



# **Lower Providence Township Eagleville, Pennsylvania Montgomery County**

Financial Statements  
Year Ended December 31, 2018



1835 Market Street, 3rd Floor  
Philadelphia, PA 19103

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# LOWER PROVIDENCE TOWNSHIP

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## **INDEPENDENT AUDITOR'S REPORT**

**Board of Supervisors  
Lower Providence Township  
Eagleville, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lower Providence Township, Eagleville, Pennsylvania as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Lower Providence Township's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lower Providence Sewer Authority (discretely presented component unit). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lower Providence Sewer Authority, is based solely on the report of the other auditors. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lower Providence Township, Eagleville, Pennsylvania, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Change In Accounting Principle***

As described in Note 14 to the financial statements, the Township adopted new accounting guidance, GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. Our opinions are not modified with respect to that matter.

### **Report on Summarized Comparative Information**

We have previously audited Lower Providence Township's 2017 financial statements, and our report dated May 29, 2018, expressed unmodified audit opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – general fund, the schedules of changes in net pension liability and Township pension contributions and the schedules of changes in net OPEB liability and Township OPEB contributions on pages 3 through 13 and 56 through 60 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 Lower Providence Township, Eagleville, Pennsylvania's basic financial statements. The combining and individual 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 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019, on our consideration of Lower Providence Township, Eagleville, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lower Providence Township, Eagleville, Pennsylvania's internal control over financial reporting and compliance.

**BBD, LLP**

**Philadelphia, Pennsylvania  
May 24, 2019**

# LOWER PROVIDENCE TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

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Management's discussion and analysis ("**MD&A**") of the financial performance of Lower Providence Township, Eagleville, Pennsylvania (the "**Township**") provides an overview of the Township's financial performance for fiscal year ended December 31, 2018. Readers should also review the basic financial statements and related notes to enhance their understanding of the Township's financial performance.

### TOWNSHIP PROFILE

The Township was established in 1805 and operates as a Township of a second class under the Township Code of Pennsylvania which is governed by an elected five-member Board of Supervisors. The Township is located in south central Montgomery County, Pennsylvania. The Township encompasses 14.77 square miles, which includes the geographic areas of Audubon, Collegeville, Trooper, Eagleville, Yerkess, and Evansburg. From these villages has grown a community joined in a commitment to provide a safe, productive and prosperous environment in which to reside, raise a family and conduct business. With the City of Philadelphia situated approximately 17 miles to the east and easy access to the Pennsylvania Turnpike, Schuylkill Expressway, Interstate 476 and the Route 202 and Route 422 corridors, Lower Providence Township is truly strategically located for the projected growth into the 21<sup>st</sup> Century.

### FINANCIAL HIGHLIGHTS

- \* Effective for 2018, the Township was required to comply with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The major impact of GASB Statement No. 75 is to present, on the Statement of Financial Position, certain items related to the Township's liability from its postretirement benefits plan, which was not required to be presented in the prior years. For consistency purposes, the December 31, 2017 Statement of Net Position has been restated in the financial statements as if GASB Statement No. 75 had been applied, retroactively.

Elements of GASB Statement No. 75 included within the Statement of Net Position include an actuarially determined liability for other postemployment benefits of \$815,731 and deferred outflows of \$136,582 for differences between projected and actual earnings on OPEB investments (an effective reduction of the liability).

- \* On a government-wide basis including all governmental activities and the business-type activities, the assets and deferred outflows of resources of the Township exceeded liabilities and deferred inflows of resources resulting in total net position at the close of the 2018 fiscal year of \$14,474,464. During the 2018 fiscal year, the Township had an increase in total net position of \$345,688. The net position of the governmental activities increased by \$326,344 and net position of business-type activities increased by \$19,344.
- \* As of the close of the 2018 fiscal year, the Township's governmental funds reported combined ending fund balances of \$4,752,219, a decrease of \$641,722 in comparison with the prior year.
- \* The General Fund reported a decrease in fund balance of \$143,563, bringing the cumulative balance to \$3,486,724 or 32.12% of total General Fund expenditures and other financing uses at the conclusion of the 2018 fiscal year.
- \* General Fund revenues and other financing sources were \$258,479 or 2.47% more than budgeted amounts and General Fund expenditures and other financing uses were \$402,042 or 3.85% more than budgeted amounts resulting in a net negative variance of \$143,563.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

# LOWER PROVIDENCE TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

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### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Township's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Township is improving or deteriorating. To assess the Township's overall health, the reader will need to consider additional nonfinancial factors such as changes in the Township's tax base and the condition of the Township's assets.

The Statement of Activities presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the Township that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include not only the Township itself (known as the primary government), but also a legally separate sewer authority for which the Township has a significant relationship. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

In the government-wide financial statements, the Township's activities are divided into two categories:

#### **Governmental Activities**

Most of the Township's basic services are included here, such as general administration, public safety, health and human services, public works, culture and recreation and community development.

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

The Township's business-type activities charge a fee to customers to help cover all or most of the cost of certain services it provides. The Township's solid waste activities are reported as business-type activities.

The government-wide financial statements can be found on pages 14 and 15 of this report.

### FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Township's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

#### **Governmental Funds**

Most of the Township's basic services are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Township's near-term financing requirements.

# LOWER PROVIDENCE TOWNSHIP

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED***

**December 31, 2018**

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the Balance Sheet – Governmental Funds and Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains fourteen individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for each of the four major funds and the nonmajor governmental funds.

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 16 through 19 of this report.

### **Proprietary Funds**

The Township maintains one type of proprietary fund. The Township's proprietary fund is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses an enterprise fund to account for the Solid Waste Fund.

The proprietary fund financial statements can be found on pages 20 through 22 of this report.

### **Fiduciary Funds**

The Township is the trustee, or fiduciary, for its employees' pension plans. Fiduciary funds are not reflected in the government-wide financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township has an Escrow Fund, Other Postemployment Benefits Trust Fund, and two pension trust funds (Police and Nonuniform).

The fiduciary fund financial statements can be found on pages 23 and 24 of this report.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on pages 25 through 55 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the general fund and schedules concerning the Township's net pension liability and pension contributions and changes in its net other post-employment benefits liability and OPEB contributions, as well as additional analysis which consists of combining and individual fund financial statements.

The required supplementary information and additional analysis can be found on pages 56 through 62 of this report.

## LOWER PROVIDENCE TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the Township's financial condition. At the close of the 2018 fiscal year the Township's assets and deferred outflows exceeded liabilities and deferred inflows by \$14,474,464. The following table presents condensed information for the *Statement of Net Position* of the Township at December 31, 2018 and 2017.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>						
Current assets	\$ 6,380,985	\$ 6,387,558	\$ -	\$ 25,913	\$ 6,380,985	\$ 6,413,471
Noncurrent assets	<u>17,601,402</u>	<u>17,045,117</u>	<u>-</u>	<u>-</u>	<u>17,601,402</u>	<u>17,045,117</u>
<b>Total assets</b>	<u>23,982,387</u>	<u>23,432,675</u>	<u>-</u>	<u>25,913</u>	<u>23,982,387</u>	<u>23,458,588</u>
<b>DEFERRED OUTFLOWS</b>						
Deferred charges - OPEB	136,582	-	-	-	136,582	-
Deferred charges - pensions	<u>2,437,716</u>	<u>1,400,414</u>	<u>-</u>	<u>-</u>	<u>2,437,716</u>	<u>1,400,414</u>
<b>Total deferred outflows</b>	<u>2,574,298</u>	<u>1,400,414</u>	<u>-</u>	<u>-</u>	<u>2,574,298</u>	<u>1,400,414</u>
<b>LIABILITIES</b>						
Current liabilities	1,611,114	974,828	-	45,257	1,611,114	1,020,085
Noncurrent liabilities	<u>9,908,615</u>	<u>8,944,468</u>	<u>-</u>	<u>-</u>	<u>9,908,615</u>	<u>8,944,468</u>
<b>Total liabilities</b>	<u>11,519,729</u>	<u>9,919,296</u>	<u>-</u>	<u>42,257</u>	<u>11,519,729</u>	<u>9,964,553</u>
<b>DEFERRED INFLOWS</b>						
Deferred credits - pensions	<u>562,492</u>	<u>765,673</u>	<u>-</u>	<u>-</u>	<u>562,492</u>	<u>765,673</u>
<b>NET POSITION</b>						
Net investment in capital assets	13,465,320	12,164,449	-	-	13,465,320	12,164,449
Restricted	1,265,495	1,763,654	-	-	1,265,495	1,763,654
Unrestricted (deficit)	<u>(256,351)</u>	<u>220,017</u>	<u>-</u>	<u>(19,344)</u>	<u>(256,351)</u>	<u>200,673</u>
<b>Total net position</b>	<u>\$14,474,464</u>	<u>\$14,148,120</u>	<u>\$ -</u>	<u>\$(19,344)</u>	<u>\$14,474,464</u>	<u>\$14,128,776</u>

The Township's total assets as of December 31, 2018 were \$23,982,387 of which \$5,646,064 or 23.54% consisted of unrestricted cash and \$17,601,402 or 73.39% consisted of the Township's investment in capital assets. The Township's total liabilities as of December 31, 2018 were \$11,519,729 of which \$4,136,082 or 35.90% consisted of general obligation debt used to acquire and construct capital assets, \$4,649,151 or 40.36% consists of the actuarially determined net pension liability and \$815,731 or 7.08% consists of the actuarially determined net liability for other post-employment benefits.

The Township had a deficit in unrestricted net position of \$256,351 at December 31, 2018. The Township's unrestricted net position decreased by \$457,024 during 2018 primarily due to the results of current year operations and the current year change in its net pension and OPEB liability and related deferred outflows and inflows.

A portion of the Township's net position reflects its restricted net position which totaled \$1,265,495 as of December 31, 2018. All of the Township's restricted net position relate to the net position of the Township's special revenue, capital and debt service funds.



## LOWER PROVIDENCE TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

The largest portion of the Township's net position reflects its net investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to residents of the Township; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended December 31, 2018, the Township's net investment in capital assets increased by \$1,300,871 primarily because capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the Township for 2018 and 2017:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,509,079	\$ 1,519,499	\$ 360	\$630	\$ 1,509,439	\$ 1,520,129
Operating grants and contributions	1,647,304	1,775,507	-	-	1,647,304	1,775,507
Capital grants and contributions	336,048	163,232	-	-	336,048	163,232
<b>General revenues</b>						
Taxes	9,753,527	9,334,682	-	-	9,753,527	9,334,682
Franchise fees	456,817	477,419	-	-	456,817	477,419
Investment earnings	162,050	138,995	-	-	162,050	138,995
Gain on sale of capital assets	<u>19,848</u>	<u>1,764</u>	<u>-</u>	<u>-</u>	<u>19,848</u>	<u>1,764</u>
<b>Total revenues</b>	<u>13,884,673</u>	<u>13,411,098</u>	<u>360</u>	<u>630</u>	<u>13,885,033</u>	<u>13,411,728</u>
<b>EXPENSES</b>						
General government	1,882,158	1,668,477	-	-	1,882,158	1,668,477
Public safety	8,285,031	7,692,628	-	-	8,285,031	7,692,628
Health and human services	5,500	5,500	-	-	5,500	5,500
Public works	1,679,702	2,009,337	-	-	1,679,702	2,009,337
Culture and recreation	1,554,271	1,561,634	-	-	1,554,271	1,561,634
Community development	43,240	25,466	-	-	43,240	25,466
Interest and amortization expense related to noncurrent liabilities	89,443	109,457	-	-	89,443	109,457
Solid waste operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenses</b>	<u>13,539,345</u>	<u>13,072,499</u>	<u>-</u>	<u>-</u>	<u>13,539,345</u>	<u>13,072,499</u>
<b>Change in net position (deficit) before transfers</b>	345,328	338,599	360	630	345,688	339,229
<b>TRANSFERS</b>	<u>(18,984)</u>	<u>-</u>	<u>18,984</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 326,344</u>	<u>\$ 338,599</u>	<u>\$19,344</u>	<u>\$630</u>	<u>\$ 345,688</u>	<u>\$ 339,229</u>

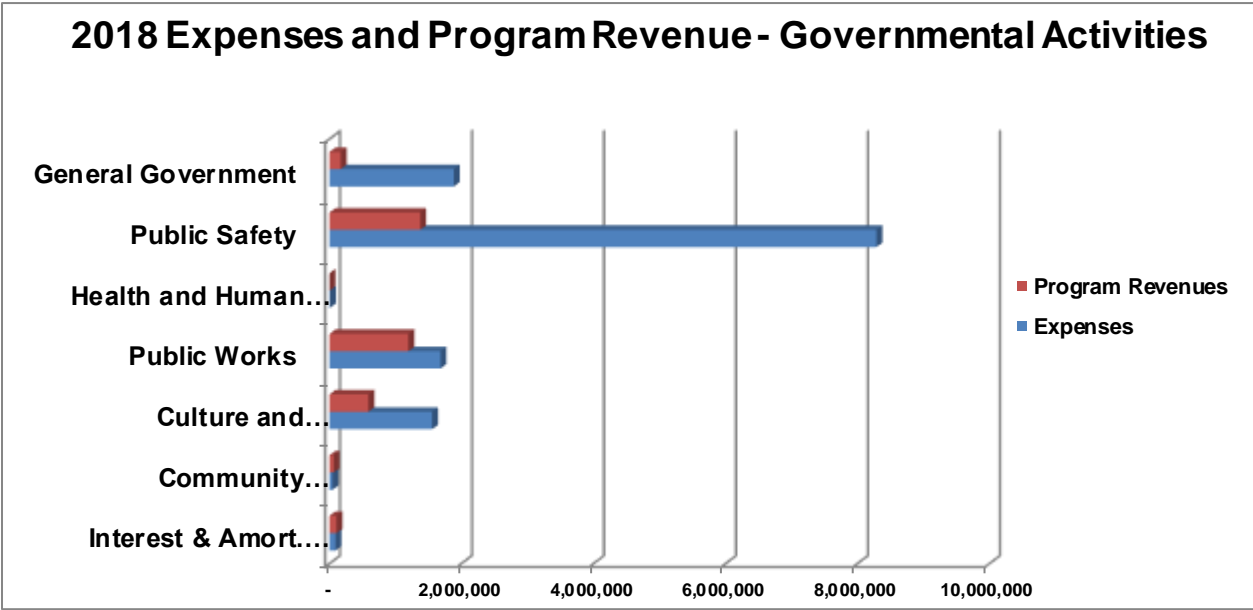
Overall, the Township's financial position has been improving, but challenges such as increased medical costs and pension contributions, rising costs associated with inflation and residential and commercial development and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the Township continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors.

