

**WILLISTOWN TOWNSHIP**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2016*



*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

**WILLISTOWN TOWNSHIP**  
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YEAR ENDED DECEMBER 31, 2016

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Supervisors  
Willistown Township  
Malvern, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Willistown Township as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Willistown Township's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

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

To the Board of Supervisors  
Willistown Township  
Malvern, Pennsylvania

***Emphasis of Matter***

For the year ended December 31, 2016, Willistown Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 13, budgetary comparison information on pages 49 through 51, pension plan information on pages 52 through 54 and other postemployment benefit plan funding progress on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Willistown Township's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Maillie LLP*

Oaks, Pennsylvania  
December 20, 2017

# **WILLISTOWN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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

### **FINANCIAL HIGHLIGHTS**

- The assets of Willistown Township exceeded its liabilities at the close of the 2016 fiscal year by \$23,578,012 which represents the Township's net position. Of this amount, 43% or \$10,190,166 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net position decreased by \$2,633,657 in 2016, due in large part to two highly unusual events. The first involves the creation of a new Fiduciary Fund to account for postemployment benefits other than pensions, and the second involves the Township's share of costs associated with the emergency rehabilitation of the Valley Creek Trunk Sewer. Both will be discussed in greater detail later in this report.
- As of December 31, 2016, the Township's combined ending fund balance for its governmental funds amounted to \$13,016,030, a decrease of \$1,336,918 compared to the prior year. Approximately 58% of the total governmental fund balance, or \$7,586,367, is available for spending at the Township's discretion (unrestricted and unassigned fund balance).

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position on page 14 and the Statement of Activities on page 15 provide information about the activities of the Township as a whole and present a long-term view of the Township's finances. For governmental activities, the governmental fund statements, which begin on page 16, explain how services were financed in the short term as well as what remains for future spending. For business-type activities, the proprietary fund statements report these activities by fund with the sewer fund being the only business-type activity operated by the Township. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

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

#### ***Statement of Net Position and the Statement of Activities***

The analysis of the Township as a whole begins on page 14 with the Statement of Net Position and on page 15 with the Statement of Activities.

These statements provide information that will help the reader determine if the Township is financially better or worse as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

# **WILLISTOWN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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These two statements report the Township's net position and the changes in net position during the year. The reader can think of the Township's net position (the difference between assets and liabilities) as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other non-financial factors, however, such as changes in the Township's property base and the condition of the Township's assets, to assess the overall health of the Township.

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

- **Governmental Activities** - Most of the Township's basic services are reported here, including the police, general administration, public works, permitting, zoning, code enforcement and parks & recreation. Property taxes, earned income tax, real estate transfer taxes and charges for services finance most of these activities.
- **Business-type Activities** - The Township charges a fee to customers to cover all of the cost of certain services it provides. The Township's sewer funds are reported here.

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

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

Our analysis of the Township's major funds provides detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by State law. However, the Board of Supervisors establishes many other funds to help it control and manage money for particular purposes (Special Revenue Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The Township's two types of funds - governmental and proprietary - use different accounting approaches.

**Governmental Funds:** Most of the Township's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the Township's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation on page 17 of this report.

# **WILLISTOWN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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**Proprietary Funds:** When the Township charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Township's enterprise fund (a component of proprietary funds) is the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

### **The Township as Trustee**

#### ***Reporting the Township's Fiduciary Responsibilities***

The Township is the trustee, or fiduciary, responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. All of the Township's fiduciary activities (such as Pension Plans) are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **FINANCIAL ANALYSIS OF THE TOWNSHIP**

#### **Government-wide**

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's total activities.

The majority of the outstanding debt of the Township was incurred for the acquisition and/or construction of the Township's parkland, building structures, and additions or improvements to the storm drainage, and the sewer collection system. 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. Unrestricted net assets in the amount of \$10,190,166 at December 31, 2016 may be used to meet these current and ongoing obligations to citizens and creditors. In addition, the Township maintains an "Aa1" rating from Moody's for its current debt issuances. This is Moody's second highest rating and reflects the Township's strong financial operations, characterized by substantial reserves, a sizable and affluent tax base, and low direct debt position.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At December 31, 2016, the Township's assets exceeded its liabilities by \$23,578,012.

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

**Table 1**  
**Summarized Schedule of Net Position**  
**December 31, 2016**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
<b>ASSETS</b>						
Current assets	\$ 15,413,003	\$ 14,410,972	\$ 4,432,578	\$ 2,595,512	\$ 19,845,581	\$ 17,006,484
Capital assets	18,957,228	18,960,711	5,310,353	4,828,661	24,267,581	23,789,372
<b>TOTAL ASSETS</b>	<u>34,370,231</u>	<u>33,371,683</u>	<u>9,742,931</u>	<u>7,424,173</u>	<u>44,113,162</u>	<u>40,795,856</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,500,741</u>	<u>1,262,583</u>	<u>-</u>	<u>-</u>	<u>1,500,741</u>	<u>1,262,583</u>
<b>LIABILITIES</b>						
Current liabilities	217,275	116,433	67,265	229,057	284,540	345,490
Long-term debt	13,647,807	12,906,034	5,458,371	5,203,047	19,106,178	18,109,081
<b>TOTAL LIABILITIES</b>	<u>13,865,082</u>	<u>13,022,467</u>	<u>5,525,636</u>	<u>5,432,104</u>	<u>19,390,718</u>	<u>18,454,571</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>11,516</u>	<u>25,856</u>	<u>-</u>	<u>-</u>	<u>11,516</u>	<u>25,856</u>
<b>NET POSITION</b>						
Net investment in capital assets	8,650,743	9,007,120	2,776,043	207,230	11,426,786	9,214,350
Restricted	3,715,216	4,173,496	-	-	3,715,216	4,173,496
Unrestricted	9,628,415	8,405,327	1,441,252	1,784,839	11,069,667	10,190,166
<b>TOTAL NET POSITION</b>	<u>\$ 21,994,374</u>	<u>\$ 21,585,943</u>	<u>\$ 4,217,295</u>	<u>\$ 1,992,069</u>	<u>\$ 26,211,669</u>	<u>\$ 23,578,012</u>

**Table 2**  
**Changes in Net Position**  
**Year Ended December 31, 2016**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 661,793	\$ 511,669	\$ 1,983,184	\$ 2,207,736	\$ 2,644,977	\$ 2,719,405
Grants and contributions	1,556,836	727,088	-	-	1,556,836	727,088
General revenues						
Real estate taxes	352,169	350,291	-	-	352,169	350,291
Local service tax	303,816	306,987	-	-	303,816	306,987
Transfer tax	861,605	782,128	-	-	861,605	782,128
Earned income tax	6,840,403	7,091,074	-	-	6,840,403	7,091,074
Investment earnings	206,694	25,882	11,857	11,416	218,551	37,298
Other	345,176	361,682	-	-	345,176	361,682
<b>TOTAL REVENUES FORWARD</b>	<u>\$ 11,128,492</u>	<u>\$ 10,156,801</u>	<u>\$ 1,995,041</u>	<u>\$ 2,219,152</u>	<u>\$ 13,123,533</u>	<u>\$ 12,375,953</u>

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

**Table 2 (Continued)**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
TOTAL REVENUES FORWARDED	\$ 11,128,492	\$ 10,156,801	\$ 1,995,041	\$ 2,219,152	\$ 13,123,533	\$ 12,375,953
EXPENSES						
General government	1,528,795	1,231,095	-	-	1,528,795	1,231,095
Public safety	5,167,734	7,432,915	-	-	5,167,734	7,432,915
Public works	1,409,738	1,333,166	-	-	1,409,738	1,333,166
Health and welfare	-	-	-	-	-	-
Culture and recreation	307,106	331,655	-	-	307,106	331,655
Interest expense	248,645	236,401	-	-	248,645	236,401
Sewer operations	-	-	2,129,585	4,444,378	2,129,585	4,444,378
TOTAL EXPENSES	8,662,018	10,565,232	2,129,585	4,444,378	10,791,603	15,009,610
CHANGE IN NET POSITION	2,466,474	(408,431)	(134,544)	(2,225,226)	2,331,930	(2,633,657)
BEGINNING NET POSITION	19,527,900	21,994,374	4,351,839	4,217,295	23,879,739	26,211,669
ENDING NET POSITION	\$ 21,994,374	\$ 21,585,943	\$ 4,217,295	\$ 1,992,069	\$ 26,211,669	\$ 23,578,012

