</u>
 NET PENSION LIABILITY	 <u>\$ 2,583,394</u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u>84.05%</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2016, 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, 2016 (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, 2016

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 December 31, 2015	\$ 15,199,066	\$ 12,355,388	\$ 2,843,678
Changes for the year:			
Service cost	413,588	-	413,588
Interest cost	1,122,629	-	1,122,629
Changes for experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	748,774	(748,774)
Member	-	153,985	(153,985)
Net investment income	-	912,143	(912,143)
Benefit payments	(542,239)	(542,239)	-
Administrative expenses	-	(18,401)	18,401
Net Changes	<u>993,978</u>	<u>1,254,262</u>	<u>(260,284)</u>
Balance at December 31, 2016	<u>\$ 16,193,044</u>	<u>\$ 13,609,650</u>	<u>\$ 2,583,394</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	\$ <u>4,606,442</u>	\$ <u>2,583,394</u>	\$ <u>908,098</u>

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

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

For the year ended December 31, 2016, the Township recognized pension expense of \$733,372. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 180,377	\$ -
Change of assumptions	193,960	-
Net difference between projected and actual earnings on pension plan investments	<u>601,580</u>	<u>-</u>
	<u>\$ 975,917</u>	<u>\$ -</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>
2017	\$ 253,433
2018	253,433
2019	253,433
2020	55,187
2021	53,477
Thereafter	106,954

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, 2016, two members have elected to participate in the DROP. The total DROP account balance is approximately \$274,938.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

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, 2016, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	21
Inactive plan members entitled to but not yet receiving benefits	6
Active plan members	<u>30</u>
	<u>57</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, 2016

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 2016, the MMO obligation for the plan was \$97,795 for the year 2016. Contributions of \$97,795 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, 2016:

<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, 2016

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 36% and 64%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.11%. 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, 2016, were as follows:

Total pension liability	\$ 5,008,187
Plan fiduciary net position	<u>(5,177,562)</u>
 NET PENSION LIABILITY	 \$ <u><u>(169,375)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u><u>103.38%</u></u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2016, 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 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, 2016

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, 2016 (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	5.5% - 7.5%
International equity	4.5% - 6.5%
Fixed income	1.0% - 3.0%
Real estate	4.5% - 6.5%
Cash	00.0% - 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 December 31, 2015	\$ 2,361,442	\$ 2,460,853	\$ (99,411)
Changes for the year:			
Service cost	75,387	-	75,387
Interest cost	175,143	-	175,143
Changes for experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	48,898	(48,898)
Member	-	14,524	(14,524)
Net investment income	-	177,876	(177,876)
Benefit payments	(107,862)	(107,862)	-
Administrative expenses	-	(5,491)	5,491
Net changes	<u>142,668</u>	<u>127,945</u>	<u>14,723</u>
Balance at December 31, 2016	\$ <u>2,504,110</u>	\$ <u>2,588,798</u>	\$ <u>(84,688)</u>

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 December 31, 2015	\$ 2,361,411	\$ 2,460,820	\$ (99,409)
Changes for the year:			
Service cost	75,386	-	75,386
Interest cost	175,141	-	175,141
Changes for experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	48,897	(48,897)
Member	-	14,524	(14,524)
Net investment income	-	177,873	(177,873)
Benefit payments	(107,861)	(107,861)	-
Administrative expenses	-	(5,489)	5,489
	<u>142,666</u>	<u>127,944</u>	<u>14,722</u>
Balance at December 31, 2016	\$ <u>2,504,077</u>	\$ <u>2,588,764</u>	\$ <u>(84,687)</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>317,921</u>	\$ <u>(169,375)</u>	\$ <u>(743,644)</u>

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016, the Township recognized pension expense of \$204,278. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 53,861	\$ -	\$ 53,861
Change of assumptions	29,169	-	29,168	-
Net difference between projected and actual earnings on pension plan investments	128,402	-	128,400	-
	<u>\$ 157,571</u>	<u>\$ 53,861</u>	<u>\$ 157,568</u>	<u>\$ 53,861</u>

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

Year Ending December 31,	Governmental Activities	Business-Type Activities
2017	\$ 39,226	\$ 39,226
2018	39,226	39,226
2019	39,226	39,226
2020	(3,386)	(3,386)
2021	(3,528)	(3,527)
Thereafter	(7,054)	(7,058)