LOWER PROVIDENCE TOWNSHIP

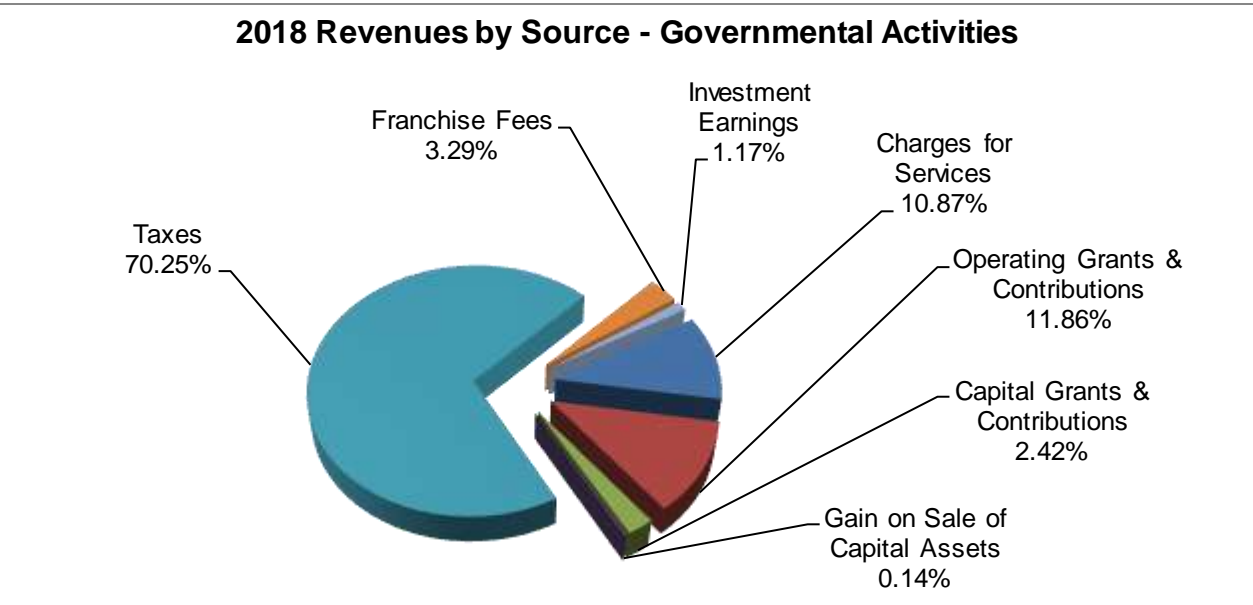
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

The *Statement of Activities* provides detail that focuses on how the Township finances its services. The *Statement of Activities* compares the costs of the Township functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the Township's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the Township's functions or programs cost more than they raise, the *Statement of Activities* shows how the Township chose to finance the difference through general revenues. The following chart shows that the Township relies on tax revenues to finance its governmental activities.



## LOWER PROVIDENCE TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

#### GOVERNMENTAL FUNDS

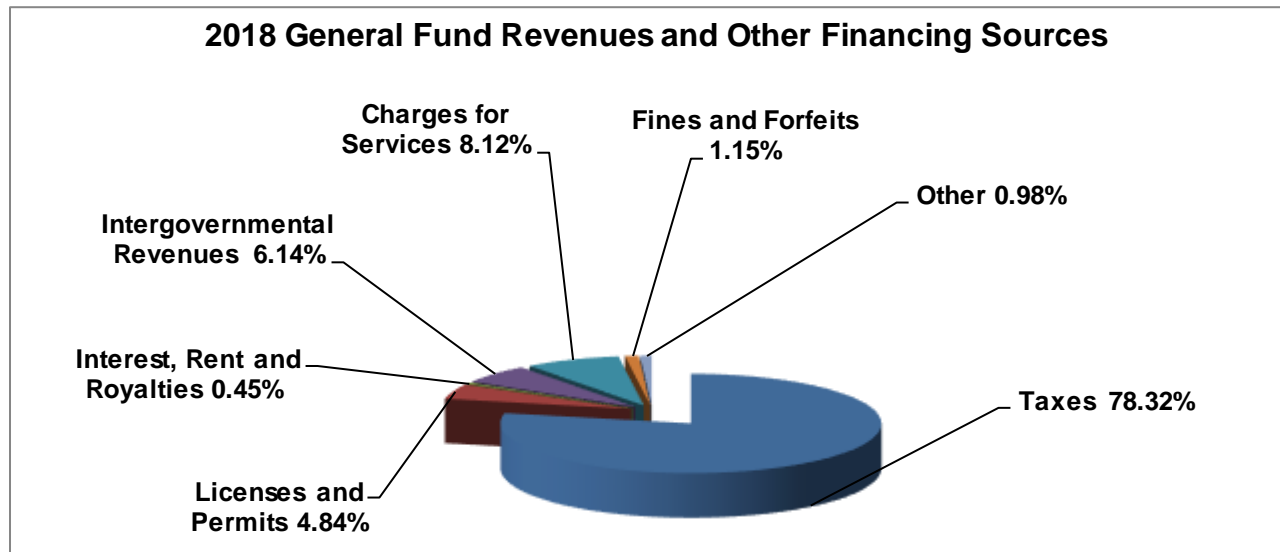
The governmental fund financial statements provide detailed information of the Township's major funds. Some funds are required to be established by State statute while other funds are established by the Township to manage monies restricted for a specific purpose. As of December 31, 2018, the Township's governmental funds reported a combined fund balance of \$4,752,219 which is a decrease of \$641,722 from the prior year. The following table summarizes the Township's total governmental fund balances as of December 31, 2018 and 2017 and the total 2018 change in governmental fund balances.

	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>\$ Change</u></b>
General Fund	\$3,486,724	\$3,630,287	\$(143,563)
Capital Projects Fund	34,352	66,027	(31,675)
Unrestricted Capital Fund	671,736	720,351	(48,615)
Highway Improvement Capital Reserve Fund	(175)	(175)	-
Nonmajor Governmental Funds	<u>559,582</u>	<u>977,451</u>	<u>(417,869)</u>
	<b><u>\$4,752,219</u></b>	<b><u>\$5,393,941</u></b>	<b><u>\$(641,722)</u></b>

#### GENERAL FUND

The General Fund is the Township's primary operating fund. At the conclusion of the 2018 fiscal year the General Fund fund balance was \$3,486,724 representing a decrease of \$143,563 in relation to the prior year. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2018 fiscal year.

The Township's reliance upon tax revenues is demonstrated by the graph below that indicates 78.32% of General Fund revenues are derived from local taxes.



## LOWER PROVIDENCE TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

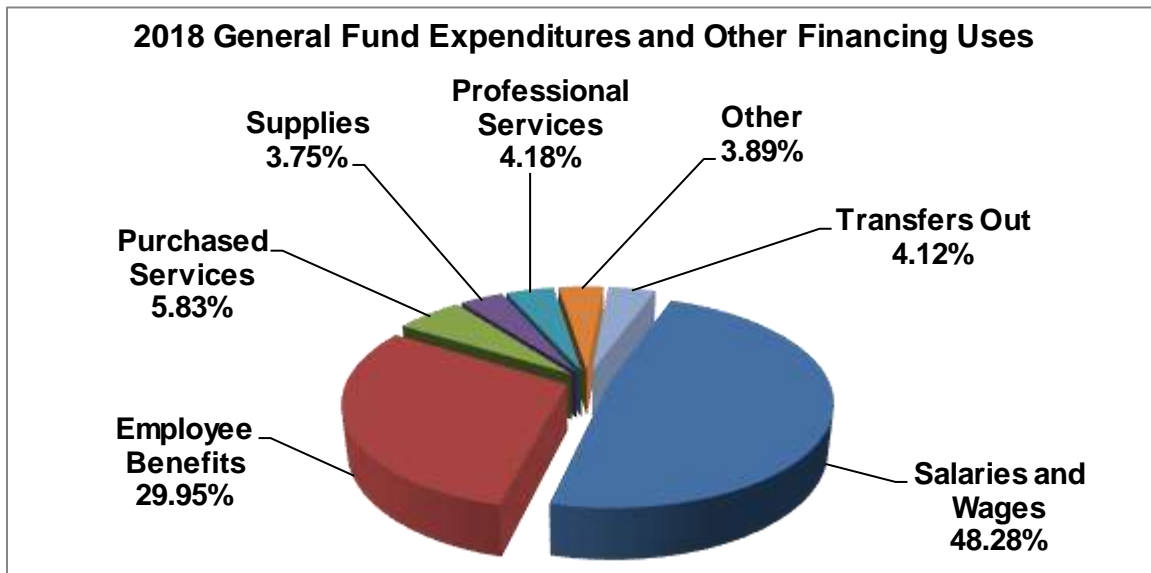
#### General Fund Revenues and Other Financing Sources

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$ 8,388,389	\$ 8,135,895	\$252,494	3.10
Licenses and permits	517,902	540,120	(22,218)	(4.11)
Fines and forfeits	123,032	108,553	14,479	13.34
Interest, rents and royalties	47,859	30,058	17,801	59.22
Intergovernmental revenues	658,088	629,735	28,353	4.50
Charges for services	870,113	608,235	261,878	43.06
Other	<u>105,127</u>	<u>36,223</u>	<u>68,904</u>	<u>190.22</u>
	<u>\$10,710,510</u>	<u>\$10,088,819</u>	<u>\$621,691</u>	<u>6.16</u>

Taxes increased by \$252,494 or 3.10% primarily due to an increase in earned income and transfer taxes received in 2018 compared to 2017.

Charges for services increased by \$261,878 or 43.06% due to increases in various services related to building, electrical, plumbing, and HVAC permits.

As the graph below illustrates, the largest portion of General Fund expenditures is for salaries and benefits. The Township is a service entity and as such is labor intensive.



#### General Fund Expenditures and Other Financing Uses

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 5,240,744	\$ 5,074,965	\$165,779	3.27
Employee benefits	3,250,764	3,070,369	180,395	5.88
Supplies	407,450	289,362	118,088	40.81
Purchased services	632,699	623,652	9,047	1.45
Professional services	452,861	423,031	29,830	7.05
Other	422,399	394,312	28,087	7.12
Transfers out	<u>447,156</u>	<u>175,033</u>	<u>272,123</u>	<u>155.47</u>
	<u>\$10,854,073</u>	<u>\$10,050,724</u>	<u>\$803,349</u>	<u>7.99</u>

## **LOWER PROVIDENCE TOWNSHIP**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

**December 31, 2018**

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Salaries and wages increased by \$165,779 or 3.27% primarily as a result of scheduled salary increases within the Township's collective bargaining units negotiated with the police and public works employees.

Employee benefits increased by \$180,395 or 5.88% as a result of increased medical costs associated with negotiated contracts and a general increase in benefits associated with wages.

Supplies increased by \$118,088 or 40.81% as a result of costs in 2018 related to a stormwater pipe replacement project on Pinetown Road.

Transfers out represent amounts appropriated to the Capital Projects Fund for approved capital projects.

### **CAPITAL PROJECTS FUNDS**

The Capital Projects Funds account for financial resources that are restricted, committed, or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment. The Capital Projects Fund is used to account for grants and contributions obtained for the purpose of capital improvements. During 2018, the Capital Projects Fund fund balance decreased by \$31,675 for a cumulative fund balance of \$34,352 as of December 31, 2018 which is committed for future capital purchases. The Unrestricted Capital Fund is used to account for contributions and transfers from other funds for the purpose of unexpected or emergency capital improvement expenditures. During 2018, the Unrestricted Capital Fund fund balance decreased by \$48,615 for a cumulative balance of \$671,736 as of December 31, 2018 which is committed for future capital purchases. The Highway Improvement Capital Reserve Fund accounts for revenues generated from traffic impact fees as established by Township ordinance for the purpose of serving future transportation needs of the Township. As of December 31, 2018, the Highway Improvement Capital Reserve Fund reported a deficit fund balance of \$175 which is unchanged from the prior year.

### **NONMAJOR GOVERNMENTAL FUNDS**

The Nonmajor Governmental Funds consist of special revenue funds, capital projects funds and a debt service fund. Special revenue funds are maintained to account for the proceeds of specific revenue sources that are to be expended for specified purposes. The nonmajor special revenue funds include the Library Fund, the Parks and Recreation Operating Fund, the Highway Aid Fund and the Tree Fund. The nonmajor capital projects funds include the Liquid Fuels Funded Loans Fund, Parks and Recreation Capital Reserve Fund, West End Capital Improvements Fund, Sidewalk Fund, Stormwater Fund and Equipment Replacement Fund. Major revenue sources for these funds include taxes, intergovernmental revenues and charges for services. During 2018, the Nonmajor Governmental Funds fund balance decreased by \$417,869 for a cumulative balance of \$559,582 as of December 31, 2018. Of the cumulative fund balance at December 31, 2018, \$105,853 is restricted for the Highway Aid Fund. The Highway Aid Fund accounts for appropriations from the Commonwealth of Pennsylvania Department of Transportation to be used for road improvements, snow and ice removal and road related capital projects through the Public Works Department. Also, within the nonmajor governmental funds the Debt Service Fund fund balance of \$35,644 is restricted for debt service. More detailed information regarding the nonmajor governmental funds can be found in the combining and individual fund financial statements on pages 61 and 62.

### **GENERAL FUND BUDGET INFORMATION**

The Township maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The Township budgets and expends funds according to procedures mandated by Township code of the Commonwealth of Pennsylvania. An annual operating budget is prepared by management and submitted to the Board of Supervisors for approval prior to the beginning of the fiscal year on January 1 each year. The most significant budgeted fund is the General Fund.

More detailed information regarding the General Fund budget can be found in the Budgetary Comparison Schedule – General Fund on page 56. The Budgetary Comparison Schedule – General Fund shows the original budget, final budget and actual revenues, expenditures and other financing sources for the fiscal year. There were no differences between the original and final budgets.

## LOWER PROVIDENCE TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

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#### CAPITAL ASSETS

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2018 amounted to \$17,601,402, net of accumulated depreciation. This investment in capital assets includes land, land improvements, infrastructure, buildings, and machinery and equipment. The total net increase in the Township's investment in capital assets for 2018 was \$556,285 or 3.26%. The increase was the result of current year capital additions in excess of current year depreciation.

Current year capital additions were \$1,452,256 and depreciation expense was \$895,971.

Major capital additions for the current fiscal year included the following:

Governmental activities:

Infrastructure repaving projects	\$866,625
Dump Truck	\$170,885
2018 Police vehicles	\$104,775
Eagleville Park play structure	\$ 97,849

#### NONCURRENT LIABILITIES

As of December 31, 2018, the Township had total general obligation debt of \$4,136,082 consisting entirely of notes payable. The entire amount is backed by the full faith and credit of the Township. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The total net decrease in the Township's general obligation debt for the current fiscal year was \$744,586 or 15.26%.