\*note 2015 Governmental Activities beginning net position is restated

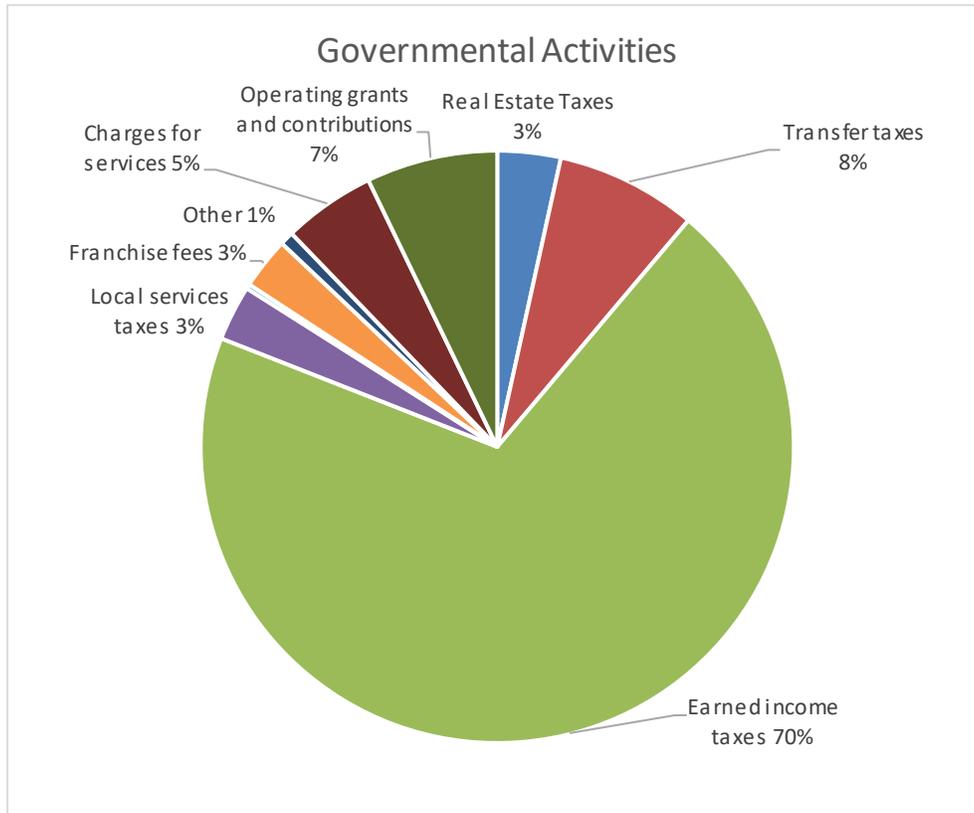
**Governmental Activities**

As shown in Table 1 and 2, governmental expenditures exceeded governmental revenues by \$408,431 in 2016 resulting in an overall decrease in net position. Revenues for governmental activities decreased in 2016 by \$971,691 from the prior year, which is primarily attributable to decreases in program revenues including grants, transfer taxes and investment earnings. The primary factor driving the decrease in net position for governmental activities is the creation of a new fiduciary fund to account for postemployment benefits other than pensions (the "OPEB Trust Fund"), and the transfer of \$2.7 million from the General Fund into the OPEB Trust Fund.

The following graph illustrates the Township's revenue sources, with Earned Income Tax providing the major funding for our governmental activities, accounting for 70% of revenues from governmental activities. Other sources of funding for governmental activities include transfer tax, accounting for 8% of governmental revenues. Real estate and local service taxes collectively provide about 6% of governmental revenues. The Township relies on all of these revenues to provide the quality of life to citizens and businesses to which the Board of Supervisors has always been committed.

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

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**Business-Type Activities**

The revenues include investment income in addition to charges for services (operating revenues). The investment income revenues are not specific to an individual program, but to the fund as a whole.

As shown in Table 2, expenses exceed revenue by \$2,225,226 in 2016.

**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

As noted earlier, the Township uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

# **WILLISTOWN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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As of December 31, 2016, the Township's governmental funds reported combined ending balances of \$13,016,030, a decrease of \$1,336,918 from the prior year. Approximately \$7.6 million of the governmental fund balance constitutes unrestricted and unassigned fund balance of the governmental funds, which is available for spending at the Township's discretion. The Township has restricted and assigned \$5.4 million of the governmental fund balance, which means that it is not available for new spending because it has already been designated or restricted for: 1) open space acquisition, 2) capital improvements or 3) a variety of other purposes.

The Township maintains a General Fund which serves as the chief operating fund of the Township. As of December 31, 2016 the total fund balance of the General Fund was \$7,639,953, of which \$7,586,367 is unassigned. The General Fund balance decreased by \$2.0 million in fiscal year 2016, largely due to the transfer of funds that had previously been assigned for employee benefits from the General Fund to a newly created Fiduciary Fund (the "OPEB Trust Fund")

The Township maintains a Capital Reserve Fund to account for major capital acquisitions and construction separately from the ongoing activities. As of December 31, 2016, the fund balance totaled \$1,202,581, an increase of \$210,378 from the prior year. The increase is the net result of planned capital expenditures along with a transfer of surplus funds from the General Fund.

The Township maintains Special Revenue Funds to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The primary Special Revenue Fund includes the Liquid Fuels Fund. Revenue sources for these funds include special assessments, grants from the Commonwealth of Pennsylvania, and interest earnings. During 2016, the Township received \$361,344 from the Commonwealth of Pennsylvania to pay for roadway repairs and maintenance.

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

### **Proprietary Funds**

The Township's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail.

The net position of the Sewer Fund at the end of the year amounted to \$1,992,069. The total decrease in net position was \$2,225,226, largely due to the Townships participation in the emergency rehabilitation of the Valley Creek Trunk Sewer. This one-time project resulted in a significant capital outlay of approximately \$2.3 million during 2016. Other factors contributing to the finances of this fund have already been addressed in the discussion of the Township's business-type activities.

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

### **Fiduciary Funds**

The Township maintains Pension Trust Funds, a newly created OPEB Trust Fund and Agency Funds to account for assets held by the Township in a trustee capacity. The Pension Trust Funds' assets held pertain to the Police and Municipal Pension Plans. The OPEB Trust Fund's assets pertain to postemployment benefits other than pensions, including postemployment health insurance for police officers. Agency Funds are custodial in nature and account for the escrow accounts held by the Township.

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

# **WILLISTOWN TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedules comparing the Township's budget and actual results can be found on pages 49 through 51. Sewer Fund budget comparisons can be found on page 56.

For 2016, there were no revisions to the General Fund budget.

As of December 31, 2016, the total fund balance of the General Fund was \$7,639,953, none of which is assigned, \$7,586,367 is unassigned and \$53,586 is nonspendable. As discussed previously, the General Fund balance decreased by \$2.0 million in fiscal year 2016, largely due to the transfer of funds that had previously been assigned for employee benefits from the General Fund to a newly created Fiduciary Fund (the "OPEB Trust Fund").

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Township's combined book value for its capital assets in its governmental and business-type activities as of December 31, 2016 amounts to \$23,789,372, net of accumulated depreciation. This includes land, buildings and improvements, machinery and equipment, vehicles, land improvements and infrastructure.

#### **Long-term Debt**

At December 31, 2016, the Township had \$15,109,627 in bonds outstanding (all of which is non-electoral debt) versus \$15,740,998 last year - a decrease of \$631,371 or 4%.

Willistown Township maintains an "Aa1" rating from Moody's for its current debt issuances.

As of December 31, 2016, the Township's combined ending fund balance for its governmental funds amounted to \$13,016,030 a decrease of \$1,336,918 compared to the prior year. Approximately 58% of the total governmental fund balance, or \$7,586,367, is available for spending at the Township's discretion (unrestricted & unassigned fund balance).

Additional information about the Township's long-term debt can be found in Note E of this report.

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

- The Township continues to maintain a diversified revenue base to mitigate potential short-term fluctuations in any one source.
- The Township maintains a conservative approach to its revenue estimates. The number of real estate sales in the Township directly impacts the real estate transfer tax, but has nominal impact on real estate property tax revenue.
- Willistown is a member of the Paoli Task Force, supporting a long-range plan for transportation improvements in the vicinity of the Paoli Intermodal Transportation Center. The current project involves accessibility improvements to the rail station itself, with project completion expected in 2018. Engineering, design and construction of additional transportation infrastructure improvements to the area are expected in the coming years.