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, 2016, no contributions were made to this plan.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.
- 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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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	67,816
Adjustments to annual required contribution	<u>(92,519)</u>
ANNUAL OPEB COST	293,120
Contributions made	<u>(81,507)</u>
INCREASE IN NET OPEB OBLIGATION	211,613
Net OPEB obligation at beginning of year	<u>1,507,028</u>
NET OPEB OBLIGATION AT END OF YEAR	<u>\$ 1,718,641</u>

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>
2014	\$ 300,449	24%	\$ 1,287,543
2015	296,718	26%	1,507,028
2016	293,120	28%	1,718,641

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

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

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.

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.

WARRINGTON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 December 31, 2015 government-wide business-type activities and the proprietary fund overstated bonds payable and understated net position.

For the government-wide business-type activities, the Township has reduced the beginning of year bonds, notes and capital leases by \$685,000 to a total bonds, notes and capital leases of \$17,225,000 and increased the beginning of year net position by \$685,000 for a total beginning of year net position of \$41,225,059. For the proprietary fund, the Township has reduced the beginning of year bonds payable by \$685,000 to a total bonds payable of \$17,225,000 and increased the beginning of year net position by \$685,000 for a total beginning of year net position of \$41,225,059.

REQUIRED SUPPLEMENTARY INFORMATION

WARRINGTON TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes				
Property	\$ 2,830,000	\$ 2,830,000	\$ 2,829,445	\$ (555)
Transfer	775,000	775,000	1,465,269	690,269
Earned income	4,350,000	4,350,000	4,529,353	179,353
Other	425,000	425,000	511,880	86,880
Fees and fines	183,500	183,500	240,731	57,231
Licenses and permits	575,000	575,000	609,408	34,408
Intergovernmental	706,700	706,700	842,561	135,861
Charges for services	1,624,950	1,624,950	1,695,013	70,063
Investment income and rent	447,000	447,000	451,966	4,966
Miscellaneous	637,086	637,086	691,497	54,411
TOTAL REVENUES	<u>12,554,236</u>	<u>12,554,236</u>	<u>13,867,123</u>	<u>1,312,887</u>
EXPENDITURES				
Current				
General government	1,758,066	1,758,066	1,636,694	121,372
Public safety	7,924,874	7,924,874	7,741,308	183,566
Public works	2,270,975	2,270,975	1,942,994	327,981
Sanitation	145,171	145,171	152,009	(6,838)
Culture and recreation	252,150	252,150	260,435	(8,285)
Refund of prior year revenue	-	-	84,291	(84,291)
TOTAL EXPENDITURES	<u>12,351,236</u>	<u>12,351,236</u>	<u>11,817,731</u>	<u>533,505</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>203,000</u>	<u>203,000</u>	<u>2,049,392</u>	<u>1,846,392</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	150,000	(50,000)
Transfers out	(413,000)	(413,000)	(1,518,000)	1,105,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(313,000)</u>	<u>(313,000)</u>	<u>(1,368,000)</u>	<u>1,055,000</u>
NET CHANGE IN FUND BALANCE	(110,000)	(110,000)	681,392	791,392
FUND BALANCE AT BEGINNING OF YEAR	<u>3,260,175</u>	<u>3,260,175</u>	<u>3,260,175</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,150,175</u>	<u>\$ 3,150,175</u>	<u>\$ 3,941,567</u>	<u>\$ 791,392</u>

WARRINGTON TOWNSHIP

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

	2016	2015	2014
TOTAL PENSION LIABILITY			
Service cost	\$ 413,588	\$ 395,778	\$ 366,456
Interest	1,122,629	1,057,529	980,495
Changes for experience	-	231,913	-
Changes of assumptions	-	249,376	-
Benefit payments	(542,239)	(542,859)	(507,570)
NET CHANGE IN TOTAL PENSION LIABILITY	993,978	1,391,737	839,381
Total pension liability, beginning	15,199,066	13,807,329	12,967,948
TOTAL PENSION LIABILITY, ENDING (a)	\$ 16,193,044	\$ 15,199,066	\$ 13,807,329
PLAN FIDUCIARY NET POSITION			
Contributions			
Employer	\$ 748,774	\$ 762,752	\$ 675,622
Member	153,985	154,983	114,668
Net investment income	912,143	(89,851)	790,792
Benefit payments, including refunds of member contributions	(542,239)	(542,859)	(507,570)
Administrative expense	(18,401)	(11,790)	(6,660)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1,254,262	273,235	1,066,852
Plan fiduciary net position, beginning	12,355,388	12,082,153	11,015,301
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 13,609,650	\$ 12,355,388	\$ 12,082,153
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 2,583,394	\$ 2,843,678	\$ 1,725,176
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	84.05%	81.29%	87.51%
COVERED-EMPLOYEE PAYROLL	\$ 2,990,098	\$ 2,808,968	\$ 2,630,522
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	86.40%	101.24%	65.58%