The Township reports its defined benefit unfunded pension liability and its net liability for post-employment benefits on its statement of position. The Township's unfunded net pension liability and net liability for post-employment benefits are actuarially determined liabilities that totaled \$4,649,151 and \$815,731, respectively, as of December 31, 2018. These liabilities increased by \$1,667,290 or 43.90% during current year.

Other noncurrent liabilities consist of the Township's liability for compensated absences.

#### FACTORS BEARING ON THE TOWNSHIP'S FUTURE

Lower Providence Township, Montgomery County, Pennsylvania, is located along several major transportation corridors, which include U.S. Route 422, U.S. Route 363 and Ridge Pike. One of Montgomery County's largest industrial parks, Park Pointe at Lower Providence Business Park (formerly Valley Forge Corporate Center) is located in the Township. Over 4,500 individuals work in this Business Park.

Lower Providence Township remains steadfast in its revitalization efforts for Park Pointe at Lower Providence and the Ridge Pike Corridor, diligently working to retain and expand our employment base. The Township implemented a Local Economic Revitalization Tax Assistance ("**LERTA**") for a significant property in Park Pointe that has been vacated for over 10 years and is currently being remediated. The transportation improvements to the Route 422 corridor are critical to this effort, and the Township remains active in the U.S. 422 Corridor Coalition. These improvements are under construction at a cost of \$16.5 million. A full-service interchange at the Trooper Road location of 422 opened on December 1, 2015. The 422 bridge reconstruction and widening is expected to be completed in May of 2020. Correspondingly, the Township's Business Park is already experiencing the bidding up of property values in the Business Park due to the increased transportation access that the project will accommodate and it is only expected to get better when the bridge is completed. Furthermore, the project has already fostered rejuvenation of previously shelved development projects in the Business Park.

The Township adopted a balanced 2019 General Fund budget totaling \$10,311,554 and the real estate tax millage rate remained unchanged at 0.905 mills for general purposes.

## **LOWER PROVIDENCE TOWNSHIP**

### ***MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED***

**December 31, 2018**

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The Township continues to maintain a diversified revenue base should there be any short-term fluctuations in any one revenue source.

The Township serves an area of roughly 14.77 square miles and contains an approximate population of 25,000 residents with a median residential home price of \$296,000.

Collection of the earned income tax is a good indicator of local economic conditions. For 2018, the Township's collection of this tax was \$5,591,025, an increase of \$136,282 or 2.50% from the prior year.

Real estate taxes have remained stagnant for the past 10 years and the Township has not experienced any natural increases in real estate tax collection.

The financial and economic indicators for the Township continue to be moderately conservative for 2019. A five-year capital budget has been developed in order to address road, infrastructure and equipment needs. Roads have been identified and prioritized for resurfacing for the next five years as part of the five-year budget. Furthermore, the five-year capital budget identifies the Township's vehicle and technology replacement needs and individual departmental schedules have been identified. In each case, the five-year capital budget provides direct appropriation or financing to fund the capital needs. As in the past, the Township must aggressively manage all respective funds exploring all avenues for third-party funding, grants, appropriations and sponsorships to ensure that the Township is in an excellent financial position thereby maintaining our AA (Standard and Poor's) and restored an Aa2 (Moody's) bond ratings.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the 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 Township Manager, Lower Providence Township, 100 Parklane Drive, Eagleville, PA 19403.

# LOWER PROVIDENCE TOWNSHIP

## STATEMENT OF NET POSITION

December 31, 2018 with summarized comparative totals for 2017

		Primary Government			Component
	Governmental	Business-type	Totals		Unit
	Activities	Activities	2018	2017	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CURRENT ASSETS					
Cash	\$ 5,646,064	\$ -	\$ 5,646,064	\$ 5,670,172	\$ 2,601,412
Restricted cash	220,187	-	220,187	148,573	-
Investments	-	-	-	-	2,247,874
Taxes receivable	106,023	-	106,023	95,108	-
Accounts receivable	356,891	-	356,891	440,279	1,677,431
Other current assets	51,820	-	51,820	59,339	86,617
Total current assets	6,380,985	-	6,380,985	6,413,471	6,613,334
NONCURRENT ASSETS					
Capital assets, net	17,601,402	-	17,601,402	17,045,117	17,218,051
Total assets	23,982,387	-	23,982,387	23,458,588	23,831,385
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding of debt	-	-	-	-	292,723
Deferred charges - OPEB	136,582	-	136,582	-	-
Deferred charges - pensions	2,437,716	-	2,437,716	1,400,414	128,976
Total deferred outflows of resources	2,574,298	-	2,574,298	1,400,414	421,699
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable	307,786	-	307,786	248,430	329,512
Accrued salaries and benefits	265,713	-	265,713	12,634	-
Escrow deposits	220,187	-	220,187	148,573	133,223
Unearned revenue	817,428	-	817,428	610,448	-
Total current liabilities	1,611,114	-	1,611,114	1,020,085	462,735
NONCURRENT LIABILITIES					
Due within one year	723,506	-	723,506	738,586	709,813
Due in more than one year	9,185,109	-	9,185,109	8,205,882	2,143,647
Total noncurrent liabilities	9,908,615	-	9,908,615	8,944,468	2,853,460
Total liabilities	11,519,729	-	11,519,729	9,964,553	3,316,195
DEFERRED INFLOWS OF RESOURCES					
Deferred credits - pensions	562,492	-	562,492	765,673	152,152
NET POSITION					
Net investment in capital assets	13,465,320	-	13,465,320	12,164,449	14,350,051
Restricted	1,265,495	-	1,265,495	1,763,654	-
Unrestricted (deficit)	(256,351)	-	(256,351)	200,673	6,434,686
Total net position	\$ 14,474,464	\$ -	\$ 14,474,464	\$ 14,128,776	\$ 20,784,737

See accompanying notes



# LOWER PROVIDENCE TOWNSHIP

## STATEMENT OF ACTIVITIES

Year ended December 31, 2018 with summarized comparative totals for 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit 2018		
					Governmental Activities	Business-type Activities		Totals	
								2018	2017
GOVERNMENTAL ACTIVITIES									
General government	\$ 1,882,158	\$ 105,288	\$ 64,465	\$ -	\$ (1,712,405)	\$ -	\$ (1,712,405)	\$ (1,512,316)	\$ -
Public safety	8,285,031	939,952	433,488	50,000	(6,861,591)	-	(6,861,591)	(6,576,845)	-
Health and human services	5,500	-	-	-	(5,500)	-	(5,500)	(5,500)	-
Public works	1,679,702	8,990	894,174	241,004	(535,534)	-	(535,534)	(847,669)	-
Culture and recreation	1,554,271	454,849	133,200	-	(966,222)	-	(966,222)	(780,098)	-
Community development	43,240	-	16,291	45,044	18,095	-	18,095	114,746	-
Interest expense related to noncurrent liabilities	89,443	-	105,686	-	16,243	-	16,243	(6,579)	-
Total governmental activities	13,539,345	1,509,079	1,647,304	336,048	(10,046,914)	-	(10,046,914)	(9,614,261)	-
BUSINESS-TYPE ACTIVITIES									
Solid waste	-	360	-	-	-	360	360	630	-
Total business-type activities	-	360	-	-	-	360	360	630	-
Total primary government	\$13,539,345	\$ 1,509,439	\$1,647,304	\$ 336,048	(10,046,914)	360	(10,046,554)	(9,613,631)	-
COMPONENT UNIT									
Sewer authority	\$ 3,855,185	\$ 3,816,192	\$ -	\$ 476,064	-	-	-	-	437,071
GENERAL REVENUES									
Taxes									
Real estate taxes					2,799,481	-	2,799,481	2,644,323	-
Earned income taxes					5,591,025	-	5,591,025	5,454,743	-
Real estate transfer taxes					708,396	-	708,396	585,730	-
Local services taxes					552,507	-	552,507	558,955	-
Per capita taxes					83,407	-	83,407	70,588	-
Amusement taxes					18,711	-	18,711	20,343	-
Franchise fees					456,817	-	456,817	477,419	-
Investment earnings					162,050	-	162,050	138,995	67,328
Gain on sale of capital assets					19,848	-	19,848	1,764	-
TRANSFERS					(18,984)	18,984	-	-	-
Total general revenues and transfers					10,373,258	18,984	10,392,242	9,952,860	67,328
CHANGE IN NET POSITION					326,344	19,344	345,688	339,229	504,399
NET POSITION									
Beginning of year, restated					\$ 14,148,120	(19,344)	\$ 14,128,776	13,789,547	20,280,338
End of year					\$ 14,474,464	\$ -	\$ 14,474,464	\$14,128,776	\$ 20,784,737

See accompanying notes

# LOWER PROVIDENCE TOWNSHIP

## BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2018 with summarized comparative totals for 2017

	Major Funds					Totals	
	General	Capital	Unrestricted	Highway	Nonmajor	2018	2017
	Fund	Projects	Capital	Improvement	Governmental		
		Fund	Fund	Capital Reserve	Funds		
				Fund			
<b>ASSETS</b>							
Cash	\$ 3,712,417	\$ 18	\$ 671,736	\$ 642,126	\$ 619,767	\$ 5,646,064	\$ 5,670,172
Restricted cash	190,184	-	-	30,003	-	220,187	148,573
Taxes receivable	80,263	-	-	-	25,760	106,023	95,108
Accounts receivable	201,625	-	-	154,423	843	356,891	414,366
Due from other funds	465	-	-	-	-	465	465
Prepaid items	16,040	35,780	-	-	-	51,820	59,339
<b>Total assets</b>	<b>\$ 4,200,994</b>	<b>\$ 35,798</b>	<b>\$ 671,736</b>	<b>\$ 826,552</b>	<b>\$ 646,370</b>	<b>\$ 6,381,450</b>	<b>\$ 6,388,023</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 196,891	\$ 1,446	\$ -	\$ 39,296	\$ 70,153	\$ 307,786	\$ 203,173
Accrued salaries and benefits	249,765	-	-	-	15,948	265,713	12,634
Due to other funds	-	-	-	-	465	465	465
Unearned revenue	60,000	-	-	757,428	-	817,428	610,448
Escrow deposits	190,184	-	-	30,003	-	220,187	148,573
<b>Total liabilities</b>	<b>696,840</b>	<b>1,446</b>	<b>-</b>	<b>826,727</b>	<b>86,566</b>	<b>1,611,579</b>	<b>975,293</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenues - property taxes	17,430	-	-	-	222	17,652	18,789
<b>FUND BALANCES</b>							
Nonspendable							
Prepaid items	16,040	35,780	-	-	-	51,820	59,339
Restricted for							
Debt service	-	-	-	-	35,644	35,644	45,220
Public works - roads	-	-	-	-	105,853	105,853	349,892
Committed for							
Capital purchases	-	-	671,736	-	91,472	763,208	851,335
Culture and recreation	-	-	-	-	332,195	332,195	486,775
Assigned for							
Capital purchases	-	-	-	-	2,052	2,052	376
Culture and recreation	-	-	-	-	-	-	23
Unassigned	3,470,684	(1,428)	-	(175)	(7,634)	3,461,447	3,600,981
<b>Total fund balances</b>	<b>3,486,724</b>	<b>34,352</b>	<b>671,736</b>	<b>(175)</b>	<b>559,582</b>	<b>4,752,219</b>	<b>5,393,941</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,200,994</b>	<b>\$ 35,798</b>	<b>\$ 671,736</b>	<b>\$ 826,552</b>	<b>\$ 646,370</b>	<b>\$ 6,381,450</b>	<b>\$ 6,388,023</b>

See accompanying notes

## LOWER PROVIDENCE TOWNSHIP

### **RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

December 31, 2018

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<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 4,752,219</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	17,601,402
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Some of the Township's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources on the governmental funds balance sheet.	17,652
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Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	2,011,806
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Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.	<u>(9,908,615)</u>
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<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 14,474,464</u></b>
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# LOWER PROVIDENCE TOWNSHIP

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended December 31, 2018 with summarized comparative totals for 2017

	Major Funds					Totals	
	General	Capital	Unrestricted	Highway	Nonmajor	2018	2017
	Fund	Projects	Capital	Improvement	Governmental		
		Fund	Fund	Capital Reserve	Funds		
				Fund			
<b>REVENUES</b>							
Taxes	\$ 8,388,389	\$ -	\$ -	\$ -	\$ 1,366,275	\$ 9,754,664	\$ 9,507,463
Licenses and permits	517,902	-	-	-	-	517,902	540,120
Fines and forfeits	123,032	-	-	-	-	123,032	108,553
Interest, rent and royalties	47,859	460	1,404	-	112,328	162,051	138,992
Intergovernmental revenues	658,088	-	-	241,004	938,062	1,837,154	1,763,563
Charges for services	870,113	-	-	-	454,849	1,324,962	1,348,245
Miscellaneous	62,932	23,619	-	93,723	42,476	222,750	199,371
<b>Total revenues</b>	<u>10,668,315</u>	<u>24,079</u>	<u>1,404</u>	<u>334,727</u>	<u>2,913,990</u>	<u>13,942,515</u>	<u>13,606,307</u>
<b>EXPENDITURES</b>							
Current							
General government	1,717,914	105,240	-	-	1,710	1,824,864	1,613,606
Public safety	7,372,833	229,951	-	-	11,959	7,614,743	6,913,361
Health and human services	5,500	-	-	-	-	5,500	5,500
Public works - sanitation	10,125	-	-	-	-	10,125	16,357
Public works - highways and streets	1,269,522	195,694	-	334,727	843,746	2,643,689	2,391,778
Public works - other services	10,306	19,000	-	-	500	29,806	49,023
Culture and recreation	-	-	-	-	1,586,649	1,586,649	1,504,885
Community development	2,200	-	-	-	54,430	56,630	44,471
Miscellaneous	392	-	-	-	-	392	17
Debt service	-	-	-	-	834,028	834,028	837,139
<b>Total expenditures</b>	<u>10,388,792</u>	<u>549,885</u>	<u>-</u>	<u>334,727</u>	<u>3,333,022</u>	<u>14,606,426</u>	<u>13,376,137</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>279,523</u>	<u>(525,806)</u>	<u>1,404</u>	<u>-</u>	<u>(419,032)</u>	<u>(663,911)</u>	<u>230,170</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds from sale of capital assets	822	6,000	-	-	13,026	19,848	1,764
Refund of prior year receipts	(18,125)	-	-	-	(2,523)	(20,648)	(42,687)
Refund of prior year expenditures	41,373	-	-	-	600	41,973	10,902
Transfers in	-	488,131	425,000	-	197,042	1,110,173	494,544
Transfers out	(447,156)	-	(475,019)	-	(206,982)	(1,129,157)	(494,544)
<b>Total other financing sources (uses)</b>	<u>(423,086)</u>	<u>494,131</u>	<u>(50,019)</u>	<u>-</u>	<u>1,163</u>	<u>22,189</u>	<u>(30,021)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(143,563)</u>	<u>(31,675)</u>	<u>(48,615)</u>	<u>-</u>	<u>(417,869)</u>	<u>(641,722)</u>	<u>200,149</u>
<b>FUND BALANCES</b>							
Beginning of year	<u>3,630,287</u>	<u>66,027</u>	<u>720,351</u>	<u>(175)</u>	<u>977,451</u>	<u>5,393,941</u>	<u>5,193,792</u>
<b>End of year</b>	<u>\$ 3,486,724</u>	<u>\$ 34,352</u>	<u>\$ 671,736</u>	<u>\$ (175)</u>	<u>\$ 559,582</u>	<u>\$ 4,752,219</u>	<u>\$ 5,393,941</u>

See accompanying notes

## LOWER PROVIDENCE TOWNSHIP

### **RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES**

Year ended December 31, 2018

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<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>		<b>\$ (641,722)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	\$ 1,452,256	
Depreciation expense	<u>(895,971)</u>	556,285

Because some tax 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 inflows of resources decreased by this amount this year.