## **WILLISTOWN TOWNSHIP**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2016**

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- The following residential land developments are in progress:
  - A portion of the Daylesford Abbey Property has been subdivided to accommodate the "Chapel Hill" development, consisting of 55 age-targeted single family dwellings, with construction anticipated to last 12 to 24 months.
  - A tract near the Paoli Intermodal Transportation Center has been approved for a 30-unit townhouse community called "Paoli Walk". This project is anticipated to be completed in 12 to 18 months.
- The evolving market for health insurance remains a source of uncertainty for the Township.
- The real estate tax millage of 0.28 mills remains unchanged. The property tax rate has not risen since before the turn of the century.
- The Township's largest source of revenue in the General Fund is the Earned Income Tax, which has shown signs of growth in recent years.
- The Earned Income Tax in the General Fund is levied at a rate of 0.875% on both residents and non-residents. All employers within the Township are required to withhold the earned income tax and submit it to the Township's earned income tax collector. The County-Wide Earned Income Tax Collector must transmit receipts from non-residents to the employees' place of residence. When the employees' place of residence does not impose the earned income tax, Willistown retains those receipts. The Township remains concerned that one or more jurisdictions not currently imposing the earned income tax may explore that option. This could result in a reduction in earned income tax revenues for Willistown Township. Likewise, the Township administration remains concerned that the Great Valley School District may explore implementation of the earned income tax, which would result in a 50% reduction in earned income tax revenues to the Township. The Township administration will continue to monitor related events for any potential impact on Willistown's finances.

All of these factors were considered in preparing the Township's budget for the 2016 fiscal year.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Willistown Township's finances for all those with an interest in the government's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Open Records Officer, Willistown Township, 688 Sugartown Road, Malvern, PA 19355.

In addition, general information relating to Willistown Township can be found on its website, <http://www.willistown.pa.us>.

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 10,504,558	\$ 2,192,680	\$ 12,697,238
Accounts receivable	146,806	835,253	982,059
Taxes receivable	2,642,162	-	2,642,162
Internal balances	582,102	(582,102)	-
Due from Fiduciary Funds	259,799	-	259,799
Prepaid items	53,586	149,681	203,267
Other post-employment benefits accrual	221,959	-	221,959
Capital assets not being depreciated			
Land	13,053,741	-	13,053,741
Capital assets, net of accumulated depreciation			
Buildings and improvements	4,429,303	-	4,429,303
Infrastructure	304,567	-	304,567
Park buildings and equipment	540,872	-	540,872
Automobiles	307,512	-	307,512
Machinery and equipment	324,716	-	324,716
Sewer collection system	-	4,828,661	4,828,661
TOTAL ASSETS	<u>33,371,683</u>	<u>7,424,173</u>	<u>40,795,856</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	1,262,583	-	1,262,583
<b>LIABILITIES</b>			
Accounts payable and other accrued liabilities	96,695	190,789	287,484
Accrued interest payable	10,786	6,170	16,956
Due to Fiduciary Funds	8,952	20,433	29,385
Unearned revenues	-	11,665	11,665
Capital lease			
Current	23,695	-	23,695
Long-term	23,316	-	23,316
Bonds payable			
Due within one year	384,900	250,100	635,000
Due in more than one year	9,521,680	4,952,947	14,474,627
Compensated absences	169,351	-	169,351
Net pension liability	2,783,092	-	2,783,092
TOTAL LIABILITIES	<u>13,022,467</u>	<u>5,432,104</u>	<u>18,454,571</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred gain on refunding	10,993	-	10,993
Deferred amounts related to pensions	14,863	-	14,863
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>25,856</u>	<u>-</u>	<u>25,856</u>
<b>NET POSITION</b>			
Net investment in capital assets	9,007,120	207,230	9,214,350
Restricted			
Public highways and streets	175,831	-	175,831
Open space acquisitions	3,995,241	-	3,995,241
Bridges	2,424	-	2,424
Unrestricted	8,405,327	1,784,839	10,190,166
TOTAL NET POSITION	<u>\$ 21,585,943</u>	<u>\$ 1,992,069</u>	<u>\$ 23,578,012</u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>GOVERNMENTAL ACTIVITIES</b>				
General government	\$ 1,231,095	\$ 20,142	\$ 225,247	\$ -
Public safety	7,432,915	449,008	138,997	-
Public works	1,333,166	23,099	361,344	-
Culture and recreation	331,655	19,420	1,500	-
Debt service	236,401	-	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>10,565,232</b>	<b>511,669</b>	<b>727,088</b>	<b>-</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Sewer	4,444,378	2,207,736	-	-
<b>TOTAL TOWNSHIP ACTIVITIES</b>	<b>\$ 15,009,610</b>	<b>\$ 2,719,405</b>	<b>\$ 727,088</b>	<b>\$ -</b>

**GENERAL REVENUES**

- Taxes
  - Real estate
  - Transfer tax
  - Earned income tax
  - Local service tax
- Franchise fees
- Investment earnings
- Miscellaneous

**TOTAL GENERAL REVENUES**

**CHANGE IN NET POSITION**

**NET POSITION AT BEGINNING OF YEAR**

**NET POSITION AT END OF YEAR**

*See accompanying notes to the basic financial statements.*

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Totals</u>
\$ (985,706)	\$ -	\$ (985,706)
(6,844,910)	-	(6,844,910)
(948,723)	-	(948,723)
(310,735)	-	(310,735)
<u>(236,401)</u>	<u>-</u>	<u>(236,401)</u>
<u>(9,326,475)</u>	<u>-</u>	<u>(9,326,475)</u>
<u>-</u>	<u>(2,236,642)</u>	<u>(2,236,642)</u>
<u>(9,326,475)</u>	<u>(2,236,642)</u>	<u>(11,563,117)</u>
350,291	-	350,291
782,128	-	782,128
7,091,074	-	7,091,074
306,987	-	306,987
285,820	-	285,820
25,882	11,416	37,298
75,862	-	75,862
<u>8,918,044</u>	<u>11,416</u>	<u>8,929,460</u>
(408,431)	(2,225,226)	(2,633,657)
<u>21,994,374</u>	<u>4,217,295</u>	<u>26,211,669</u>
<u>\$ 21,585,943</u>	<u>\$ 1,992,069</u>	<u>\$ 23,578,012</u>

# WILLISTOWN TOWNSHIP

## BALANCE SHEET

### GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,089,405	\$ 3,854,621	\$ 1,183,185	\$ 377,347	\$ 10,504,558
Taxes receivable	2,373,396	268,766	-	-	2,642,162
Other accounts receivable	146,806	-	-	-	146,806
Prepaid expenses	53,586	-	-	-	53,586
Due from other funds	842,770	-	81,000	-	923,770
Due from fiduciary funds	259,799	-	-	-	259,799
<b>TOTAL ASSETS</b>	<b>\$ 8,765,762</b>	<b>\$ 4,123,387</b>	<b>\$ 1,264,185</b>	<b>\$ 377,347</b>	<b>\$ 14,530,681</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 92,016	\$ 4,651	\$ -	\$ 28	\$ 96,695
Accrued salaries and benefits	18,635	-	-	-	18,635
Due to fiduciary funds	8,952	-	-	-	8,952
Due to other funds	81,000	-	61,604	199,064	341,668
<b>TOTAL LIABILITIES</b>	<b>200,603</b>	<b>4,651</b>	<b>61,604</b>	<b>199,092</b>	<b>465,950</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue, taxes	925,206	123,495	-	-	1,048,701
<b>FUND BALANCES</b>					
Nonspendable	53,586	-	-	-	53,586
Restricted					
Public highways and streets	-	-	-	175,831	175,831
Open space acquisitions	-	3,995,241	-	-	3,995,241
Bridges	-	-	-	2,424	2,424
Assigned					
Capital purchases	-	-	1,202,581	-	1,202,581
Unassigned	7,586,367	-	-	-	7,586,367
<b>TOTAL FUND BALANCES</b>	<b>7,639,953</b>	<b>3,995,241</b>	<b>1,202,581</b>	<b>178,255</b>	<b>13,016,030</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,765,762</b>	<b>\$ 4,123,387</b>	<b>\$ 1,264,185</b>	<b>\$ 377,347</b>	<b>\$ 14,530,681</b>

See accompanying notes to the basic financial statements.