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%.

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 748,774	\$ 762,752	\$ 675,622
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>748,774</u>	<u>762,752</u>	<u>675,622</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED-EMPLOYEE PAYROLL	\$ <u>2,990,098</u>	\$ <u>2,808,968</u>	\$ <u>2,630,522</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>25.04%</u>	<u>27.15%</u>	<u>25.68%</u>

NOTES TO SCHEDULE

Valuation date January 1, 2015

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	6 years
Asset valuation method	Market value
Inflation	3%
Salary increases	4.5%
Investment rate of return	7.35%
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

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>8.16%</u>	<u>0.06%</u>	<u>7.70%</u>

Notes to Schedule:

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

WARRINGTON TOWNSHIP

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

	2016	2015	2014
TOTAL PENSION LIABILITY			
Service cost	\$ 150,773	\$ 144,280	\$ 137,707
Interest	350,284	331,281	323,696
Changes of experience	-	(138,500)	-
Changes of assumptions	-	75,005	-
Benefit payments	(215,723)	(231,311)	(195,080)
NET CHANGE IN TOTAL PENSION LIABILITY	285,334	180,755	266,323
Total pension liability, beginning	4,722,853	4,542,098	4,275,775
TOTAL PENSION LIABILITY, ENDING (a)	\$ 5,008,187	\$ 4,722,853	\$ 4,542,098
PLAN FIDUCIARY NET POSITION			
Contributions			
Employer	\$ 97,795	\$ 148,553	\$ 133,220
Member	29,048	26,332	35,970
Net investment income	355,749	(57,066)	339,170
Benefit payments, including refunds of member contributions	(215,723)	(231,311)	(195,080)
Administrative expense	(10,980)	(5,280)	(6,130)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	255,889	(118,772)	307,150
Plan fiduciary net position, beginning	4,921,673	5,040,445	4,733,295
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 5,177,562	\$ 4,921,673	\$ 5,040,445
NET PENSION LIABILITY, ENDING (a)-(b)	\$ (169,375)	\$ (198,820)	\$ (498,347)
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	103.38%	104.21%	110.97%
COVERED-EMPLOYEE PAYROLL	\$ 1,864,272	\$ 1,832,804	\$ 1,847,086
NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	-9.09%	-10.85%	-26.98%

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%.

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 97,795	\$ 148,553	\$ 132,470
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>97,795</u>	<u>148,553</u>	<u>132,470</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED-EMPLOYEE PAYROLL	\$ <u>1,864,272</u>	\$ <u>1,832,804</u>	\$ <u>1,847,086</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>5.25%</u>	<u>8.11%</u>	<u>7.17%</u>

NOTES TO THE SCHEDULE

Valuation date January 1, 2015

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	16 years
Asset valuation method	Market value
Inflation	3%
Salary increases	4.5%
Investment rate of return	7.35%
Retirement age	Normal retirement age
Mortality	Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

WARRINGTON TOWNSHIP

SCHEDULE OF NON-UNIFORM EMPLOYEES' PENSION PLAN INVESTMENT RETURNS LAST THREE FISCAL YEARS

	2016	2015	2014
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>8.11%</u>	<u>0.10%</u>	<u>7.70%</u>

Notes to Schedule:

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

WARRINGTON TOWNSHIP
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2016

SCHEDULE OF FUNDING PROGRESS

Police Plan

Actuarial Valuation Date January 1,	(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, 2016