Deferred inflows of resources December 31, 2017	(18,789)	
Deferred inflows of resources December 31, 2018	<u>17,652</u>	(1,137)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of notes payable		744,586
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Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.

Current year change in compensated absences	(41,443)	
Change in net OPEB liability and related deferred inflows and outflows	(85,004)	
Change in net pension liability and related deferred inflows and outflows	<u>(205,221)</u>	<u>(331,668)</u>

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 326,344</u></b>
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## LOWER PROVIDENCE TOWNSHIP

### STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUND

December 31, 2018 with summarized comparative totals for 2017

	<u>Solid Waste Fund</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Accounts receivable, net	<u>\$ -</u>	<u>\$ 25,913</u>
 <b>LIABILITIES AND NET POSITION (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	-	\$ 45,257
 <b>NET POSITION (DEFICIT)</b>		
Unrestricted (deficit)	<u>-</u>	<u>(19,344)</u>
 <b>Total liabilities and net position (deficit)</b>	<u>\$ -</u>	<u>\$ 25,913</u>

See accompanying notes

## LOWER PROVIDENCE TOWNSHIP

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUND

Year ended December 31, 2018 with summarized comparative totals for 2017

	<b>Solid Waste Fund</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>OPERATING REVENUES</b>		
Collections	\$ 360	\$ 630
<b>OPERATING EXPENSES</b>	<u>-</u>	<u>-</u>
Operating income and change in net position (deficit) before transfers	360	630
<b>TRANSFERS</b>	<u>18,984</u>	<u>-</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>	19,344	630
<b>NET POSITION (DEFICIT)</b>		
Beginning of year	<u>(19,344)</u>	<u>(19,974)</u>
End of year	<u>\$ -</u>	<u>\$ (19,344)</u>

## LOWER PROVIDENCE TOWNSHIP

### STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year ended December 31, 2018 with summarized comparative totals for 2017

	<b>Solid Waste Fund</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,159	\$ 3,002
Cash paid to vendors	<u>(1,159)</u>	<u>(3,002)</u>
Net cash provided by (used for) operating activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	-	-
<b>CASH</b>		
Beginning of year	<u>-</u>	<u>-</u>
Ending of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income	\$ 360	\$ 630
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Decrease in		
Accounts receivable	799	2,372
Increase (decrease) in		
Accounts payable	<u>(1,159)</u>	<u>(3,002)</u>
Net cash provided by (used for) operating activities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes



# LOWER PROVIDENCE TOWNSHIP

## STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2018 with summarized comparative totals for 2017

	Escrow Fund	Other Postemployment Benefits Trust Fund	Police Pension Fund	Non-Uniform Pension Fund	Totals	
					2018	2017
<b>ASSETS</b>						
Cash	\$ 718,992	\$ 21,093	\$ 160,589	\$ 46,982	\$ 947,656	\$ 1,155,592
Investments, restricted	-	1,279,693	14,301,028	4,574,157	20,154,878	21,326,922
Other receivables	142,324	-	22,996	-	165,320	125,132
Prepaid benefits	-	-	65,648	16,958	82,606	78,521
<b>Total assets</b>	<u>861,316</u>	<u>1,300,786</u>	<u>14,550,261</u>	<u>4,638,097</u>	<u>21,350,460</u>	<u>22,686,167</u>
<b>LIABILITIES</b>						
Deposits	4,500	-	-	-	4,500	3,000
Accounts payable	42,696	-	-	22,996	65,692	50,626
Other current liabilities	<u>814,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>814,120</u>	<u>727,146</u>
<b>Total liabilities</b>	<u>\$ 861,316</u>	<u>-</u>	<u>-</u>	<u>22,996</u>	<u>884,312</u>	<u>780,772</u>
<b>NET POSITION</b>						
Assets held in trust for pension and other post-employment benefits		<u>\$ 1,300,786</u>	<u>\$ 14,550,261</u>	<u>\$ 4,615,101</u>	<u>\$ 20,466,148</u>	<u>\$ 21,905,395</u>

See accompanying notes

# LOWER PROVIDENCE TOWNSHIP

## STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year ended December 31, 2018 with summarized comparative totals for 2017

	Other Postemployment Benefits Trust Fund	Police Pension Fund	Non-Uniform Pension Fund	Totals	
				2018	2017
<b>ADDITIONS</b>					
<b>Contributions</b>					
Employer contributions	\$ -	\$ 948,849	\$ 154,215	\$ 1,103,064	\$ 1,014,248
Member contributions	-	91,266	10,066	101,332	99,006
<b>Total contributions</b>	-	1,040,115	164,281	1,204,396	1,113,254
<b>Investment income (loss)</b>					
Investment income	32,281	355,973	115,525	503,779	445,803
Net increase (decrease) in fair value of investments	(114,291)	(1,261,669)	(410,310)	(1,786,270)	2,681,705
<b>Total investment income (loss)</b>	(82,010)	(905,696)	(294,785)	(1,282,491)	3,127,508
<b>Total additions</b>	(82,010)	134,419	(130,504)	(78,095)	4,240,762
<b>DEDUCTIONS</b>					
Benefits paid	57,466	996,303	203,493	1,257,262	1,025,700
Administrative expenses	15,888	62,751	25,251	103,890	99,636
<b>Total deductions</b>	73,354	1,059,054	228,744	1,361,152	1,125,336
<b>CHANGE IN NET POSITION</b>	(155,364)	(924,635)	(359,248)	(1,439,247)	3,115,426
<b>NET POSITION</b>					
Beginning of year	1,456,150	15,474,896	4,974,349	21,905,395	18,789,969
<b>End of year</b>	<u>\$ 1,300,786</u>	<u>\$ 14,550,261</u>	<u>\$ 4,615,101</u>	<u>\$ 20,466,148</u>	<u>\$ 21,905,395</u>

See accompanying notes

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lower Providence Township (the "**Township**"), Montgomery County, Pennsylvania, was established in 1714 and operates as a Township of a second class under the Township code of the Commonwealth of Pennsylvania. The Township is governed by an elected five-member Board of Supervisors and provides the following services: general government; public safety - police, fire, ambulance, codes and planning and zoning; public works – sanitation and highways and streets; culture and recreation and community development.

The financial statements of the Township have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

#### **Reporting Entity**

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the Township as a reporting entity, management has addressed all potential component units which may or may not fall within the Township's accountability. The criteria used to evaluate component units for possible inclusion as part of the Township's reporting entity are financial accountability and the nature and significance of the relationship. Based upon the application of these criteria, the following component unit is required to be included in the Township's reporting entity.

#### **Discretely Presented Component Unit**

Lower Providence Township Sewer Authority (the "**Sewer Authority**") is the only component unit of the Township. The Sewer Authority is a public corporation formed on January 30, 1962 under the Municipal Authorities Act of 1945. The Authority has constructed and operates a sewage collection system in the Township that connects with a sewage treatment plant operated by the Lower Perkiomen Valley Regional Sewer Authority. The Sewer Authority is administered by a five-member board appointed by the Township Board of Supervisors. The Township considers inclusion of the Sewer Authority's financial information important to the overall presentation of the financial statements. The year end of the Sewer Authority is June 30. The Sewer Authority issues separate audited financial statements which are available to the public through the Township office.

#### **Basis of Presentation**

##### ***Government-Wide Financial Statements***

The statement of net position and the statement of activities display information about the Township and Sewer Authority as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared 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 timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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The government-wide statement of net position presents the financial position of the Township and Sewer Authority which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the Township and Sewer Authority is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the Township and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

#### ***Fund Financial Statements***

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Township. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. All other governmental funds are grouped together and presented in a separate column as nonmajor governmental funds. Fiduciary fund financial statements are presented by fund type.

#### ***Governmental Funds***

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The Township reports the following major governmental funds:

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

The Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays which include the acquisition or construction of capital facilities and other capital assets, including those financed by general obligation bond proceeds. The reporting entity includes the following Capital Project Funds, which are reported as major funds:

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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The Capital Projects Fund is used to account for grants and contributions obtained for the purpose of capital improvements.

The Unrestricted Capital Fund is used to account for contributions and transfers from other funds for the purpose of unexpected or emergency capital improvement expenditures.

The Highway Improvement Capital Reserve Fund is used to account for revenues generated from traffic impact fees as established by Township Ordinance for the purpose of servicing future transportation needs of the Township.

In addition, the Township reports the following nonmajor governmental funds:

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Additional Capital Projects Funds are used to account for equipment replacement, capital purchases and improvements for the Township's parks and recreation facilities, repayment of debt principal and interest for liquid fuels funded loans, sidewalk, stormwater and West End capital improvements.

#### ***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific Township expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

#### ***Expenditure Recognition***

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

#### ***Proprietary Funds***

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The Township reports the following major proprietary fund:

The Solid Waste Fund is used to account for the collection of fees and payment of expenses related to trash collection and recycling. The Township discontinued its solid waste activities as of March 1, 2005 and closed the fund effective December 31, 2018. Currently, the solid waste activities of the Township are contracted to a third party. The Solid Waste Fund was closed out as of December 31, 2018.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Township's proprietary funds are charges for services. Operating expenses for the Township's proprietary funds include the cost of operations and maintenance and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Fiduciary Funds***

Fiduciary funds account for the assets held by the Township as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the Township's own programs. The Township reports the following fiduciary funds:

The Trust Funds are used to account for the activities of the Township's other post-employment benefits, police and nonuniform defined benefit pension plans which accumulate resources for other post-employment and pension benefit payments to qualified employees upon retirement.

The Escrow Fund is an agency fund that is used to account for assets held for the benefit of others with the Township having no equity or ownership in the assets.

#### **Cash and Cash Equivalents**

The Township and Sewer Authority'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.

#### **Investments**

Investments are stated at fair value based upon quoted market prices.

#### **Fair Value Measurements of Assets and Liabilities**

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Township. Unobservable inputs reflect the Township's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Township has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable, that is, inputs that reflect the Township's own assumptions.

#### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due 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). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### Taxes

Property taxes are levied on March 1 and are payable in the following periods:

March 1 – April 30	- Discount period, 2% of gross levy
May 1 – July 1	- Face period
July 2 to collection	- Penalty period, 10% of gross levy
December 31	- Lien date

The Montgomery County Board of Assessments determines assessed valuations of property, and the Township's taxes are billed and collected by the elected Township Tax Collector. The tax on real estate for fiscal 2018 was 1.766 mills (\$1.776 for \$1,000 of assessed valuation), consisting of 0.905 mills for general obligations, 0.345 mills for library, 0.275 mills for debt service and 0.241 mills for parks and recreation operations. The Township experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the Township for property taxes receivable.

Other taxes levied in 2018 consisted of the following:

Real estate transfer tax	- 0.50% of gross sales price
Earned income tax	- 0.50% for general purposes
Local services tax	- \$1.00 per week [max of \$52.00 per year split between the Township (\$47.00) and Methacton School Township (\$5.00)]
Per capita tax	- \$5.00 per year
Amusement tax	- 5% of gross receipts

#### Prepaid Items

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

#### Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

#### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the Township as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the Township is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 10-40 years, infrastructure – 5-40 years, and furniture, machinery and equipment – 3-20 years.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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The Sewer Authority capital assets are depreciated using the straight-line method over the following estimated useful lives: sewer system – 15-40 years, land and garage building – 10-30 years, and equipment and office furniture – 5-10 years. Capital contributions consist of sewer system developer dedications, government grants, and connection fees collected from property owners.

#### **Impairment of Long-Lived Assets**

The Township evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the Township and Sewer Authority. No impairment losses were recognized in the year ended December 31, 2018.

#### **Compensated Absences**

Township policies permit employees to accumulate earned but unused vacation and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the Governmental Funds financial statements only to the extent they have matured, for example, as a result of employee resignation and retirement.

#### **Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, the face amount of debt issued is reported as other financing sources and uses. Notes payable are reported net of the applicable premium or discount. Premiums and discounts are deferred and amortized over the life of the notes. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

#### **Fund Equity**

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The Township reports the following fund balance classifications:

##### ***Nonspendable***

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

##### ***Restricted***

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

##### ***Committed***

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the Township's highest level of decision-making authority, the Board of Supervisors. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes those constraints by taking the same type of formal action (e.g., resolution).



## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### ***Assigned***

Assigned fund balances are amounts that are constrained by the Township's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Township Manager or (b) an appointed body (e.g., finance committee) or (c) an official to which the Township has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

#### ***Unassigned***

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

#### **Comparative Data**

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Township's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Township's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

#### **Minimum Fund Balance Policy**

The Township will strive to maintain in its General Fund balance, a reserve of 5% to 7% of yearly expenditures (the "**operating reserve**"). The operating reserve is intended to be a reserve for unexpected events that impact the operating budget, such as failure of the state to remit revenues to the Township, unexpected mandates, unexpected loss of state shared revenues, continuance of critical Township services due to unanticipated events or to offset the unexpected loss of a significant funding source for the remainder of the fiscal year.

If, at any time, the General Fund reaches a zero balance, this policy will authorize use of the Unrestricted Capital Fund balance. If, at any time, should the General Fund balance fall below 5% of yearly expenditures, the Board of Supervisors shall be notified.

Funds in excess of the operating reserve described above may be considered to supplement capital outlay and one-time operating expenditures, or may be used to prepay existing Township debt. Excess funds may not be used to establish or support costs that are recurring in nature.

Any use of the operating reserve funds in the General Fund, must be approved by the Board of Supervisors and include a repayment plan that strives to restore the Operating Reserve to the 5% to 7% of the yearly expenditures level within two fiscal years following the fiscal year in which the event occurred.

#### **Use of Estimates**

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

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### **Implementation of New Accounting Pronouncements**

Effective January 1, 2018, the Township adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86, *"Certain Debt Extinguishment Issues"*.

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

The objective of GASB Statement No. 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)).