# WILLISTOWN TOWNSHIP

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

---

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 13,016,030
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Land	13,053,741
Buildings and improvements	4,902,005
Infrastructure	392,060
Park buildings and equipment	942,450
Automobiles	1,390,926
Machinery and equipment	1,246,890
Accumulated depreciation	(2,967,361)
Other long-term assets are not available to pay current period expenditures and are deferred in the funds	
	1,048,701
Net pension liability and the related deferred outflow related to pensions are not recorded in the Governmental Funds; however, these items are reported in the government-wide financial statements. These consist of:	
Net pension liability	(2,783,092)
Deferred amounts related to pensions	1,247,720
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Bonds payable	(9,906,580)
Capital lease obligations	(47,011)
Other post-employment benefits asset	221,959
Deferred gain on bond refunding	(10,993)
Accrued interest payable	(10,786)
Compensated absences	<u>(150,716)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 21,585,943</u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes					
Real estate taxes	\$ 350,291	\$ -	\$ -	\$ -	\$ 350,291
Local services tax	306,591	-	-	-	306,591
Real estate transfer tax	782,128	-	-	-	782,128
Earned income tax	6,201,765	694,925	-	-	6,896,690
Fines, forfeitures and other costs	25,625	-	-	-	25,625
Cable franchise fees	285,820	-	-	-	285,820
Interest, dividends and rents	15,904	7,362	1,689	927	25,882
Intergovernmental	364,244	-	-	362,844	727,088
Park and recreation fees	19,374	-	-	-	19,374
Charges for services	466,624	-	-	-	466,624
Miscellaneous	149,060	-	-	46	149,106
<b>TOTAL REVENUES</b>	<b>8,967,426</b>	<b>702,287</b>	<b>1,689</b>	<b>363,817</b>	<b>10,035,219</b>
<b>EXPENDITURES</b>					
General government	1,030,988	32,900	142,588	-	1,206,476
Public safety	7,914,764	-	158,694	-	8,073,458
Public works	1,056,734	-	102,417	296,359	1,455,510
Culture and recreation	335,602	-	-	4,745	340,347
Debt service					
Principal payment	53,100	320,000	-	-	373,100
Interest and other charges	34,629	232,760	-	-	267,389
<b>TOTAL EXPENDITURES</b>	<b>10,425,817</b>	<b>585,660</b>	<b>403,699</b>	<b>301,104</b>	<b>11,716,280</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,458,391)</b>	<b>116,627</b>	<b>(402,010)</b>	<b>62,713</b>	<b>(1,681,061)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	612,388	1,500	613,888
Transfers out	(613,888)	-	-	-	(613,888)
Capital lease	50,316	-	-	-	50,316
Sale of general capital assets	16,387	277,440	-	-	293,827
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(547,185)</b>	<b>277,440</b>	<b>612,388</b>	<b>1,500</b>	<b>344,143</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,005,576)</b>	<b>394,067</b>	<b>210,378</b>	<b>64,213</b>	<b>(1,336,918)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>9,645,529</b>	<b>3,601,174</b>	<b>992,203</b>	<b>114,042</b>	<b>14,352,948</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 7,639,953</b>	<b>\$ 3,995,241</b>	<b>\$ 1,202,581</b>	<b>\$ 178,255</b>	<b>\$ 13,016,030</b>

See accompanying notes to the basic financial statements.

# WILLISTOWN TOWNSHIP

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

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NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,336,918)
<p>Purchases of capital assets are considered expenditures in the Governmental Funds but are capitalized as assets in the statement of net position. Further, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$682,658) exceeds depreciation expense (\$312,150) in the current period.</p>	370,508
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net assets.</p>	(367,025)
<p>Because some taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Total taxes deferred increased by the following in the current period.</p>	194,780
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.</p>	(178,760)
<p>The issuance of debt is a revenue in the governmental funds but the issuance increases long-term liabilities in the Statement of Net Position.</p>	
Capital leases	(50,316)
<p>Repayments of debt principal or long-term liabilities is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
Bond principal payments	373,100
Capital lease principal payments	27,163
Other post-employment benefits, net	541,320
Compensated absences	14,247
Amortization of deferred charges and bond premium	3,470
	<hr/>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(408,431)</u></u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2016**

	<u>Sewer Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 2,192,680
Due from other funds	344,862
Accounts receivable	835,253
Prepaid expenses	<u>149,681</u>
<b>TOTAL CURRENT ASSETS</b>	<u><b>3,522,476</b></u>
<b>NONCURRENT ASSETS</b>	
Sewer collection system	7,652,651
Less: accumulated depreciation	<u>(2,823,990)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u><b>4,828,661</b></u>
<b>TOTAL ASSETS</b>	<u><u><b>\$ 8,351,137</b></u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 190,789
Bonds payable	250,100
Due to fiduciary funds	20,433
Due to other funds	926,964
Unearned revenue	11,665
Accrued Interest	<u>6,170</u>
<b>TOTAL CURRENT LIABILITIES</b>	1,406,121
<b>NONCURRENT LIABILITIES</b>	
Bonds payable	<u>4,952,947</u>
<b>TOTAL LIABILITIES</b>	<u><b>6,359,068</b></u>
<b>NET POSITION</b>	
Net investment in capital assets	207,230
Unrestricted	<u>1,784,839</u>
<b>TOTAL NET POSITION</b>	<u><b>1,992,069</b></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u><b>\$ 8,351,137</b></u></u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016

	<u>Sewer Fund</u>
OPERATING REVENUES	
Sewer charges	\$ <u>1,901,840</u>
OPERATING EXPENSES	
Sewage treatment	701,513
Operations and maintenance	2,987,201
General and administrative	130,043
Depreciation and amortization	481,692
TOTAL OPERATING EXPENSES	<u>4,300,449</u>
OPERATING LOSS	<u>(2,398,609)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	11,416
Interest expense	(143,929)
Other	152,687
TOTAL NONOPERATING EXPENSES	<u>20,174</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,378,435)
CAPITAL CONTRIBUTIONS	<u>153,209</u>
CHANGE IN NET POSITION	(2,225,226)
NET POSITION AT BEGINNING OF YEAR	<u>4,217,295</u>
NET POSITION AT END OF YEAR	<u>\$ <u>1,992,069</u></u>

See accompanying notes to the basic financial statements.

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,887,324
Cash payments to employees for services	(214,214)
Cash payments to vendors for goods and services	<u>(3,004,190)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,331,080)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Bond principal payments	(255,324)
Interest paid	(144,332)
State reimbursements	152,687
Tapping fees	<u>153,209</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(93,760)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	<u>11,416</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,413,424)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,606,104</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,192,680</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (2,398,609)
Adjustment for noncash charges to operations	
Depreciation and amortization	481,692
Changes in assets and liabilities	
Increase in accounts receivable	(14,516)
Increase in prepaid expense	(19,985)
Increase in accounts payable	142,880
Increase in due to/from other funds, net	<u>477,458</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (1,331,080)</u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2016**

	<u>Police Pension Trust Fund</u>	<u>Municipal Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Escrow Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 30,123	\$ -	\$ 101,043	\$ 395,058
Investments	13,348,399	853,647	2,641,971	-
Due from developers	-	-	-	120,771
Due from Township	3,577	3,775	-	1,600
Prepaid benefits	<u>31,332</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>13,413,431</u>	<u>857,422</u>	<u>2,743,014</u>	<u>\$ 517,429</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Accounts payable	6,253	-	-	\$ -
Payroll taxes payable	-	-	-	8,951
Due to Township	-	-	12,388	226,978
Escrow deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,500</u>
<b>TOTAL LIABILITIES</b>	<u>6,253</u>	<u>-</u>	<u>12,388</u>	<u>\$ 517,429</u>
<b>NET POSITION</b>				
Net position, restricted for pension benefits	<u>\$ 13,407,178</u>	<u>\$ 857,422</u>	<u>\$ 2,730,626</u>	

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	Police Pension Trust Fund	Municipal Pension Trust Fund	OPEB Trust Fund
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 436,402	\$ 73,587	\$ 2,707,270
Commonwealth of Pennsylvania	214,358	-	-
Plan members	85,697	2,896	-
<b>TOTAL CONTRIBUTIONS</b>	<u>736,457</u>	<u>76,483</u>	<u>2,707,270</u>
Investment income			
Dividends	355,033	-	52,663
Interest	38	-	-
Realized and unrealized gain on investments	595,531	64,744	119,319
Investment expenses	(29,911)	-	(17,584)
<b>INVESTMENT INCOME, net</b>	<u>920,691</u>	<u>64,744</u>	<u>154,398</u>
<b>TOTAL ADDITIONS</b>	1,657,148	141,227	2,861,668
<b>DEDUCTIONS</b>			
Benefits	<u>649,322</u>	<u>130,481</u>	<u>131,042</u>
<b>CHANGE IN NET POSITION</b>	1,007,826	10,746	2,730,626
<b>NET POSITION HELD IN TRUST AT BEGINNING OF YEAR</b>			
	<u>12,399,352</u>	<u>846,676</u>	<u>-</u>
<b>NET POSITION HELD IN TRUST AT END OF YEAR</b>	<u>\$ 13,407,178</u>	<u>\$ 857,422</u>	<u>\$ 2,730,626</u>

*See accompanying notes to the basic financial statements.*

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Willistown Township ("Township" or "Willistown") is a second class township consisting of approximately 18 square miles, located in the eastern part of Chester County, Pennsylvania, five miles east of West Chester and approximately twenty miles from Philadelphia. Originally settled by Lenape Indians, Willistown was part of the 50,000 acre Welsh Tract surveyed by William Penn in 1684 and became a township in year 1704. The Township is governed by a three member Board of Supervisors and operates under the Willistown Township Administrative Code.

In accordance with the Governmental Accounting Standards Board ("GASB"), the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the Township is financially accountable. Willistown has also considered all other potential organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the Township's financial statements to be misleading or incomplete. Based on the criteria set forth by the GASB, there are no other organizations or agencies which should be included in these basic financial statements.