	Special Revenue Fund Highway Aid Fund	Capital Project Funds		Total Other Governmental Funds
		2014 Capital Projects Fund	Capital Reserve Fund	
ASSETS				
Cash and cash equivalents	\$ 320,135	\$ 1,224,520	\$ 18,721	\$ 1,563,376
Due from other funds	-	9,752	41,610	51,362
TOTAL ASSETS	\$ 320,135	\$ 1,234,272	\$ 60,331	\$ 1,614,738
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 50,958	\$ 1,627	\$ 52,585
Due to other funds	88,209	285,453	290	373,952
TOTAL LIABILITIES	88,209	336,411	1,917	426,537
FUND BALANCES				
Restricted				
Capital improvements	-	-	58,414	58,414
Assigned				
Capital projects	-	897,861	-	897,861
Highways and streets	231,926	-	-	231,926
TOTAL FUND BALANCES	231,926	897,861	58,414	1,188,201
TOTAL LIABILITIES AND FUND BALANCES	\$ 320,135	\$ 1,234,272	\$ 60,331	\$ 1,614,738

WARRINGTON TOWNSHIP
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2016**

	Special Revenue Fund Highway Aid Fund	Capital Project Funds 2014 Capital Projects Fund	Capital Reserve Fund	Total Other Governmental Funds
REVENUES				
Intergovernmental	\$ 656,155	\$ -	\$ -	\$ 656,155
Investment income and rent	786	3,709	962	5,457
TOTAL REVENUES	<u>656,941</u>	<u>3,709</u>	<u>962</u>	<u>661,612</u>
EXPENDITURES				
Current				
General government	-	-	123,240	123,240
Public safety	-	-	204,511	204,511
Highways and roads	171,227	341,302	431,839	944,368
Debt service				
Principal	190,000	-	-	190,000
Interest and other charges	61,508	-	-	61,508
TOTAL EXPENDITURES	<u>422,735</u>	<u>341,302</u>	<u>759,590</u>	<u>1,523,627</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>234,206</u>	<u>(337,593)</u>	<u>(758,628)</u>	<u>(862,015)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	46,113	46,113
Proceeds from sale of capital assets	-	-	24,720	24,720
Transfers in	-	-	390,000	390,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>460,833</u>	<u>460,833</u>
NET CHANGE IN FUND BALANCES	234,206	(337,593)	(297,795)	(401,182)
FUND BALANCES AT BEGINNING OF YEAR	<u>(2,280)</u>	<u>1,235,454</u>	<u>356,209</u>	<u>1,589,383</u>
FUND BALANCES AT END OF YEAR	<u>\$ 231,926</u>	<u>\$ 897,861</u>	<u>\$ 58,414</u>	<u>\$ 1,188,201</u>

WARRINGTON TOWNSHIP**COMBINING SCHEDULE OF FIDUCIARY NET POSITION****FIDUCIARY FUNDS****DECEMBER 31, 2016**

	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	\$ 130,778	\$ 58,522	\$ 189,300
Investments	13,437,271	5,123,826	18,561,097
Due from fiduciary funds	10,750	-	10,750
Due from governmental funds	21,077	3,973	25,050
Receivable from pension administrator	<u>9,774</u>	<u>1,991</u>	<u>11,765</u>
 TOTAL ASSETS	 \$ <u>13,609,650</u>	 \$ <u>5,188,312</u>	 \$ <u>18,797,962</u>
LIABILITIES			
Due to fiduciary funds	\$ <u>-</u>	\$ <u>10,750</u>	\$ <u>10,750</u>
NET POSITION			
Held in trust for benefits and other purposes	<u>13,609,650</u>	<u>5,177,562</u>	<u>18,787,212</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ <u>13,609,650</u>	 \$ <u>5,188,312</u>	 \$ <u>18,797,962</u>