GASB Statement No. 86 established standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. GASB Statement No. 86 also amended accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB Statement No. 86 established an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The implementation of GASB Statement No. 86 had no impact on the financial statements of the Township for the year ended December 31, 2018.

#### **New Accounting Pronouncements**

GASB Statement No. 83, *"Certain Asset Retirement Obligations"* will be effective for the Township for the year ended December 31, 2019. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (*"AROs"*). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83.

GASB Statement No. 84, *"Fiduciary Activities"* will be effective for the Township for the year ended December 31, 2019. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, *"Leases"* will be effective for the Township for the year ended December 31, 2020. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

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## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*", will be effective for the Township for the year ended December 31, 2019. The objective of GASB Statement No. 88 is to improve the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

GASB Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*", will be effective for the Township for the year ended December 31, 2019. The primary objects of GASB Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

#### (2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### **Budgetary Information**

Township code of the Commonwealth of Pennsylvania requires that an annual budget for all funds be adopted no later than December 31 for the succeeding fiscal year beginning January 1. The Township is required to publish notice by advertisement at least once in one newspaper of general circulation in the Township, and within 20 days of final action, that the budget has been prepared and is available for public inspection at the Township offices. Notice that public hearings will be held on the proposed budget must be included in the advertisement.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

The Township is legally required to maintain budgetary controls at the major function level. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at the level of budgetary control and include the effect of approved budget amendments.

#### (3) DEPOSITS AND INVESTMENTS

State statutes authorize the Township to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

##### **Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Township is required by statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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At December 31, 2018, the carrying amount of the Township's deposits was \$6,813,907 and the bank balance was \$7,050,563. Of the bank balance, \$707,571 was covered by federal depository insurance and \$6,181,394 was collateralized by the Township's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the Township are in the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of December 31, 2018, PLGIT was rated AAA by a nationally recognized statistical rating agency.

### **Investments**

As of December 31, 2018, the Township's pension and other post-employment benefits trust funds had the following investments:

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>
Exchange-traded funds	<u>\$20,154,878</u>

Exchange-traded funds are valued using Level 1 inputs.

### **Custodial Credit Risk - Investments**

For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Township's pension trust funds consist of uninsured, unregistered investments held by a counterparty's trust department but not in the Township's name.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Township's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Township limits its type of investments permitted as defined in the state statutes.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Township places no limit on the amount that may be invested with any one issuer.

### **Discretely Presented Component Unit**

#### **Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Sewer Authority is required by statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

At June 30, 2018, the carrying amount of the Sewer Authority's deposits was \$2,601,412 and the bank balance was \$2,601,029. Of the bank balance, \$263,827 was covered by federal depository insurance and \$2,337,202 was collateralized by the Sewer Authority's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

#### Investments

At June 30, 2018, the Sewer Authority had the following investments:

Certificates of deposit –

Collateral held by pledging bank's agent in the Sewer Authority's name \$2,247,874

#### Custodial Credit Risk

For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Sewer Authority had no investments subject to custodial credit risk as of June 30, 2018.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Sewer Authority had no investments subject to interest rate risk as of June 30, 2018.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Sewer Authority limits its type of investments permitted as defined in the state statutes.

## (4) CAPITAL ASSETS

The Township's capital asset activity for the year ended December 31, 2018 was as follows:

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	<u>\$ 10,665,637</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,665,637</u>
Capital assets being depreciated				
Land improvements	1,101,384	18,635	-	1,120,019
Infrastructure	8,030,222	885,626	-	8,915,848
Buildings	4,658,448	12,161	-	4,670,609
Furniture, machinery and equipment	<u>3,594,801</u>	<u>535,834</u>	<u>118,879</u>	<u>4,011,756</u>
<b>Total capital assets being depreciated</b>	<u>17,384,855</u>	<u>1,452,256</u>	<u>118,879</u>	<u>18,718,232</u>
Less accumulated depreciation for				
Land improvements	(735,376)	(35,028)	-	(770,404)
Infrastructure	(5,655,174)	(459,334)	-	(6,114,508)
Buildings	(1,996,870)	(94,595)	-	(2,091,465)
Furniture, machinery and equipment	<u>(2,617,955)</u>	<u>(307,014)</u>	<u>(118,879)</u>	<u>(2,806,090)</u>
<b>Total accumulated depreciation</b>	<u>(11,005,375)</u>	<u>(895,971)</u>	<u>(118,879)</u>	<u>(11,782,467)</u>
<b>Total capital assets being depreciated, net</b>	<u>6,379,480</u>	<u>556,285</u>	<u>-</u>	<u>6,935,765</u>
<b>Governmental activities, net</b>	<u>\$ 17,045,117</u>	<u>\$ 556,285</u>	<u>\$ -</u>	<u>\$ 17,601,402</u>

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

<b>Governmental activities</b>	
General government	\$119,465
Public safety	498,499
Public works	174,137
Culture and recreation	<u>103,870</u>
<b>Total depreciation expense - governmental activities</b>	<u>\$895,971</u>

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

#### Discretely Presented Component Unit

The Sewer Authority's capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
<b>Capital assets being depreciated</b>				
Sewer system	\$ 31,481,288	\$ 2,571,814	\$ -	\$ 34,053,102
Land and garage building	287,504	-	-	287,504
Furniture, machinery and equipment	<u>371,202</u>	<u>56,540</u>	<u>-</u>	<u>427,742</u>
<b>Total capital assets being depreciated</b>	32,139,994	2,628,354	-	34,768,348
<b>Less: accumulated depreciation</b>	<u>(16,750,849)</u>	<u>(799,448)</u>	<u>-</u>	<u>(17,550,297)</u>
<b>Total capital assets being depreciated, net</b>	<u>\$ 15,389,145</u>	<u>\$ 1,828,906</u>	<u>\$ -</u>	<u>\$ 17,218,051</u>

#### (5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2018 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	<u>\$ 465</u>	Nonmajor Governmental Fund	<u>\$ 465</u>

Interfund balances between funds represent temporary loans recorded to cover payroll-related costs. The balances are generally repaid shortly after year-end.

A summary of interfund transfers for the year ended December 31, 2018 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Unrestricted Capital Fund	\$ 425,000	General Fund	\$ 425,000
Capital Projects Fund	475,019	Unrestricted Capital Fund	475,019
Capital Projects Fund	13,112	Nonmajor Governmental Fund	13,112
Solid Waste Fund	18,984	General Fund	18,984
Nonmajor Governmental Fund	193,870	Nonmajor Governmental Fund	193,870
Nonmajor Governmental Fund	<u>3,172</u>	General Fund	<u>3,172</u>
	<u>\$1,129,157</u>		<u>\$1,129,157</u>

Transfers to the Capital Projects Fund from the General Fund and Unrestricted Capital Fund represent monies to subsidize costs associated with the acquisition of capital assets. Transfers between Nonmajor Governmental Funds were made from the Highway Aid Fund to the Liquid Fuels Funded Loans Fund to cover the principal and interest payments on the 2010 loan. Transfers to the Solid Waste Fund from the General Fund were made to close out the Solid Waste fund.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### (6) NONCURRENT LIABILITIES

The following summarizes the changes in the Township's noncurrent liabilities for the year ended December 31, 2018:

	<u>Balance January 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2018</u>	<u>Amount Due Within One Year</u>
<b>Governmental activities</b>					
<b>General obligation debt</b>					
Notes payable	\$4,880,668	\$ -	\$744,586	\$4,136,082	\$723,506
<b>Other noncurrent liabilities</b>					
Compensated absences	266,208	41,443	-	307,651	-
Net OPEB liability	594,145	332,336	110,750	815,731	-
Net pension liability	<u>3,203,447</u>	<u>1,445,704</u>	<u>-</u>	<u>4,649,151</u>	<u>-</u>
<b>Total other noncurrent liabilities</b>	<u>4,063,800</u>	<u>1,819,483</u>	<u>110,750</u>	<u>5,772,533</u>	<u>-</u>
<b>Total noncurrent liabilities governmental activities</b>	<u>\$8,944,468</u>	<u>\$1,819,483</u>	<u>\$855,336</u>	<u>\$9,908,615</u>	<u>\$723,506</u>

### (7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the Township for which full faith and credit are pledged and are payable from local sources. The Township has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of December 31, 2018 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Issue Amount</u>	<u>Original Final Maturity</u>	<u>Principal Outstanding</u>
<b>General obligation notes</b>				
Series of 2006	1.31% - 4.55%	\$2,773,000	04/25/2022	\$ 717,000
Series of 2008	1.49% - 2.311%	4,018,000	06/25/2024	1,765,000
Series B of 2010	2.69%	150,000	03/25/2020	77,000
Series of 2013	1.42%	325,000	03/25/2023	87,000
Series A of 2013	1.62%	520,000	03/25/2023	270,000
Series of 2014	2.117%	1,012,000	07/25/2024	632,000
Series of 2015	1.698%	140,000	04/25/2025	101,000
PIB Loan 206	1.625%	599,350	08/01/2026	<u>487,082</u>
<b>Total general obligation notes</b>				<u>\$4,136,082</u>

Annual debt service requirements under the governmental activities general obligation debt is as follows:

<u>Year ending December 31,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2019	\$ 723,506	\$ 92,510	\$ 816,016
2020	742,441	76,077	818,518
2021	721,390	59,186	780,576
2022	739,355	42,886	782,241
2023	570,336	26,176	596,512
2024-2026	<u>639,054</u>	<u>17,632</u>	<u>656,686</u>
	<u>\$4,136,082</u>	<u>\$314,467</u>	<u>\$4,450,549</u>

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

#### Interest Rate Management Plan

The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the Township, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to the participants, DVRFA has entered into an interest rate swap agreement with a financial institution. In the event that the swap agreement between DVRFA and the financial institution is terminated, the value of the swap to DVRFA at the time of termination is a liability and insufficient funds are available to pay the liability, the participants are required to pay their proportionate share of the liability. The values of the swap agreements relative to the DVRFA notes payable at December 31, 2018 was an asset of \$452,879, in aggregate. The values of the swap agreements relative to these Notes are not reflected on the Township's statement of net position.

#### Discretely Presented Component Unit

The following summarizes the changes in the Sewer Authority's noncurrent liabilities for the year ended June 30, 2018:

	<b>Balance July 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2018</b>	<b>Amount Due Within One Year</b>
<b>Guaranteed sewer revenue notes</b>					
Sewer revenue notes	\$ 3,561,000	\$ -	\$ 693,000	\$2,868,000	\$702,000
Bond premiums	37,759	-	7,812	29,947	7,813
<b>Total guaranteed sewer revenue notes</b>	<u>3,598,759</u>	<u>-</u>	<u>700,812</u>	<u>2,897,947</u>	<u>709,813</u>
<b>Other noncurrent liabilities</b>					
Compensated absences	2,504	15,232	-	17,736	-
Net pension liability (asset)	157,799	151,477	371,499	(62,223)	-
<b>Total other noncurrent liabilities</b>	<u>160,303</u>	<u>166,709</u>	<u>371,499</u>	<u>(44,487)</u>	<u>-</u>
<b>Total noncurrent liabilities discretely presented component unit</b>	<u>\$3,759,062</u>	<u>\$166,709</u>	<u>\$1,072,311</u>	<u>\$2,853,460</u>	<u>\$709,813</u>

#### Guaranteed Sewer Revenue Notes

Guaranteed sewer revenue notes are a direct obligation of the Sewer Authority for which full faith and credit are pledged and are payable from sewer revenues. The Sewer Authority has not pledged any assets as collateral for guaranteed sewer revenue notes. Guaranteed sewer revenue notes were issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of December 31, 2018 consisted of the following:

<b>Description</b>	<b>Interest Rate(s)</b>	<b>Issue Amount</b>	<b>Original Final Maturity</b>	<b>Principal Outstanding</b>
<b>Guaranteed sewer revenue notes</b>				
Series of 2016	1.527%	\$4,245,000	04/25/2022	<u>\$2,868,000</u>



## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Annual debt service requirements under the Sewer Authority's guaranteed sewer revenue notes is as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2019	\$ 702,000	\$ 43,794	\$ 745,794
2020	712,000	33,075	745,075
2021	722,000	22,203	744,203
2022	<u>732,000</u>	<u>11,178</u>	<u>743,178</u>
	<u>\$2,868,000</u>	<u>\$110,250</u>	<u>\$2,978,250</u>

#### (8) POST EMPLOYMENT RETIREMENT PLAN

The Lower Providence Township Police Post-Employment Benefits Plan ("**OPEB Plan**") is a contributory, single-employer postretirement benefits plan that covers all full-time uniformed police officers of the Township. The OPEB Plan provides postretirement medical benefits upon retirement or disability to plan members and their beneficiaries, pursuant to Township ordinances and the collective bargaining agreement between the Township and the police officers. The OPEB Plan can be amended by the Township through its ordinances and union contracts. The OPEB Plan is administered by a plan administrator appointed by the Board of Supervisors of the Township. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

##### Plan Membership

Membership in the OPEB Plan consisted of the following at December 31, 2018:

Active employees	30
Retirees and beneficiaries currently receiving benefits (including DROP members)	6
Terminated plan members entitled to but not yet receiving benefits	-
Total	<u>36</u>

##### Funding Policy

Officers who retire and are receiving postretirement benefits under the plan are required to pay 25% of their medical premiums. Administrative costs of the plan are financed through an addition to the actuarially determined employer contribution.

The plan does not have a funding policy. The medical premiums for retired members are paid from the OPEB trust. The employer subsidies of the premiums for retired members are paid from the Township's General Fund.

##### Other Post-Employment Benefits Trust

##### Basis of Accounting

The OPEB Plan's financial statements are prepared using the accrual basis of accounting. OPEB plan member contributions by retired officers toward their postretirement benefits reduce the employer cost and the resulting liability. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions, including the implicit rate subsidy. Benefits and refunds are recognized when due and payable in accordance with terms of the OPEB plan, including the implicit rate subsidy.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### Method Used to Value Investments

Investments in the OPEB Plan are reported at fair value. Investments that do not have an established market value are reported at estimated fair value.

### Annual OPEB Cost

The annual OPEB cost was determined as part of the December 31, 2018 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 6.25% percent investment rate of return (net of administrative costs) and (b) 2.25% inflation and 5.00% salary increases. The unfunded actuarial accrued liability is being amortized on the level dollar closed basis over 29 years.

### Discount Rate

The discount rate used to measure the total OPEB liability is 6.25% based upon the expected rate of return, net of expected investment expenses. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The Township's funding policy is to fund the rate subsidies through the General Fund and pay only the actual premiums for retired members from the OPEB trust.

### Rate of Return

The long-term expected rate of return on OPEB Plan investments was determined using the 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 class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation.