**Basis of Presentation and Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Government-Wide Financial Statements** - The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. In general, the effect of interfund activity has been eliminated from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The statement of activities demonstrates the degree to which direct expenses of a given function are offset mostly by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

On the government-wide statement of net position and the statement of activities, information is presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported. For the government-wide statement of net position and statement of activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of the related cash flows.

Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead, as general revenues.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fund Financial Statements*** - The accounting system of the Township is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, revenues, and expenditures.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though fiduciary funds are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

In the fund financial statements, the funds are presented using the modified-accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. "Measurable" means that the amounts can be estimated or otherwise determined. The term "available" is limited to collection within 60 days of the fiscal year end. Expenses are recorded at the time liabilities are incurred.

Their reported fund balances (net current position) are considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt (including bond premiums and discounts) are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Property taxes, earned income tax, local services tax, franchise taxes and investment earnings are recorded as earned, since they are measurable and available for the next fiscal year. All other revenue items are not considered to be measurable and available until the cash is actually received.

Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Township reports the following major Governmental Funds:

**General Fund** - The Township's primary operating fund which accounts for all financial resources except those that are legally or administratively required to be accounted for in another fund.

**Capital Reserve Fund** - Accounts for accumulated excess funds which are used at the discretion of the Board of Supervisors.

**Open Space Fund** - Accounts for financial resources to be used for the acquisition of land, parkland, natural resource protection and open space for the benefit of the public.

The Township aggregates all nonmajor funds and reports the total in a separate column. Other governmental funds that the Township considers nonmajor funds are as follows:

State Highway Fund - Required by state law to account for receipts from the State Motor License Fund and the transfer of funds to the General Fund to cover allowable highway related expenditures.

Bartram's Bridge Preservation Fund - Accounts for the costs associated with the preservation of the old covered bridge that is shared between the Township and Newtown Square.

**Proprietary/Enterprise Fund** - Enterprise Funds fall under the umbrella of Proprietary Funds which account for operations that are financed and operated in a manner similar to a private business enterprise. The costs of providing goods and services are financed or recovered through user charges. The Township maintains one Enterprise Fund which is the Sewer Fund.

Like the government wide financial statements, proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when the liability is incurred or economic asset used. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and goods in connection with the proprietary fund's principal operations.

The principal operating revenues of the Township's Sewer Fund are charges to customers for sewer rents. Operating expenses include the related treatment expense along with maintenance and administrative charges. Investment income and interest payments are treated as nonoperating income and expenses and are included under capital and related financing and investment activities in the Statement of Cash Flows.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fiduciary Funds*** - Account for assets held by the Township in their capacity as trustee or as an agent for individuals, private organizations, other governments, and other funds. The Township includes the following as fiduciary funds:

- Police Pension Fund - Accounts for the pension plan contributions and payment of retirement benefits for its police officers.
- Municipal Pension Fund - Accounts for the pension plan contributions and payment of retirement benefits for its non-uniformed employees.
- OPEB Trust Fund - Accounts for the post-employment benefits plan contributions and payment of post-employment benefits for its police officers.
- Agency Funds - These funds are custodial in nature (assets equal liabilities), do not have a measurement focus, and therefore, do not report operations. The Township's Agency Funds include the Master Escrow Fund, Agency Escrow Fund, and Payroll Fund.

***Budget*** - Pursuant to the Township's Administrative Code, the following budget procedures are followed:

- Budgets are legally adopted on an annual basis and are required for all funds except Trust and Agency Funds.
- The Manager shall prepare an operating budget and submit it to the Board, not less than 45 days before the close of each fiscal year.
- After adopting the proposed operating budget, two public hearings are held to permit public input.
- The Board is required to adopt a final operating budget ordinance after the public hearing and before the end of the current fiscal year.
- All annual appropriations lapse at the end of each fiscal year. However, at any time, the Board may authorize supplemental appropriations for operating expenditures if the Township Manager certifies that additional revenues are available for such purpose.
- The Board may make supplemental appropriations to meet an emergency and may issue temporary notes, in accordance with the Local Government Unit Debt Act, for such purpose.

***Cash and Cash Equivalents*** - Cash and cash equivalents include demand deposits, money market funds, and all highly liquid investments with an original maturity date of ninety days or less unless they are included as a component of an investment account and with no restrictions on withdrawal. Cash equivalents are stated at cost, which approximates market.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments** - Mutual funds and equity securities are reported at fair value in accordance with their net asset value or quoted market prices at the balance sheet date.

Investment securities are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investments, it is at least possible that changes in risks in the near term could materially affect investment balances.

**Receivables** -The Township files a lien against any property for which current real estate taxes are not paid by December 31. Liens are also filed against properties for unpaid sewer bills. The Township has determined that all receivables are fully collectible and no allowance for doubtful accounts has been established.

**Interfund Transactions** - In connection with financing its operations, the Township conducts interfund transactions. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2016, appropriate interfund receivables or payables have been established.

**Property, Plant and Equipment** - Capital assets consist of land, buildings, improvements, machinery and equipment and are reported in the applicable governmental or business-type activities columns in the government- wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Township as assets with an initial cost of \$10,000 or more or infrastructure construction of \$25,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost except for donated capital assets which are recorded at their fair value at the time of the donation.

Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. Replacements and betterments which increase the service capacity or prolong the service life beyond that originally contemplated are capitalized.

Depreciation is recorded using the straight-line method over the following estimated useful lives:

Infrastructure	20 years
Buildings and equipment	7 to 40 years
Sewer collection system	40 years
Machinery and equipment	5 to 10 years
Automobiles	5 to 7 years
Computer hardware and software	3 to 5 years

**Bond Premiums** - In both the government-wide and the proprietary fund financial statements, bond premiums are deferred and amortized over the life of the bonds using the straight line method. Long-term debt is reported net of the applicable bond premium.

Bond issuance costs are reported as expenditures in the year in which they are occurred. In the fund financial statements, the debt proceeds and bond premiums are reported as other financing sources.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences** - Uniform and non-uniform employees accumulate vacation and sick time based on certain eligibility requirements and years of service. Employees are allowed to carryover and/or elect to be paid for a certain portion of unused vacation time. Upon retirement, death or termination, the Township will pay for all unused vacation. No Township provision exists for the payment of unused sick time upon termination of employment. Vacation pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in the governmental funds only if they are the result of an employee resignation or termination.

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Township has three items that qualifies for reporting in this category. Unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred amount on refunding is reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of the net difference between projected and actual earnings on pension plan investments.

**Fund Balances** - In accordance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, the Township classifies its governmental fund balances into specifically defined classifications: restricted, committed, assigned, or unassigned. The Township permits funds to be expended in the following order: Committed, Assigned, and Unassigned. The following is an explanation of the various classifications:

**Nonspendable Fund Balance** - Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form - such as prepaid insurance or (b) legally or contractually required to be maintained intact.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted Fund Balance - Restricted fund balances are restricted when constraints placed on the use of the 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 Fund Balance - Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Township and cannot be used for any other purpose unless the Township removes those constraints by taking the same type of action (e.g., legislation, resolution, ordinance). Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation. The Board of Supervisors has the ability to commit funds for the Township. As of December 31, 2016, there were no committed balances.

Assigned Fund Balance - 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., a budget or finance committee) or 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 nonspendable, 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, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Township itself.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents the 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.

**Net Position** - Net position represents the difference between assets and liabilities and deferred inflows and outflows in the government-wide financial statements and proprietary and fiduciary fund financial statements. Net investment in capital assets represents capital assets, reduced by any outstanding debt obligations and deferred inflows of resources related to the acquisition, construction or improvement of those assets and increases by balances of deferred outflows of resources related to those assets. Net position is reported as restricted when limitations are imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted Net Position consists of net assets that do not meet the definition of "Restricted" or "Net investment in capital assets."

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Real Estate Tax** - Property taxes are levied on November 15 for general purposes on assessed value of real estate for which the 2016 assessment amounted to 0.28 Mills. The tax calendar follows:

Initial billing	February 1
Discount period	February 1 to March 31
Face period	April 1 to May 31
Penalty period	June 1 to December 31
Lien date	December 31

**Local Earned Income Tax** - In 1980, the Township imposed an earned income tax in the amount of 0.875% on all residents and nonresidents. In 1999, the Township increased the earned income tax by 0.125% designated as an element to be used for preservation and protection of open space, farmlands, parklands, and natural historic and scenic resources. The 0.125% element of earned income tax is payable only by residents of the Township.

**Franchise Fees** - The Township is engaged in a franchise fee arrangement with Verizon and Comcast for cable television services provided. Comcast and Verizon remit 5% of their gross revenue to Willistown.

**Sewer Rates** - In accordance with Ordinance 4 of 2007, residential and commercial customers are billed on a quarterly basis (January, April, July and October). The Sewer Fund is used to account for transactions related to the billing and collection of the sanitary sewer fees and expenditures related to the collection, conveyance and treatment of waste water.