WARRINGTON TOWNSHIP**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS****YEAR ENDED DECEMBER 31, 2016**

	Pension Trust Funds		
	<u>Police Pension Fund</u>	<u>Non-Uniform Employees Pension Fund</u>	<u>Total Pension Trust Funds</u>
ADDITIONS			
Contributions			
Employer	\$ 341,932	\$ 97,795	\$ 439,727
Plan members	153,985	29,048	183,033
State	406,842	-	406,842
TOTAL CONTRIBUTIONS	<u>902,759</u>	<u>126,843</u>	<u>1,029,602</u>
Investment earnings			
Net decrease in fair value of investments	655,321	255,071	910,392
Dividends	310,609	123,476	434,085
Investment activity expense	(53,787)	(22,798)	(76,585)
INVESTMENT EARNINGS, net	<u>912,143</u>	<u>355,749</u>	<u>1,267,892</u>
TOTAL ADDITIONS	<u>1,814,902</u>	<u>482,592</u>	<u>2,297,494</u>
DEDUCTIONS			
Benefits	542,239	215,723	757,962
Administrative	18,401	10,980	29,381
TOTAL DEDUCTIONS	<u>560,640</u>	<u>226,703</u>	<u>787,343</u>
CHANGE IN NET POSITION	1,254,262	255,889	1,510,151
NET POSITION AT BEGINNING OF YEAR	<u>12,355,388</u>	<u>4,921,673</u>	<u>17,277,061</u>
NET POSITION AT END OF YEAR	<u>\$ 13,609,650</u>	<u>\$ 5,177,562</u>	<u>\$ 18,787,212</u>

***Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards***

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2016, and the related notes to the financial statements, which collectively comprise Warrington Township's basic financial statements, and have issued our report thereon dated July 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Warrington Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Warrington Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Warrington Township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weaknesses.

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Warrington Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Maullie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
July 24, 2017

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

We have audited Warrington Township's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of Warrington Township's major federal programs for the year ended December 31, 2016. Warrington Township's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Warrington Township's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Warrington Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Warrington Township's compliance.

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

Basis for Qualified Opinion on National Guard Military Construction Projects CFDA #12.400

As described in the accompanying schedule of findings and questioned costs, Warrington Township did not comply with requirements regarding CFDA 12.400 National Guard Military Construction Projects as described in finding numbers 2016-002 for Reporting, 2016-003 for Standards for Program Management and 2016-004 Standards for Program Financial Management System. Compliance with such requirements is necessary, in our opinion, for Warrington Township to comply with the requirements applicable to that program.

Qualified Opinion on National Guard Military Construction Projects CFDA #12.400

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Warrington Township complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 12.400 National Guard Military Construction Projects for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of Warrington Township is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Warrington Township's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Warrington Township's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003 and 2016-004 to be material weaknesses.

To the Board of Supervisors
Warrington Township
Warrington, Pennsylvania

Warrington Township's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plans. Warrington Township's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maullie LLP

Oaks, Pennsylvania
July 24, 2017

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

WARRINGTON TOWNSHIP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF DEFENSE				
Passed through the United States of America National Guard Bureau				
National Guard Military Construction Projects	I	12.400	W912KC-15-2-3079	10/1/15-9/30/20
U.S. DEPARTMENT OF HOMELAND SECURITY				
Staffing for Adequate Fire and Emergency Response	D	97.083	EMW-2013-FH-00198	4/25/14-4/24/16
Disaster Grants - Public Assistance	D	97.036	N/A	1/1/16-12/31/16
TOTAL U.S. Department of Homeland Security				
TOTAL FEDERAL AWARDS				

Source Codes

I - Indirect Funding

D - Direct Funding

<u>Grant Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at January 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at December 31, 2016</u>	<u>Total Amount Passed Thru to Subrecipients</u>
\$ N/A	\$ 800,053	\$ 434,262	\$ 1,004,449	\$ 1,004,449	\$ 638,658	\$ -
487,200	129,292	49,388	79,904	79,904	-	-
125,883	<u>125,883</u>	<u>-</u>	<u>125,883</u>	<u>125,883</u>	<u>-</u>	<u>-</u>
	<u>255,175</u>	<u>49,388</u>	<u>205,787</u>	<u>205,787</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,055,228</u>	<u>\$ 483,650</u>	<u>\$ 1,210,236</u>	<u>\$ 1,210,236</u>	<u>\$ 638,658</u>	<u>\$ -</u>

WARRINGTON TOWNSHIP

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2016

NOTE A - BASIS OF ACCOUNTING

The Township uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE B - FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE C - INDIRECT COST RATES

The Township has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

WARRINGTON TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Significant deficiencies identified: **Yes**

Significant deficiencies identified that are considered to be material weaknesses: **Yes**

Noncompliance material to financial statements noted: **No**

Federal Awards

Internal control over major programs:

Significant deficiencies identified: **Yes**

Significant deficiencies identified that are considered to be material weaknesses: **Yes**

Type of auditors' report issued on compliance for major programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Circular: **Yes**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
National Guard Military Construction Projects	12.400

The threshold used for distinguishing Types A and B programs was \$750,000.