The annual money-weighted rate of return on OPEB Plan investments, net of investment expenses, was -6.11%. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

A schedule of plan investments by asset class, target allocations, and long-term expected rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Contribution to Rate of Return</u>
Domestic stocks	45.50%	5.57%	2.53%
International stocks	24.50%	6.42%	1.57%
Bonds	27.00%	1.35%	0.36%
Cash	<u>3.00%</u>	-0.31%	<u>-0.01%</u>
Total Portfolio	<u>100.00%</u>		4.45%
Inflation			<u>2.25%</u>
Long-term expected rate of return			<u>6.70%</u>

### Net OPEB Liability

The Township's net OPEB liability has been measured as of December 31, 2018. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, and by rolling forward the liabilities from the January 1, 2017 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The net OPEB liability is \$815,731 measured as the difference between the total OPEB liability of \$2,116,517 and the fiduciary net position of \$1,300,786.

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# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The Township's change in total OPEB liability, plan fiduciary net position, and net OPEB liability for the year ended December 31, 2018 were as follows:

	<b>Total OPEB Liability (A)</b>	<b>Plan Fiduciary Net Position (B)</b>	<b>Net OPEB Liability (A) – (B)</b>
<b>Balances as of December 31, 2017</b>	\$2,050,294	\$1,456,149	\$ 594,145
<b>Changes for the year:</b>			
Service cost	104,989	-	104,989
Interest on total OPEB liability	129,449	-	129,449
Employer contributions	-	110,750	(110,750)
Member contributions	-	-	-
Net investment income	-	(82,010)	82,010
Benefit payments	(168,215)	(168,215)	-
Administrative expense	-	(15,888)	15,888
<b>Net changes</b>	<u>66,223</u>	<u>(155,363)</u>	<u>221,586</u>
<b>Balances as of December 31, 2018</b>	<u>\$2,116,517</u>	<u>\$1,300,786</u>	<u>\$ 815,731</u>

### **Sensitivity of the Net OPEB Liability to Change in Healthcare Cost Trend Rates**

The following presents the net OPEB liability for December 31, 2018, calculated using current healthcare cost trends as well as what the net OPEB liability would be if healthcare cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<b><u>1% Decrease</u></b>	<b><u>Trend Rate</u></b>	<b><u>1% Increase</u></b>
Net OPEB liability	<u>\$519,073</u>	<u>\$815,731</u>	<u>\$1,171,288</u>

### **Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the Township calculated using the discount rate 6.25%, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	<b><u>1% Decrease 5.25%</u></b>	<b><u>Current Discount Rate 6.25%</u></b>	<b><u>1% Increase 7.25%</u></b>
Net OPEB liability	<u>\$1,013,369</u>	<u>\$815,731</u>	<u>\$633,851</u>

### **OPEB Expense and Deferred Outflows of Related to OPEB**

At December 31, 2018, the Township had deferred outflows of resources related to the OPEB Plan from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>
Net difference between projected and actual earnings on OPEB plan investments	<u>\$136,582</u>

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended December 31:**

2019	\$ 34,145
2020	34,145
2021	34,145
2022	<u>34,147</u>
	<u>\$136,582</u>

**Actuarial Methods and Significant Assumptions**

- Investment return – 6.25% (including inflation)
- Discount rate – 6.25%
- Inflation – 2.25%
- Salary increases – 5.00% per year
- Mortality rates – RP 2000 mortality tables for males and females

#### (9) EMPLOYEE RETIREMENT PLANS

**Police Pension Fund**

The Lower Providence Township Police Pension Fund accounts for a contributory, single-employer defined benefit pension plan (the "***Police Pension Plan***") that covers all full-time uniformed police officers of the Township. The Police Pension Plan provides retirement, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended.

**Plan Membership**

Membership in the Police Pension Plan consisted of the following at December 31, 2018:

Active employees	26
Retirees and beneficiaries currently receiving benefits (including DROP members)	37
Terminated plan members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>64</u>

**Benefit Provisions**

The Police Pension Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the Police Pension Plan.

Members are eligible for normal retirement after attainment of age 50 and 25 years of service and early retirement after 20 years of service. Normal retirement benefits are calculated as 50% of average compensation plus a service increment of \$100 per month for each completed year of benefit service in excess of 25 years, up to a maximum service increment of \$500 per month.

If a member is totally and permanently disabled in the line of duty, they are eligible for disability payments equal to 50% of their salary at the time of disability.

If a member is eligible for retirement at the time of death, a monthly death benefit is payable to their surviving spouse or eligible dependent child, equal to 50% of the normal monthly retirement benefit.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### **Basis of Accounting**

The Police Pension Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period when due and benefits and refunds are recognized when due and payable.

### **Method Used to Value Investments**

Investments in the Police Pension Plan are reported at fair value. Investments that do not have an established market value are reported at estimated fair value.

### **Contributions**

Annual contributions to the Police Pension Plan are based upon the minimum municipal obligation (the "MMO"). The MMO is derived from the Police Pension Plan's biennial actuarial valuation. Members in the Police Pension Plan are required to contribute 3.00% of total compensation. This contribution is established by the Plan's governing ordinance. The Commonwealth of Pennsylvania provides an allocation of funds, which must be used, for pension funding. Any financial requirement established by the MMO which exceeds the state and employee contribution must be funded by the Township.

### **Administrative Costs**

Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the Plan and funded through investment earnings.

### **Annual Pension Cost**

The annual required contribution was determined as part of the December 31, 2018 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 7.00% percent investment rate of return (net of administrative costs) and (b) 2.25% inflation and 5.00% salary increases. The unfunded actuarial accrued liability is being amortized on the level dollar closed basis over 10 years.

### **Discount Rate**

The discount rate used to measure the total pension liability is 7.00%. The Police Pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

### **Rate of Return**

The long-term expected rate of return on pension plan investments was determined using the 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 class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation.

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses not funded through the MMO was -6.34%. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

A schedule of plan investments by asset class, target allocations, and long-term expected rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Contribution to Rate of Return</u>
Domestic stocks	45.50%	5.57%	2.53%
International stocks	24.50%	6.42%	1.57%
Bonds	27.00%	1.35%	0.36%
Cash	<u>3.00%</u>	-0.31%	<u>-0.01%</u>
Total Portfolio	<u>100.00%</u>		4.45%
Inflation			<u>2.25%</u>
Long-term expected rate of return			<u>6.70%</u>

### Net Pension Liability

The Township's net pension liability has been measured as of December 31, 2018. The total pension liability was determined by an actuarial valuation as of January 1, 2019, and by rolling forward the liabilities from the January 1, 2018 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The net pension liability is \$4,528,938 measured as the difference between the total pension liability of \$19,079,199 and the fiduciary net position of \$14,550,261.

The Township's change in total pension liability, plan fiduciary net position, and net pension liability for the year ended December 31, 2018 were as follows:

	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability (A) – (B)</u>
<b>Balances as of December 31, 2017</b>	\$18,948,838	\$15,474,896	\$3,473,942
<b>Changes for the year:</b>			
Service cost	455,230	-	455,230
Interest on total pension liability	1,323,414	-	1,323,414
Changes of assumptions	-	-	-
Differences between expected and actual experience	(651,980)	-	(651,980)
Employer contributions	-	948,849	(948,849)
Member contributions	-	91,266	(91,266)
Net investment income	-	(905,696)	905,696
Benefit payments	(996,303)	(996,303)	-
Insurance premiums	-	-	-
Administrative expense	-	(62,751)	62,751
<b>Net changes</b>	<u>130,361</u>	<u>(924,635)</u>	<u>1,054,996</u>
<b>Balances as of December 31, 2018</b>	<u>\$19,079,199</u>	<u>\$14,550,261</u>	<u>\$4,528,938</u>

### 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 7.00%, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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	<u>1% Decrease 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increase 8.00%</u>
Net pension liability	<u>\$6,773,963</u>	<u>\$4,528,938</u>	<u>\$2,649,134</u>

#### **Pension Expense and Deferred Outflows of Related to Pension**

For the year ended December 31, 2018, the Township recognized pension expense of \$1,287,359. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 21,022	\$562,492
Changes in assumptions	1,055,839	-
Net difference between projected and actual earnings on pension plan investments	<u>1,036,466</u>	<u>-</u>
	<u>\$2,113,327</u>	<u>\$562,492</u>

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

#### **Year ended December 31:**

2019	\$ 538,122
2020	297,922
2021	302,400
2022	416,280
2023	<u>(3,889)</u>
	<u>\$1,550,835</u>

#### **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 no 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.

#### **Actuarial Methods and Significant Assumptions**

- Investment return – 7.00% (including inflation)
- Discount rate – 7.00%
- Inflation – 2.25%
- Salary increases – 5.00% per year
- Mortality rates – RP 2000 mortality tables for males and females

#### **Nonuniform Pension Fund**

The Lower Providence Township Nonuniform Pension Fund accounts for a contributory, single-employer defined benefit pension plan (the "**Nonuniform Pension Plan**") that covers all full-time non-uniformed employees of the Township hired prior to 2002 and salaried management employees holding the positions of Director and/or Coordinator on or before July 1, 2009.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### **Plan Membership**

Membership in the Nonuniform Pension Plan consisted of the following at December 31, 2018:

Active employees	8
Retirees and beneficiaries currently receiving benefits	22
Terminated plan members entitled to but not yet receiving benefits	<u>11</u>
Total	<u>41</u>

### **Benefit Provisions**

The Nonuniform Pension Plan provides retirement, disability and death benefits to plan members and their beneficiaries. The Plan can be amended by the Township through its Ordinances and union contracts.

### **Basis of Accounting**

The Nonuniform Pension Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period when due and benefits and refunds are recognized when due and payable.

### **Method Used to Value Investments**

Investments in the Nonuniform Pension Plan are reported at fair value. Investments that do not have an established market value are reported at estimated fair value.

### **Contributions**

Annual contributions to the Nonuniform Pension Plan are based upon the minimum municipal obligation (the "MMO"). The MMO is derived from the Nonuniform Pension Plan's biennial actuarial valuation. Members in the Nonuniform Pension Plan are required to contribute 1.50% of total compensation. This contribution is established by the Plan's governing ordinance. The Commonwealth of Pennsylvania provides an allocation of funds, which must be used, for pension funding. Any financial requirement established by the MMO which exceeds the state and employee contribution must be funded by the Township.

### **Administrative Costs**

Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the Plan and funded through investment earnings.

### **Annual Pension Cost**

The annual required contribution was determined as part of the December 31, 2018 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 7.00% percent investment rate of return (net of administrative costs) and (b) 2.25% inflation and 4.00% salary increases. The unfunded actuarial accrued liability is being amortized on the level dollar closed basis over 2 years.

### **Discount Rate**

The discount rate used to measure the total pension liability is 7.00%. The Nonuniform Pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

### **Rate of Return**

The long-term expected rate of return on pension plan investments was determined using the 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 class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation.



# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses not funded through the MMO was -6.35%. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

A schedule of plan investments by asset class, target allocations, and long-term expected rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Contribution to Rate of Return</u>
Domestic stocks	45.50%	5.57%	2.53%
International stocks	24.50%	6.42%	1.57%
Bonds	27.00%	1.35%	0.36%
Cash	3.00%	-0.31%	-0.01%
Total Portfolio	100.00%		4.45%
Inflation			2.25%
Long-term expected rate of return			6.70%

### Net Pension Liability (Asset)

The Township's net pension liability (asset) has been measured as of December 31, 2018. The total pension liability was determined by an actuarial valuation as of January 1, 2019, and by rolling forward the liabilities from the January 1, 2018 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The net pension liability is \$120,213 measured as the difference between the total pension liability of \$4,735,314 and the fiduciary net position of \$4,615,101.

The Township's change in total pension liability, plan fiduciary net position, and net pension liability for the year ended December 31, 2018 were as follows:

	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability (Asset) (A) – (B)</u>
<b>Balances as of December 31, 2017</b>	\$4,703,854	\$4,974,349	\$(270,495)
<b>Changes for the year:</b>			
Service cost	97,549	-	97,549
Interest on total pension liability	328,976	-	328,976
Changes of assumptions	-	-	-
Differences between expected and actual experience	(191,572)	-	(191,572)
Employer contributions	-	154,215	(154,215)
Member contributions	-	10,066	(10,066)
Net investment income	-	(294,785)	294,785
Benefit payments	(203,493)	(203,493)	-
Administrative expense	-	(25,251)	25,251
<b>Net changes</b>	<u>31,460</u>	<u>(359,248)</u>	<u>390,708</u>
<b>Balances as of December 31, 2018</b>	<u>\$4,735,314</u>	<u>\$4,615,101</u>	<u>\$ 120,213</u>

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### **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 7.00%, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	<b><u>1% Decrease 6.00%</u></b>	<b><u>Current Discount Rate 7.00%</u></b>	<b><u>1% Increase 8.00%</u></b>
Net pension liability (asset)	<u>\$569,806</u>	<u>\$120,213</u>	<u>\$(270,235)</u>

#### **Pension Expense and Deferred Outflows of Related to Pension**

For the year ended December 31, 2018, the Township recognized pension expense of \$20,926. At December 31, 2018, the Township reported deferred outflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>
Net difference between projected and actual earnings on pension plan investments	<u>\$324,389</u>

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

#### **Year ended December 31:**

2019	\$108,600
2020	42,390
2021	45,254
2022	<u>128,145</u>
	<u>\$324,389</u>

#### **Actuarial Methods and Significant Assumptions**

- Investment return – 7.00% (including inflation)
- Discount rate – 7.00%
- Inflation – 2.25%
- Salary increases – 4.00% per year
- Mortality rates – RP 2000 mortality tables for males and females

#### **Discretely Presented Component Unit – Retirement Plan**

The Lower Providence Township Sewer Authority pension plan (the "**Sewer Authority Pension Plan**") is a single-employer, defined benefit pension plan controlled by the provisions of Resolution No. 2003-01 adopted pursuant to Act 15 of 1974. The Sewer Authority Pension Plan participates in the Pennsylvania Municipal Retirement System ("**PMRS**"), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. A copy of the report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165; or by accessing its website at <http://www.pmr.state.pa.us/publications/index.html>.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### **Plan Membership**

Membership in the Sewer Authority Pension Plan consisted of the following at January 1, 2017:

Active plan members	5
Retirees and beneficiaries currently receiving benefits	6
Terminated plan members entitled to but not yet receiving benefits	-
Total	<u>11</u>

### **Benefit Provisions**

The Sewer Authority Pension Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 60. Early retirement is available to members with 15 years of credited service with reduced benefits. The death benefit is one of the following: If eligible to retire at the time of death, beneficiary receives the present value of accrued benefits. At retirement, member may select a survivor benefit. Cost-of-living allowances are provided at the discretion of the Sewer Authority Pension Plan.

### **Basis of Accounting**

The Sewer Authority Pension Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions to the Sewer Authority Pension Plan are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the Sewer Authority Pension Plan.