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

**NOTE B - DEPOSITS AND INVESTMENTS**

**Deposits** - In accordance with Section 708 of the Pennsylvania Second Class Township Code, the Township is required to deposit funds in banking institutions, located in the Commonwealth that are either insured with the Federal Deposit Insurance Corporation ("FDIC") or with the National Credit Union Share Insurance Fund ("NCUSIF"). Willistown maintains its deposits at four financial institutions. Three of the institutions provides FDIC coverage of \$250,000 per depositor.

Deposits in excess of FDIC limits are secured by way of state law which requires all deposits in financial institutions in excess of federal insurance limits be fully collateralized by obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Pennsylvania Act 72 of 1971, as amended, permits banking institutions to satisfy this collateralization requirement by pooling securities pledged as collateral for public funds on deposit.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

The Township utilizes a purchasing card program offered by the Pennsylvania Local Government Investment Trust ("PLGIT") in which employees use a debit card with certain credit limits to make purchases. A PLGIT account, designated in the Township's name, is used to operate this program. 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 their objective is to maintain a stable net asset value of \$1 per share. PLGIT is also rated by a nationally recognized statistical rating organization and is subject to an independent annual audit, however there is no assurance that the net asset value will not vary from the \$1 per share. Additionally, since PLGIT is not a bank, it cannot use Act 72 to collateralize investments of its participants. The Township's PLGIT account has been included with cash and cash equivalents in these financial statements.

At December 31, 2016, the bank balance of all Township funds on deposit with both financial institutions, including Trust and Fiduciary Funds totaled \$13,853,827, of which, \$601,843 was covered by FDIC and \$13,227,868 was covered under Pennsylvania Act 72. The \$24,916 balance in the PLGIT money market account at December 31, 2016 was not covered by either FDIC or PA Act 72.

**Investments** - With the exception of the pension trust funds, state law authorizes the Township to invest in (1) United States Treasury Bills, (2) direct obligations of the United States and certain federal agencies, (3) cash accounts which are insured by the FDIC or by the NCUSIF, (4) money market funds that only trade in investments listed in items (1) through (3), or (5) certificates of deposit that are FDIC or NCUSIF insured. Investments held as of December 31, 2016 follow:

Investment Type	Fair Value	Investment Maturities Less Than 1 Year
<b>FIDUCIARY ACTIVITIES</b>		
Fixed income mutual funds	\$ 4,051,796	\$ 4,051,796
Stocks and stock mutual funds	<u>12,792,221</u>	<u>12,792,221</u>
	<u>\$ 16,844,017</u>	<u>\$ 16,844,017</u>

**Fair Value Measurement** - The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The Township has Level 1 investments valued at quoted market prices consisting of fixed income mutual funds of \$4,051,796 and stocks and stock mutual funds of \$12,792,221.

**Concentration of Credit Risk** - More than 5% of the Township's investments are in fixed income mutual funds and stocks and stock mutual funds. These investments are 24% and 76%, respectively, of the Township's total investments.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

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

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. Government are not considered to have a credit risk attribute. As of December 31, 2016, the Township invested in cash, fixed income mutual funds, stocks and stock mutual funds all of which do not contain a credit rating.

The Township does not have a formal policy that addresses custodial credit risk, interest rate risk, or credit risk, however, the Township adheres to Commonwealth of Pennsylvania statutes and prudent business practices.

**NOTE C - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, follows:

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 13,420,766	\$ -	\$ (367,025)	\$ 13,053,741
Capital assets being depreciated				
Buildings and improvements	4,533,903	368,102	-	4,902,005
Infrastructure	392,060	-	-	392,060
Park buildings and equipment	904,838	37,612	-	942,450
Automobiles	1,191,547	199,379	-	1,390,926
Machinery and equipment	1,169,325	77,565	-	1,246,890
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>8,191,673</u>	<u>682,658</u>	<u>-</u>	<u>8,874,331</u>
Accumulated depreciation				
Buildings and improvements	(357,078)	(115,624)	-	(472,702)
Infrastructure	(67,890)	(19,603)	-	(87,493)
Park buildings and equipment	(376,332)	(25,246)	-	(401,578)
Automobiles	(997,765)	(85,649)	-	(1,083,414)
Machinery and equipment	(856,146)	(66,028)	-	(922,174)
TOTAL ACCUMULATED DEPRECIATION	<u>(2,655,211)</u>	<u>(312,150)</u>	<u>-</u>	<u>(2,967,361)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>5,536,462</u>	<u>370,508</u>	<u>-</u>	<u>5,906,970</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	 <u>\$ 18,957,228</u>	 <u>\$ 370,508</u>	 <u>\$ (367,025)</u>	 <u>\$ 18,960,711</u>

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE C - CAPITAL ASSETS (Continued)**

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Sewer collection system	\$ 7,652,651	\$ -	\$ -	\$ 7,652,651
Accumulated depreciation				
Sewer collection system	<u>(2,342,298)</u>	<u>(481,692)</u>	<u>-</u>	<u>(2,823,990)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>CAPITAL ASSETS, net</b>	<u>\$ 5,310,353</u>	<u>\$ (481,692)</u>	<u>\$ -</u>	<u>\$ 4,828,661</u>

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

<b>GOVERNMENTAL ACTIVITIES</b>	
General government	\$ 136,227
Public works	80,502
Police	70,649
Parks and recreation	<u>24,772</u>
	<u>\$ 312,150</u>

All of the depreciation expense in business-type activities was charged to the sewer fund.

**NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Balances due to/from other funds at December 31, 2016 consist of the following:

	Due from <u>Other Funds</u>	Due to <u>Other Funds</u>
<b>GOVERNMENTAL FUNDS</b>		
General Fund	\$ 842,770	\$ 81,000
State Highway Fund	-	199,064
Capital Reserve Fund	81,000	61,604
<b>BUSINESS-TYPE ACTIVITIES</b>		
Sewer Fund	<u>344,862</u>	<u>926,964</u>
	<u>\$ 1,268,632</u>	<u>\$ 1,268,632</u>

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

Interfund balances generally result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. The composition of interfund transfers included in the basic financial statements is as follows:

	Transfer Out	Transfer In
General Fund	\$ 613,888	\$ -
Bartram's Bridge Preservation Fund	-	1,500
Capital Reserve Fund	-	612,388
	<u>\$ 613,888</u>	<u>\$ 613,888</u>

**NOTE E - LONG-TERM DEBT**

On October 22, 2012, General Obligation Bonds, Series 2012, in the amount of \$9,405,000 were issued for the purpose of currently refunding the 2007 General Obligation Bonds and to pay the costs of issuing the bonds.

On June 20, 2013, General Obligation Bonds, Series 2013, in the amount of \$7,325,000 were issued for the purposes of refunding the 2001 and 2008 General Obligation Bonds to fund the construction of the police building and sewer system improvements, and to pay the costs of issuing the bonds.

A summary of the bonds and note payable activity for the year ended December 31, 2016 follows:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds					
Series of 2012	\$ 9,075,000	\$ -	\$ (320,000)	\$ 8,755,000	\$ 330,000
Series of 2013	1,165,500	-	(53,100)	1,112,400	54,900
Premiums on bonds	42,127	-	(2,947)	39,180	-
Deferred amounts on refunding	11,516	-	(523)	10,993	-
Capital lease	23,858	50,316	(27,163)	47,011	23,695
Net pension liability	2,856,998	-	(73,906)	2,783,092	-
Net OPEB obligation (asset)	319,361	-	(541,320)	(221,959)	-
Compensated absences	164,963	4,388	-	169,351	18,635
	<u>13,659,323</u>	<u>54,704</u>	<u>(1,018,959)</u>	<u>12,695,068</u>	<u>427,230</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES</b>					
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds					
Series of 2013	\$ 5,309,500	\$ -	\$ (241,900)	\$ 5,067,600	\$ 250,100
Premiums on bonds	148,871	-	(13,424)	135,447	-
	<u>5,458,371</u>	<u>-</u>	<u>(255,324)</u>	<u>5,203,047</u>	<u>250,100</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES</b>					

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE E - LONG-TERM DEBT (Continued)**

Scheduled future principal and interest maturities with respect to all bond obligations at December 31, 2016 follow:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 635,000	\$ 406,945	\$ 1,041,945
2018	655,000	387,895	1,042,895
2019	665,000	371,645	1,036,645
2020	675,000	358,345	1,033,345
2021	695,000	344,845	1,039,845
2022 to 2026	3,650,000	1,505,800	5,155,800
2027 to 2031	4,090,000	1,036,777	5,126,777
2032 to 2036	3,335,000	376,080	3,711,080
2037	535,000	17,655	552,655
	<u>\$ 14,935,000</u>	<u>\$ 4,805,987</u>	<u>\$ 19,740,987</u>