Auditee qualified as a low-risk auditee: **No**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2016-001 Recording of Accounts Payable

Condition: An item for 2017 activities that was billed and paid in 2017 was recorded as accounts payable as of December 31, 2016.

WARRINGTON TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Criteria: Accounts payable should be recorded for activities that occurred prior to year-end.

Cause: Controls were not in place to provide for proper review and approval of the recorded payable.

Effect: Accounts payable and expenses were overstated and net income was understated.

Questioned costs: The finding does not result in questioned costs.

Recommendation: The client should implement a process where management reviews and approves any items entered as prior year accounts payable after year end.

Management's Response: Accounts payable will be reviewed to ensure that only valid expenses will be accrued at year-end.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

2016-002 Reporting

Federal Agency: Department of Defense

Federal Program: National Guard Military Construction Projects – CFDA 12.400

Condition: The Township did not submit the required quarterly performance reports.

Criteria: The grant agreement stipulates that the Township shall submit quarterly performance reports to the Grantor. The quarterly reports are due within 30 days following the end of each calendar quarter.

Effect: The Township was not in compliance with their reporting requirements.

Cause: The Township did not properly complete and file the quarterly performance reports for 2016 in accordance with the grant agreement.

Recommendation: We recommend that the Township establish a policy and procedure to ensure the reports are properly completed and filed on a timely basis. The completion of reports should include a step in which the Township personnel completing the report print out all supporting general ledger expense reports for the quarter and reconcile those general ledger reports to the various amounts disclosed on the quarterly performance report. These reports and reconciliations should then be attached to and maintained with a copy of the filed reports in the Township records. The completed report should then be filed within 30 days of the end of each calendar quarter.

Management's Response: Quarterly reports will be submitted as required. Organizational processes have been reviewed and implemented to ensure that this happens in a timely fashion.

WARRINGTON TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

2016-003 Standards for Program Management

Federal Agency: Department of Defense

Federal Program: National Guard Military Construction Projects – CFDA 12.400

Condition: The Township does not have the required written documentation of all of their policies and procedures over the administration of the grant.

Criteria: An entity must establish and maintain effective internal control over the Federal award and those internal control policies and procedures must be established in writing in accordance with the Uniform Guidance. Specifically, Title 2 CFR section 200.302 of the Uniform Guidance requires written procedures to implement cash management and written procedures over the processes to determine the allowability of costs. Title 2 CFR section 200.318 of the Uniform Guidance requires written procedures for standards of conduct governing the actions of employees awarding contracts when there is a real or apparent conflict of interest. Title 2 CFR section 200.474 of the Uniform Guidance requires that travel policies should be written as costs charged to a program must be reasonable and allowable in comparison to what is allowed under the entities written travel policy.

Effect: There is a lack of support for internal controls that are required under the Uniform Guidance.

Cause: The Township does not have these policies and procedures documented in a written policy and procedure document.

Recommendation: We recommend the County establish written policies and procedure documents to ensure there is appropriate documentation of the internal controls in place to comply with the Uniform Guidance requirements. These written policies and procedures should, at a minimum, outline policies and procedures over cash management, the determination of the allowability of costs, conflicts of interest, and travel policies.

Management's Response: The Township is developing a Conflicts of Interest Policy, a Cash Management Policy, and an Allowable Costs Policy which will be implemented upon their completion.

2016-004 Standards for Program Financial Management System

Federal Agency: Department of Defense

Federal Program: National Guard Military Construction Projects – CFDA 12.400

Condition: The Township does not have policies and procedures in place to accurately and completely account for federally funded activities separately from non-federally funded activities in their financial management system.

WARRINGTON TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

Criteria: Section 2 CFR 200.302 of the Uniform Guidance states that the financial management system must provide for identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification and year, name of the Federal agency, and the name of the pass-through entity, if any.

Effect: Inaccurate accounting of grant expenditures in the Township's financial management system.

Cause: The Township did not consistently segregate and identify federal grant expenditures separately from their non-federal expenditures.

Recommendation: We recommend the County implement procedures to ensure consistent and accurate accounting for federal grant expenditures in accordance with 2 CFR 200.302 of the Uniform Guidance.

Management's Response: The Township created separate general ledger accounts to record the grant activity.

WARRINGTON TOWNSHIP
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016

No prior audit findings.