### **Method Used to Value Investments**

Investments are reported at fair value. The Sewer Authority Pension Plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by GASB for aggregate PMRS investments are included in PMRS's comprehensive annual financial report.

### **Contributions**

Act 205 requires that annual contributions be based upon the Sewer Authority Pension Plan's minimum municipal obligation (the "**MMO**"). The MMO is based upon the Sewer Authority Pension Plan's biennial actuarial valuation. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

In accordance with the Sewer Authority Pension Plan's governing Resolution, members are not required to contribute to the Sewer Authority Pension Plan. Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the Sewer Authority Pension Plan and funded through investment earnings.

### **Annual Pension Cost**

The annual required contribution was determined as part of the January 1, 2017 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 5.25% percent investment rate of return (net of administrative costs) and (b) 3.00% inflation and age-related scale for merit/seniority for salary projections. The unfunded actuarial accrued liability is being amortized on the level dollar closed basis.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### Discount Rate

The discount rate used to measure the total pension liability is 5.25%. The projection of cash flows used to determine the discount rate assumes that the employer will continue the historical and legally required practice of contributing to the Sewer Authority Pension Plan based on an actuarially determined contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining unfunded actuarial liability as a level dollar amount over a closed period. Therefore, the long-term expected rate of return on Sewer Authority Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Rate of Return

The long-term expected rate of return on Sewer Authority Pension Plan investments was determined using the 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 class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation.

The Sewer Authority Pension Plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PMRS Board of Directors. Sewer Authority Pension Plan assets are managed with a long-term objective of achieving and maintaining a fully-funded status for the benefits provided through the pension.

A schedule of Sewer Authority Pension Plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Rate of Return</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities (Large Capitalized Firms)	25%	8.6%	5.6%
Domestic Equities (Small Capitalized Firms)	15%	10.2%	7.2%
International Equities (International Developed Markets)	15%	7.6%	4.6%
International Equities (Emerging Markets)	10%	11.7%	8.7%
Real Estate	20%	9.2%	6.2%
Fixed Income	<u>15%</u>	<u>5.1%</u>	<u>2.1%</u>
Total Portfolio	<u>100%</u>	<u>8.6%</u>	<u>5.6%</u>

The above was the PMRS Board's adopted asset allocation policy and best estimates of geometrical real rates of return for each major asset class as of December 31, 2017.

### Net Pension Liability (Asset)

The Sewer Authority's net pension liability (asset) has been measured as of December 31, 2017. The total pension liability was determined by an actuarial valuation as of December 31, 2016, calculated based on the discount rate and actuarial assumptions. There have been no significant changes between the valuation date and the fiscal year end. The net pension liability (asset) is \$62,223 measured as the difference between the total pension liability of \$1,968,627 and the fiduciary net position of \$2,030,850.

# LOWER PROVIDENCE TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The Sewer Authority's change in total pension liability, plan fiduciary net position, and net pension liability for the year ended December 31, 2017 were as follows:

	<b>Plan Fiduciary Total Pension Liability (A)</b>	<b>Net Position Position (B)</b>	<b>Net Pension Liability (A) – (B)</b>
<b>Balances as of December 31, 2016</b>	\$1,908,242	\$1,750,443	\$ 157,799
<b>Changes for the year:</b>			
Service cost	46,342	-	46,342
Interest on total pension liability	100,378	-	100,378
Changes of assumptions	-	-	-
Differences between expected and actual experience	-	-	-
Employer contributions	-	82,159	(82,159)
Contributions – PMRS assessment	-	220	(220)
PMRS investment income	-	98,656	(98,656)
Market value investment income	-	190,464	(190,464)
Benefit payments	(86,335)	(86,335)	-
PMRS administrative expense	-	(220)	220
Additional administrative expense	-	(4,537)	4,537
<b>Net changes</b>	<u>60,385</u>	<u>280,407</u>	<u>(220,022)</u>
<b>Balances as of December 31, 2017</b>	<u>\$1,968,627</u>	<u>\$2,030,850</u>	<u>\$ (62,223)</u>

### **Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability of the township calculated using the discount rate 5.25%, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (4.25%) or 1 percentage point higher (6.25%) than the current rate:

	<b>1% Decrease 4.25%</b>	<b>Current Discount Rate 5.25%</b>	<b>1% Increase 6.25%</b>
Net Pension Liability (Asset)	<u>\$142,731</u>	<u>\$(62,223)</u>	<u>\$(241,146)</u>

### **Pension Expense and Deferred Outflows of Related to Pension**

For the year ended June 30, 2018, the Sewer Authority recognized pension expense of \$46,311. At June 30, 2018, the Sewer Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 55,398	\$ 971
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	151,181
Contributions subsequent to the measurement date	<u>73,578</u>	<u>-</u>
	<u>\$128,976</u>	<u>\$152,152</u>

An amount of \$73,578 reported as deferred outflows of resources related to pensions resulting from the Sewer Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

**Year ended December 31:**

2018	\$ (6,510)
2019	(3,979)
2020	(48,176)
2021	<u>(38,089)</u>
	<u><u>\$(96,754)</u></u>

**Actuarial Methods and Significant Assumptions**

- Investment return – 5.25%
- Discount rate – 5.25%
- Inflation – 3.00%
- Salary increases – age related scale with merit and inflation component
- Cost of living adjustments – 3.00% for those eligible for a COLA
- Pre-retirement mortality – Males – RP 2000 with 1 year set back; Females – RP 2000 with 5 year set back.
- Post-retirement mortality – Sex distinct – RP 2000 combined healthy mortality.

#### **(10) NONUNIFORM DEFINED CONTRIBUTION PLAN**

The Township sponsors a defined contribution pension plan (the "**Defined Contribution Plan**"). The Defined Contribution Plan covers all full-time employees of the Township who are hired after 2001, except for police officers and salaried management employees holding the positions of Director and/or Coordinator hired on or before July 1, 2009. The assets of the Defined Contribution Plan are invested separately, and the Defined Contribution Plan's assets may be used only for the payment of benefits to the members of the Defined Contribution Plan. Investments are managed by the Defined Contribution Plan's administrator under several different investment options, or combinations thereof. The choice of the investment option(s) is made by the participants. The Township has no management control over the assets of the Defined Contribution Plan. Accordingly, the assets of the Defined Contribution Plan are not included in these financial statements.

**Eligibility**

Full-time non-uniformed employees are eligible to join the Defined Contribution Plan on the first day of employment.

**Contributions**

The Township contributes 8.00% of compensation and employees are not required to contribute to the Non-Uniform Pension Plan. The Township's contributions totaled \$113,918 for 2018.

**Normal Retirement**

A member's full account is payable upon retirement at age 60 and ten years of vesting service or early retirement at age 55 and completion of fifteen years of vesting service.

**Death Benefits**

If a member dies while an active member of the Defined Contribution Plan, his account will be 100% vested and payable to the member's spouse or designated beneficiary or beneficiaries.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### Vesting

If a member in the Defined Contribution Plan terminates other than by retirement, disability or death, the percentage of his employer contribution account to which he will be entitled depends upon the number of years of credited service. The vesting account is as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
1-2 years	25%
3-4 years	50%
5 or more years	100%

#### Forfeiture

When a member terminates before becoming 100% vested, the portion of his account to which he is not entitled is used to reduce future Township contributions to the Defined Contribution Plan. There were no forfeitures for 2018.

### (11) DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to those employees who meet the eligibility requirements set forth in the deferred compensation plan, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or unforeseeable emergency. All amounts of compensation deferred under the deferred compensation plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. The Township has no liability for losses under the plan. Investments are managed by the plan's administrator under several different investment options or combinations thereof. The choice of the investment option(s) is made by the participants. The Township has no management control over the assets of the deferred compensation plan. Accordingly, the assets of the Defined Contribution Plan are not included in these financial statements.

### (12) CONTINGENCIES AND COMMITMENTS

#### Government Grants and Awards

The Township receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. Township officials do not expect any significant adjustments as a result of these examinations.

#### Litigation

The Township is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

#### Discretely Presented Component Unit

The Sewer Authority has a service agreement with the Lower Perkiomen Valley Regional Sewer Authority ("LPVRS") for the treatment of sewage collected by the Sewer Authority, whereby the Sewer Authority pays a fee to LPVRS each month. The Sewer Authority paid fees which totaled \$1,950,715 for the year ended June 30, 2018.

## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### (13) RISK MANAGEMENT

##### **Health Insurance**

The Township participates in a consortium with other municipal entities from Pennsylvania and Delaware to provide a self-insurance program for health insurance and related expenses for eligible employees, spouses and dependents. Accordingly, benefit payments plus an administrative charge are made a third party who approves and process all claims.

##### **Property and Liability**

The Township with other municipal entities from Pennsylvania and Delaware participate in a property and liability trust, which is a public entity risk pool currently operating as a common risk management and insurance program. The Township and the other participating members pay an annual premium to the property and liability trust for the purpose of seeking prevention or lessening of casualty losses to participating members from injuries to persons or property which might result in claims being made against participating members and to the property and liability trust's insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the property and liability trust, that the property and liability trust will utilize funds contributed by the participating members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each participating member of the property and liability trust against certain liabilities and losses, and to purchase excess and aggregate stop-loss insurance. As of December 31, 2018, the Township is not aware of any additional assessments relating to the property and liability trust.

##### **Workers' Compensation**

The Township and other Pennsylvania municipalities participate in a workers' compensation trust, which is a cooperative voluntary arrangement. The Township and the other participating members pay an annual premium to the workers' compensation trust for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the workers' compensation trust that the workers' compensation trust will utilize funds contributed by the participating members, which shall be held in trust, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of December 31, 2018, the Township is not aware of any additional assessments relating to the workers' compensation trust.

##### **Other Risks**

The Township is exposed to other risks of loss, including errors and omissions. The Township has purchased a commercial insurance policy to safeguard its assets from risk of loss due to errors and omissions. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.



## LOWER PROVIDENCE TOWNSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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#### (14) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the Township made a prior period adjustment to record its net OPEB liability. This prior period adjustment and its effect on net position at January 1, 2017 are summarized in the following table:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
Net position (deficit) at December 31, 2016, as previously stated	\$12,273,904	\$(19,974)	\$12,253,930
Prior period adjustment to			
To adjust employer OPEB obligation			
to reflect unfunded actuarial liability	<u>1,535,617</u>	<u>-</u>	<u>1,535,617</u>
Net position (deficit) at December 31, 2016, as restated	<u>\$13,809,521</u>	<u>\$(19,974)</u>	<u>\$13,789,547</u>

#### (15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 24, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 that required recognition or disclosure in the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# LOWER PROVIDENCE TOWNSHIP

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended December 31, 2018

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Positive (Negative)</u>
<b>REVENUES</b>			
Taxes			
Real estate taxes	\$ 1,488,967	\$ 1,434,343	\$ (54,624)
Per capita taxes	70,300	83,407	13,107
Real estate transfer taxes	625,000	708,396	83,396
Earned income taxes	5,500,000	5,591,025	91,025
Local services taxes	520,000	552,507	32,507
Amusement taxes	18,500	18,711	211
<b>Total taxes</b>	<b>8,222,767</b>	<b>8,388,389</b>	<b>165,622</b>
Licenses and permits	548,600	517,902	(30,698)
Fines and forfeits	125,000	123,032	(1,968)
Interest, rents and royalties	27,300	47,859	20,559
Intergovernmental revenues	681,653	658,088	(23,565)
Charges for services	805,086	870,113	65,027
Miscellaneous	41,625	62,932	21,307
<b>Total revenues</b>	<b>10,452,031</b>	<b>10,668,315</b>	<b>216,284</b>
<b>EXPENDITURES</b>			
Current			
General government	1,698,560	1,717,914	(19,354)
Public safety	7,187,326	7,372,833	(185,507)
Health and human services	5,500	5,500	-
Public works			
Sanitation	15,500	10,125	5,375
Highways and streets	1,465,051	1,269,522	195,529
Other	25,000	10,306	14,694
Community development	10,000	2,200	7,800
Miscellaneous	10,050	392	9,658
<b>Total expenditures</b>	<b>10,416,987</b>	<b>10,388,792</b>	<b>28,195</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>35,044</b>	<b>279,523</b>	<b>244,479</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	-	822	822
Refund of prior year receipts	-	(18,125)	(18,125)
Refund of prior year expenditures	-	41,373	41,373
Transfers out	(35,044)	(447,156)	(412,112)
<b>Total other financing sources (uses)</b>	<b>(35,044)</b>	<b>(423,086)</b>	<b>(388,042)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>(143,563)</b>	<b><u>\$ (143,563)</u></b>
<b>FUND BALANCE</b>			
Beginning of year		3,630,287	
<b>End of year</b>		<b><u>\$ 3,486,724</u></b>	

# LOWER PROVIDENCE TOWNSHIP

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Year ended December 31,

	2018		2017	
	Police Pension Fund	Nonuniform Pension Fund	Police Pension Fund	Nonuniform Pension Fund
<b>TOTAL PENSION LIABILITY</b>				
Service cost	\$ 455,230	\$ 97,549	\$ 442,858	\$ 110,712
Interest on total pension liability	1,323,414	328,976	1,264,445	314,320
Differences between expected and actual experience	(651,980)	(191,572)	-	-
Changes of assumptions	-	-	1,660,903	(82,881)
Benefit payments, including refunds of member contributions	(996,303)	(203,493)	(758,214)	(201,506)
<b>Net change in total pension liability</b>	130,361	31,460	2,609,992	140,645
<b>Total pension liability, beginning</b>	18,948,838	4,703,854	16,338,846	4,563,209
<b>Total pension liability, ending</b>	<u>\$ 19,079,199</u>	<u>\$ 4,735,314</u>	<u>\$ 18,948,838</u>	<u>\$ 4,703,854</u>
<b>PLAN FIDUCIARY NET POSITION</b>				
Employer contributions	\$ 948,849	\$ 154,215	\$ 757,061	\$ 257,187
Employee contributions	91,266	10,066	92,678	6,328
Net investment income	(905,696)	(294,785)	2,205,632	711,855
Benefit payments	(996,303)	(203,493)	(758,214)	(201,506)
Insurance premiums	-	-	(3,881)	(3,881)
Administrative expense	(62,751)	(25,251)	(63,976)	(29,765)
<b>Net change in plan fiduciary net position</b>	(924,635)	(359,248)	2,229,300	740,218
<b>Fiduciary net position, beginning</b>	15,474,896	4,974,349	13,245,596	4,234,131
<b>Fiduciary net position, ending</b>	<u>\$ 14,550,261</u>	<u>\$ 4,615,101</u>	<u>\$ 15,474,896</u>	<u>\$ 4,974,349</u>
<b>Net pension liability (asset), ending</b>	<u>\$ 4,528,938</u>	<u>\$ 120,213</u>	<u>\$ 3,473,942</u>	<u>\$ (270,495)</u>
<b>Fiduciary net position as a % of total pension liability</b>	76.26%	97.46%	81.67%	105.75%
<b>Internal money-weighted rate of return</b>	-6.34%	-6.35%	16.65%	16.73%
<b>Covered payroll</b>	2,872,578	675,041	3,051,911	638,823
<b>Net pension liability as a % of covered payroll</b>	157.66%	17.81%	113.83%	-42.34%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