The future principal and interest maturities allocation between the governmental and business-type funds is summarized below:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 384,900	\$ 258,865	\$ 250,100	\$ 148,080
2018	396,700	247,318	258,300	140,577
2019	402,600	238,817	262,400	132,828
2020	408,500	230,765	266,500	127,580
2021	420,300	222,595	274,700	122,250
2022 to 2026	2,223,200	980,850	1,426,800	524,950
2027 to 2031	2,486,900	707,367	1,603,100	329,410
2032 to 2036	2,609,300	332,292	725,700	43,788
2037	535,000	17,655	-	-
	<u>\$ 9,867,400</u>	<u>\$ 3,236,524</u>	<u>\$ 5,067,600</u>	<u>\$ 1,569,463</u>

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE F - LEASES**

**Capital Leases** - As of December 31, 2016, machinery, equipment and vehicles owned by way of capital leases and included within the statement of net position is accounted for as follows:

Cost of assets acquired through capital lease	\$ 75,304
Less: accumulated depreciation	<u>(23,016)</u>
VALUE OF ASSETS, net	<u>\$ 52,288</u>

Future minimum payments under the capital leases together with the present value, calculated based on the Township's incremental borrowing rate at the date of inception of the leases follow:

<u>Year Ending December 31,</u>	
2017	\$ 15,702
2018	11,057
2019	11,057
2020	11,057
2021	<u>1,843</u>
Total minimum lease payments	50,716
Less: amount representing interest	<u>(3,705)</u>
NET PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 47,011</u>

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

**Summary of Significant Accounting Policies**

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

**Plan Description**

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

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

Management of the Police Pension Plan is vested in the Board of Township Supervisors. The Township Supervisors are responsible for advising, reviewing, monitoring and making recommendations as to the administrative, operation and investment of the Police Pension Plan. The Board of Township Supervisors has delegated the authority to manage Plan assets to the Vanguard Group.

**Plan Membership** - At December 31, 2016, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	15
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	<u>12</u>
	<u>27</u>

**Benefits Provided**

Eligibility Requirements - A member is eligible for normal retirement after attainment of age 50 and completion of 25 years of service. A member is eligible for early retirement after 20 years of services under Act 24. Members are 100% vested after 12 years of service.

Retirement Benefit - 50% of final 36 months of average compensation plus a service increment of an additional \$100 per month for the completion of 26 or more years of service up to a maximum of \$100 per month.

Survivor Benefit - If retired or eligible for retirement or vested - 65% of benefit to surviving spouse or child under age 23, commencing at member's normal retirement date. The survivor of a member who is not vested shall receive a return of employee contributions plus interest.

Disability Benefit Service Related - 65% of salary at time of disability offset by social security benefits received for same injury, reduced to 50% at normal retirement date.

Post Retirement Adjustments - Members retiring after January 1, 1997 will receive a cost of living increase provided in accordance with Act 600 subject to a 10% lifetime cap. Effective January 1, 2000, the cap was increased to 30%.

Pre Act 44 Deferred Retirement Option Program - An active member who has met the eligibility requirements for normal retirement may elect to participate in the DROP for a period of up to 60 months.

**Contributions** - The authority under which obligations to contribute to the Police Pension Plan by the plan members, employer and other contributing entities are established or may be amended include Act 600 and Act 205 (the "Act") of the Commonwealth of Pennsylvania and Montgomery Township Ordinances. The Act requires that annual contributions be based upon the calculation of the minimum municipal obligation ("MMO"). The MMO is based upon the biennial actuarial valuation.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

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

The Township allocates state aid received from the Commonwealth of Pennsylvania to the Plan. On-behalf payments of fringe benefits and salaries for the government's employees were recognized as revenues and expenditures/expenses during the period. To the extent that these fundings are not adequate, the Township would then be required to contribute. In accordance with Act 205, the Township was required to contribute \$650,760 to the plan for the year 2016. The Township's actual contributions for the plan year 2016 were \$650,760.

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Township Board of Supervisors, with input from the Pension Advisory Board. It is the policy of the Township Board of Supervisors to pursue an investment strategy that reduces risk while maximizing returns through prudent diversification of the portfolio in order to maintain a fully funded status and meet the benefit and expense obligations when due. The following was the Committee's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	49%
International stocks	21%
Bonds	30%
	<u>100%</u>

**Concentrations** - More than 5% of the Township's investments are in fixed income mutual funds and domestic equity mutual funds. These investments are 24% and 76%, respectively, of the plan's total investments.

**Rate of Return** - For the year ended December 31, 2016, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 7.43%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Township**

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

Total pension liability	\$ 16,190,270
Plan fiduciary net position	<u>(13,407,178)</u>
<b>NET PENSION LIABILITY</b>	<b>\$ <u>2,783,092</u></b>
Plan fiduciary net position as a percentage of the total pension liability	<u>82.81%</u>

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	5% annual increase
Investment rate of return	7.25%

Mortality rates were based on the Blue Collar RP-2000 Mortality Table Scale AA.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2016 (see the plan's investment policy) are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	4.60%
International stocks	6.30%
Bonds	0.60%

**Discount Rate** - The discount rate is based on the long-term expected rate of return on pension plan investments that expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

***Changes in the Net Pension Liability***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	\$ 15,256,350	\$ 12,399,352	\$ 2,856,998
Changes for the year:			
Service cost	300,796	-	300,796
Interest cost	1,104,355	-	1,104,355
Changes for experience	178,091	-	178,091
Changes of assumptions	-	-	-
Contributions			
Employer	-	650,760	(650,760)
Member	-	85,697	(85,697)
Net investment income	-	920,691	(920,691)
Benefit payments	(649,322)	(649,322)	-
Administrative expenses	-	-	-
Net changes	<u>933,920</u>	<u>1,007,826</u>	<u>(73,906)</u>
Balances at December 31, 2016	<u>\$ 16,190,270</u>	<u>\$ 13,407,178</u>	<u>\$ 2,783,092</u>

***Changes in Assumptions*** - In the 2015 actuarial valuation, the investment rate of return assumption was changed from 7.5% to 7.25%. In 2015, the mortality assumption was changed from Scale BB to Scale AA.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ <u>4,838,796</u>	\$ <u>2,783,092</u>	\$ <u>1,088,211</u>

**WILLISTOWN TOWNSHIP**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

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

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

For the year ended December 31, 2016, the Township recognized pension expense of \$829,875. At December 31, 2016, 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	\$ 489,208	\$ -
Changes in assumptions	251,349	-
Net difference between projected and actual earnings on pension plan investments	<u>522,026</u>	<u>14,863</u>
TOTAL	<u>\$ 1,262,583</u>	<u>\$ 14,863</u>

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

<u>Year Ending December 31,</u>	
2017	\$ 412,532
2018	412,532
2019	405,224
2020	17,432
2021	-
Thereafter	-

***Deferred Option Retirement Program (“DROP”)*** - An active member who has met the eligibility requirements for normal retirement may elect to participate in the DROP for a period of up to 60 months. The monthly pension shall be calculated as of the date of the participation in the DROP. The DROP plan account balance is distributed to the member in a lump sum at the termination of the DROP. As of December 31, 2015, there were two members participating in the DROP program. The balance of the amounts held by the Plan pursuant to the DROP was \$457,084.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE H - NON-UNIFORM PENSION PLAN**

**Plan Description**

The Willistown Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan which provides benefits for its non-uniform employees. In a defined contribution plan, the benefits to be received by an employee depend solely on the amount contributed to the participant's account and related returns on investments of those contributions. The Plan was established by Ordinance 5-1985 effective January 1, 1985. The Plan was restated by Ordinance No. 6 of 1995, as amended effective January 18, 1995. The Plan is governed by the Board of Township Supervisors which may amend plan provisions, and which is responsible for the management of Plan assets. The Board of Township Supervisors has delegated the authority to manage certain Plan assets to Nationwide Investment Services Corporation. The Plan does not issue separate, stand-alone financial statements.

**Funding Policy**

The Township will contribute into the Plan, for each eligible Participant, an amount equal to 6.0% of their covered compensation. Participants are not required to contribute to the Plan, however, voluntary contributions are permitted. In addition to the Township contribution made to Participant's account, their account will be credited annually with the pro-rata share of the investment earnings or losses of the Plan and any investment related expenses. The Township, if eligible, may allocate State Aid received from the Commonwealth of Pennsylvania to the Plan. Forfeitures due to non-vested terminations are to be used to reduce the Township's contributions to the Plan. To the extent that these fundings are not adequate to cover the Township's obligation to the Plan, the Township would then be required to contribute.

The Township made contributions of \$73,587 for the year ending December 31, 2016. Employee contributions to the Plan were \$2,896.