<u>2016</u>		<u>2015</u>		<u>2014</u>	
<u>Police Pension Fund</u>	<u>Nonuniform Pension Fund</u>	<u>Police Pension Fund</u>	<u>Nonuniform Pension Fund</u>	<u>Police Pension Fund</u>	<u>Nonuniform Pension Fund</u>
\$ 289,045	\$ 105,301	\$ 291,983	\$ 119,423	\$ 294,320	\$ 104,672
1,261,601	357,265	1,218,681	335,619	1,151,119	311,063
(81,360)	(165,498)	105,106	15,270	-	-
-	-	-	-	-	-
<u>(1,222,819)</u>	<u>(188,746)</u>	<u>(719,618)</u>	<u>(151,934)</u>	<u>(687,763)</u>	<u>(125,677)</u>
246,467	108,322	896,152	318,378	757,676	290,058
<u>16,092,379</u>	<u>4,454,887</u>	<u>15,196,227</u>	<u>4,136,509</u>	<u>14,438,551</u>	<u>3,846,451</u>
<u>\$ 16,338,846</u>	<u>\$ 4,563,209</u>	<u>\$ 16,092,379</u>	<u>\$ 4,454,887</u>	<u>\$ 15,196,227</u>	<u>\$ 4,136,509</u>
\$ 733,609	\$ 255,150	\$ 728,043	\$ 287,400	\$ 717,943	\$ 281,382
61,204	4,677	54,411	1,588	50,767	1,503
1,014,756	325,072	(72,907)	(24,990)	569,398	199,009
(1,222,819)	(188,746)	(719,618)	(151,934)	(687,763)	(125,677)
-	-	555	555	(1,800)	(1,800)
<u>(56,370)</u>	<u>(22,002)</u>	<u>(57,300)</u>	<u>(23,709)</u>	<u>(99,932)</u>	<u>(30,469)</u>
530,380	374,151	(66,816)	88,910	548,613	323,948
<u>12,715,216</u>	<u>3,859,980</u>	<u>12,782,032</u>	<u>3,771,070</u>	<u>12,233,419</u>	<u>3,447,122</u>
<u>\$ 13,245,596</u>	<u>\$ 4,234,131</u>	<u>\$ 12,715,216</u>	<u>\$ 3,859,980</u>	<u>\$ 12,782,032</u>	<u>\$ 3,771,070</u>
<u>\$ 3,093,250</u>	<u>\$ 329,078</u>	<u>\$ 3,377,163</u>	<u>\$ 594,907</u>	<u>\$ 2,414,195</u>	<u>\$ 365,439</u>
81.07%	92.79%	79.01%	86.65%	84.11%	91.17%
8.36%	8.56%	-0.58%	-0.67%	4.79%	5.89%
3,060,177	637,404	2,706,118	627,924	2,424,709	608,470
101.08%	51.63%	124.80%	94.74%	99.57%	60.06%

# LOWER PROVIDENCE TOWNSHIP

## SCHEDULE OF TOWNSHIP PENSION CONTRIBUTIONS

Year ended December 31,

### Police Pension Fund

<u>Fiscal Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a Percentage of Covered Payroll</u>
2009	\$ 336,156	\$ 336,156	-	\$ 2,416,961	13.91%
2010	373,241	373,241	-	2,488,506	15.00%
2011	471,151	471,151	-	2,362,214	19.95%
2012	495,887	495,887	-	2,304,896	21.51%
2013	556,816	556,816	-	2,445,213	22.77%
2014	717,943	717,943	-	2,424,709	29.61%
2015	732,683	732,683	-	2,706,118	27.08%
2016	733,609	733,609	-	3,060,177	23.97%
2017	757,061	757,061	-	3,051,911	24.81%
2018	948,849	948,849	-	2,872,578	33.03%

### Nonuniform Pension Fund

<u>Fiscal Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a Percentage of Covered Payroll</u>
2009	\$ 148,103	\$ 148,103	-	\$ 810,968	18.26%
2010	191,797	191,797	-	752,952	25.47%
2011	209,541	209,541	-	620,564	33.77%
2012	189,085	189,085	-	650,698	29.06%
2013	309,918	309,918	-	584,933	52.98%
2014	281,382	281,382	-	608,470	46.24%
2015	287,400	287,400	-	627,924	45.77%
2016	255,150	255,150	-	637,404	40.03%
2017	257,187	257,187	-	638,823	40.26%
2018	154,215	154,215	-	675,041	22.85%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

## LOWER PROVIDENCE TOWNSHIP

### SCHEDULE OF CHANGES IN NET OPEB LIABILITY

Year ended December 31,

	<u>2018</u>	<u>2017</u>
<b>TOTAL OPEB LIABILITY</b>		
Service cost	\$ 104,989	\$ 105,879
Interest on total OPEB liability	129,449	126,739
Changes of assumptions	-	-
Benefit payments	<u>(168,215)</u>	<u>(208,522)</u>
Net change in total OPEB liability	66,223	24,096
Total OPEB liability, beginning	<u>2,050,294</u>	<u>2,026,198</u>
Total OPEB liability, ending	<u>\$ 2,116,517</u>	<u>\$ 2,050,294</u>
<b>PLAN FIDUCIARY NET POSITION</b>		
Employer contributions	\$ 110,750	\$ 150,304
Net investment income	(82,010)	205,401
Benefit payments	(168,215)	(208,522)
Administrative expense	<u>(15,888)</u>	<u>(1,275)</u>
Net change in plan fiduciary net position	(155,363)	145,908
Fiduciary net position, beginning	<u>1,456,149</u>	<u>1,310,241</u>
Fiduciary net position, ending	<u>\$ 1,300,786</u>	<u>\$ 1,456,149</u>
Net OPEB liability (asset), ending	<u>\$ 815,731</u>	<u>\$ 594,145</u>
Fiduciary net position as a % of total pension liability	61.46%	71.02%
Internal money-weighted rate of return	-6.11%	16.08%
Covered payroll	3,338,290	3,343,406
Net OPEB liability as a % of covered payroll	24.44%	17.77%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

## LOWER PROVIDENCE TOWNSHIP

### SCHEDULE OF TOWNSHIP OPEB CONTRIBUTIONS

Year ended December 31,

<b>Fiscal Year Ended December 31</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contribution as a Percentage of Covered Payroll</b>
2009	\$ 319,516	\$ 148,587	170,929	\$ 2,416,961	6.15%
2010	319,516	160,377	159,139	2,488,506	6.44%
2011	317,171	87,470	229,701	2,578,125	3.39%
2012	317,171	53,653	263,518	2,304,896	2.33%
2013	317,171	110,361	206,810	2,445,213	4.51%
2014	420,294	52,281	368,013	2,773,360	1.89%
2015	420,294	57,281	363,013	2,706,118	2.12%
2016	420,294	134,340	285,954	3,060,177	4.39%
2017	229,400	150,304	79,096	3,343,406	4.50%
2018	229,400	110,750	118,650	3,338,290	3.32%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.



**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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# LOWER PROVIDENCE TOWNSHIP

## COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND TYPES

December 31, 2018

	Special Revenue Funds				
	Library Fund	Parks and Recreation Operating Fund	Highway Aid Fund	Tree Fund	Debt Service Fund
<b>ASSETS</b>					
Cash	\$ -	\$ 9,204	\$ 127,454	\$ 117,224	\$ 26,567
Taxes receivable	10,310	7,202	-	-	8,248
Accounts receivable	14	-	-	-	829
<b>Total assets</b>	<u>\$ 10,324</u>	<u>\$ 16,406</u>	<u>\$ 127,454</u>	<u>\$ 117,224</u>	<u>\$ 35,644</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ 7,627	\$ 21,601	\$ -	\$ -
Accrued salaries and benefits	-	15,948	-	-	-
Due to other funds	-	465	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>24,040</u>	<u>21,601</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues - property taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for					
Debt service	-	-	-	-	35,644
Public works - roads	-	-	105,853	-	-
Committed for					
Capital purchases	-	-	-	-	-
Culture and recreation	10,324	-	-	117,224	-
Assigned for					
Capital purchases	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Unassigned	<u>-</u>	<u>(7,634)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund balances</b>	<u>10,324</u>	<u>(7,634)</u>	<u>105,853</u>	<u>117,224</u>	<u>35,644</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 10,324</u>	<u>\$ 16,406</u>	<u>\$ 127,454</u>	<u>\$ 117,224</u>	<u>\$ 35,644</u>

Capital Projects Funds						
Liquid Fuels Funded Loans Fund	Parks and Recreation Capital Reserve Fund	West End Capital Improvement Fund	Sidewalk Fund	Stormwater Fund	Equipment Replacement Fund	Total
\$2,052	\$245,294	\$88,451	\$2,009	\$1,512	\$-	\$619,767
-	-	-	-	-	-	25,760
-	-	-	-	-	-	843
<u>\$2,052</u>	<u>\$245,294</u>	<u>\$88,451</u>	<u>\$2,009</u>	<u>\$1,512</u>	<u>\$-</u>	<u>\$646,370</u>
\$-	\$40,425	\$-	\$-	\$500	\$-	\$70,153
-	-	-	-	-	-	15,948
-	-	-	-	-	-	465
-	40,425	-	-	500	-	86,566
-	222	-	-	-	-	222
-	-	-	-	-	-	35,644
-	-	-	-	-	-	105,853
-	-	88,451	2,009	1,012	-	91,472
-	204,647	-	-	-	-	332,195
2,052	-	-	-	-	-	2,052
-	-	-	-	-	-	-
-	-	-	-	-	-	(7,634)
<u>2,052</u>	<u>204,647</u>	<u>88,451</u>	<u>2,009</u>	<u>1,012</u>	<u>-</u>	<u>559,582</u>
<u>\$2,052</u>	<u>\$245,294</u>	<u>\$88,451</u>	<u>\$2,009</u>	<u>\$1,512</u>	<u>\$-</u>	<u>\$646,370</u>

# LOWER PROVIDENCE TOWNSHIP

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND TYPES

Year ended December 31, 2018

	Special Revenue Funds				
	Library Fund	Parks and Recreation Operating Fund	Highway Aid Fund	Tree Fund	Debt Service Fund
<b>REVENUES</b>					
Taxes	\$ 547,019	\$ 381,725	\$ -	\$ -	\$ 437,531
Interest, rents and royalties	-	1,675	4,745	1,099	100,395
Intergovernmental revenues	-	-	788,832	-	105,686
Charges for services	-	423,099	-	-	-
Contributions and donations	-	39,476	-	-	-
<b>Total revenues</b>	<u>547,019</u>	<u>845,975</u>	<u>793,577</u>	<u>1,099</u>	<u>643,612</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	11,959
Public works - highways and streets	-	-	843,746	-	-
Public works - other services	-	-	-	-	-
Culture and recreation	544,647	849,286	-	13,262	-
Community development	-	-	-	-	-
Debt service	-	-	-	-	641,229
<b>Total expenditures</b>	<u>544,647</u>	<u>849,286</u>	<u>843,746</u>	<u>13,262</u>	<u>653,188</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,372</u>	<u>(3,311)</u>	<u>(50,169)</u>	<u>(12,163)</u>	<u>(9,576)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of capital assets	-	-	-	-	-
Refund of prior year receipts	-	(2,523)	-	-	-
Refund of prior year expenditures	-	600	-	-	-
Transfers in	-	3,172	-	-	-
Transfers out	-	-	(193,870)	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>1,249</u>	<u>(193,870)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>2,372</u>	<u>(2,062)</u>	<u>(244,039)</u>	<u>(12,163)</u>	<u>(9,576)</u>
<b>FUND BALANCES (DEFICIT)</b>					
Beginning of year	<u>7,952</u>	<u>(5,572)</u>	<u>349,892</u>	<u>129,387</u>	<u>45,220</u>
<b>End of year</b>	<u>\$ 10,324</u>	<u>\$ (7,634)</u>	<u>\$ 105,853</u>	<u>\$ 117,224</u>	<u>\$ 35,644</u>

Capital Projects Funds						
Liquid Fuels Funded Loans Fund	Parks and Recreation Capital Reserve Fund	West End Capital Improvement Fund	Sidewalk Fund	Stormwater Fund	Equipment Replacement Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,366,275
605	2,915	801	18	12	63	112,328
-	-	43,544	-	-	-	938,062
-	31,750	-	-	-	-	454,849
-	-	1,500	-	1,500	-	42,476
<u>605</u>	<u>34,665</u>	<u>45,845</u>	<u>18</u>	<u>1,512</u>	<u>63</u>	<u>2,913,990</u>
-	-	1,710	-	-	-	1,710
-	-	-	-	-	-	11,959
-	-	-	-	-	-	843,746
-	-	-	-	500	-	500
-	179,454	-	-	-	-	1,586,649
-	-	54,430	-	-	-	54,430
<u>192,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>834,028</u>
<u>192,799</u>	<u>179,454</u>	<u>56,140</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>3,333,022</u>
<u>(192,194)</u>	<u>(144,789)</u>	<u>(10,295)</u>	<u>18</u>	<u>1,012</u>	<u>63</u>	<u>(419,032)</u>
-	-	-	-	-	13,026	13,026
-	-	-	-	-	-	(2,523)
-	-	-	-	-	-	600
193,870	-	-	-	-	-	197,042
-	-	-	-	-	(13,112)	(206,982)
<u>193,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86)</u>	<u>1,163</u>
1,676	(144,789)	(10,295)	18	1,012	(23)	(417,869)
<u>376</u>	<u>349,436</u>	<u>98,746</u>	<u>1,991</u>	<u>-</u>	<u>23</u>	<u>977,451</u>
<u>\$ 2,052</u>	<u>\$ 204,647</u>	<u>\$ 88,451</u>	<u>\$ 2,009</u>	<u>\$ 1,012</u>	<u>\$ -</u>	<u>\$ 559,582</u>



**INDEPENDENT AUDITOR'S 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***

**Board of Supervisors  
Lower Providence Township  
Eagleville, Pennsylvania**

We have audited, in accordance with the 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lower Providence Township, Eagleville, Pennsylvania (the "**Township**"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated May 24, 2019. Our report includes a reference to other auditors who audited the financial statements of Lower Providence Sewer Authority (the "**Sewer Authority**"), as described in our report on the Township's financial statements. The financial statements of the Sewer Authority were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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.

**BBD, LLP****Philadelphia, Pennsylvania****May 24, 2019**