At December 31, 2016, there were no investments in any one organization that represented 5% or more of total plan assets available for benefits other than mutual funds, which do not require disclosure of concentration per GASB Statement No. 40.

**NOTE I - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

***Plan Description*** - The Township offers a single-employer defined benefit healthcare plan providing medical, dental, and vision insurance benefits through the Township's group health insurance plan to eligible police officers. Additionally, certain eligible Township employees and former police chiefs are also covered by the plan and are allowed to continue the same coverage they received prior to retirement for the remainder of their lives including Medicare supplement payments that are due after age 65. The plan does not issue a publicly available financial report.

***Funding Policy*** - The required contribution is based on projected pay-as-you-go financing requirements. The Township does not require any funding from members receiving benefits.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE I - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation (Asset)** - The Township's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the Annual Required Contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of *GASB Statement 45*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Township's annual OPEB cost for the year and the amount actually contributed to the plan:

Annual required contribution	\$ 134,396
Interest on OPEB obligation	9,408
ANNUAL OPEB COST	<u>143,804</u>
Contributions made	685,124
DECREASE IN NET OPEB OBLIGATION	<u>(541,320)</u>
Net OPEB obligation at beginning of year	<u>319,361</u>
NET OPEB ASSET AT END OF YEAR	<u>\$ (221,959)</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) are as follows:

Fiscal Year Ended December 31,	Annual OPEB Cost	Actual Contributions Made	Percentage of Annual OPEB Cost Contributed	Net Pension OPEB Obligation (Asset)
2016	\$ 143,804	\$ 685,124	476%	\$ (221,959)
2015	143,804	185,124	129%	319,361
2014	162,481	148,385	91%	360,681

**Funded Status and Funding Progress** - As of January 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,676,857, and the actuarial value of assets amounted to \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,676,857. The covered payroll (annual payroll of active employees covered by the plan) was \$1,968,028, and the ratio of the UAAL to the covered payroll was 136.02%. During 2016, the Township created a trust for administration of the Township's OPEB plan. As of December 31, 2016, there was \$2,743,014 of assets held in the trust.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE I - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. In accordance with the provisions of GASB 45, the Township is required to perform a valuation of the plan every three years.

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

For the January 1, 2015 actuarial valuation, the following assumptions were made:

*Retirement Age for Active Employees* - Employees were assumed to retire immediately upon attainment of age 55 and the completion of 28 years of service.

*Marital Status* - 90% of both male and female members were assumed to be married throughout retirement.

*Mortality* - Life expectancies for pre and post-retirement were based on the RP-2000 Healthy Annuitant Mortality Table for males and females with generational mortality using Scale AA. The female spouse is assumed to be three years younger than the male spouse for future retirees.

*Healthcare Cost Trend* - Healthcare insurance premiums are expected to increase at a rate of 7% in the second year and gradually decrease by 0.5% per year to an ultimate rate of 5%.

*Liability* - Based on the historical and expected returns of the Township's investment portfolio, a discount rate of 7% was used. In addition, the valuation uses the entry age normal cost method. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2015, was thirty years. The Township does not issue stand-alone financial statements for the OPEB Plan.

The Township also provides life insurance benefits to its non-uniform employees in which the total benefit amounts to \$20,000. The premiums are fully paid by the Township and continue until the employee's death. These post-retirement life insurance benefits are recognized as expenditures when due.

**WILLISTOWN TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE J - SEWAGE TREATMENT AGREEMENTS**

**Valley Forge Sewage Treatment Agreement** - The Township joined with several other municipalities on November 1, 1970 to form the Valley Forge Sewer Authority (“VFSA”) for the construction and operation of sanitary sewer collection. VFSA provides sewage treatment services to all or portions of the member municipalities and the area served by the Township.

VFSA’s normal operating costs are allocated among the participants based upon their proportionate share of sewage in relation to the total amount of sewage treated by VFSA. The agreement calls for quarterly estimated payments based on the estimated operating expenses. Any amounts advanced in excess of actual costs incurred are refundable and likewise, any amounts underpaid are due. VFSA’s charges for treatment operating costs totaled \$512,346 for the year ended December 31, 2016.

Capital construction and plant upgrade costs are assessed based upon the percentages of plant capacity attributed to each member. The Township’s payments to VFSA for capital construction and plant upgrades are capitalized and depreciated over a period of 40 years.

**Valley Creek Trunk Sewer Agreement** - Pursuant to the Township’s agreement with VFSA for sanitary sewer collection, the Township must convey sewage through trunk lines and interceptors (“Valley Creek Trunk Line”) owned and operated by Tredyffrin Township Municipal Authority. On November 1, 1970, the Township entered into an agreement with Tredyffrin Township Municipal Authority permitting the Township to dispose of its sewage through the Valley Creek Trunk Line and providing that the Township will be assessed its share of operating costs based on the Township’s proportionate volume of sewage compared to the total amount of sewage from all municipalities participating in the VFSA. The agreement calls for quarterly estimated payments based on budgeted operating expenses prepared by the Tredyffrin Township’s engineers. Amounts advanced in excess of actual costs incurred are refundable and likewise, amounts are due. Treatment costs and capital contributions for future capital improvements charged by Valley Creek Trunk Line amounted to \$177,530 for the year ended December 31, 2016.

**NOTE K - RISK MANAGEMENT AND COMMITMENTS**

**Risk Management** - The Township is subject to various risks of loss arising from torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Township purchases commercial insurance. No settlements have exceeded coverage during the year ended December 31, 2016.

**Litigation** - The Township is involved in certain claims and legal actions which arise in the ordinary course of business. In the opinion of management and legal counsel, there are no such matters pending that are expected to be material in relation to the Township’s financial condition or results of operations.

**WILLISTOWN TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**NOTE L - SUBSEQUENT EVENTS**

Tredyffrin Township has filed a complaint for declaratory judgement in the Chester County Common Pleas Court against the other municipal members of the Valley Creek Trunk Sewer (VCTS) agreement seeking a judicial determination affirming Tredyffrin Township's and the Tredyffrin Township Municipal Authority's right to sell the VCTS to a qualified third party. The VCTS is a shared sewer line serving Tredyffrin Township and the defendant municipalities, and the VCTS Agreement – entered into in 1970 – allocates costs of operating and maintaining the VCTS based upon proportionate sewer usage that existed at that time. Since 1970, the VCTS members' proportionate usage has shifted substantially but the cost allocation has remained the same. The goal of this action is to pave the way for a sale of the system. The defendants in the action include Easttown Township, Willistown Township, East Whiteland Township, Valley Forge Sewer Authority (which represents East Pikeland, Charlestown, and Schuylkill Townships) and Malvern Borough.

Each of the defendants had received extensions to the deadlines for responding to the complaint. The matter was settled and resolved in 2017.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

	Budgeted Amounts		Actual Amounts	Over (Under) Budget
	Original	Final		
<b>REVENUES</b>				
Taxes				
Real estate taxes	\$ 340,500	\$ 340,500	\$ 350,291	\$ 9,791
Transfer taxes	600,000	600,000	782,128	182,128
Earned income taxes	5,400,000	5,400,000	6,201,765	801,765
Local services taxes	230,000	230,000	306,591	76,591
Cable franchise fees	250,000	250,000	285,820	35,820
Fines and forfeitures	29,500	29,500	25,625	(3,875)
Investment income/rental income	2,500	2,500	15,904	13,404
Intergovernmental	365,189	365,189	364,244	(945)
Park and recreation fees	13,000	13,000	19,374	6,374
Charges for services	577,550	577,550	466,624	(110,926)
Miscellaneous	1,500	1,500	149,060	147,560
<b>TOTAL REVENUES</b>	<b>7,809,739</b>	<b>7,809,739</b>	<b>8,967,426</b>	<b>1,157,687</b>
<b>EXPENDITURES</b>				
General government	1,601,306	1,601,306	1,030,988	(570,318)
Public safety	5,080,971	5,080,971	7,914,764	2,833,793
Public works	1,001,831	1,001,831	1,056,734	54,903
Library/parks/recreation	290,325	290,325	335,602	45,277
Debt service				
Principal payment	53,100	53,100	53,100	-
Interest and other charges	34,629	34,629	34,629	-
<b>TOTAL EXPENDITURES</b>	<b>8,062,162</b>	<b>8,062,162</b>	<b>10,425,817</b>	<b>2,363,655</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(252,423)</b>	<b>(252,423)</b>	<b>(1,458,391)</b>	<b>(1,205,968)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	135,130	135,130	-	(135,130)
Transfers out	(1,500)	(1,500)	(613,888)	(612,388)
Capital lease	-	-	50,316	50,316
Sale of general capital assets	-	-	16,387	16,387
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>133,630</b>	<b>133,630</b>	<b>(547,185)</b>	<b>(680,815)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(118,793)</b>	<b>(118,793)</b>	<b>(2,005,576)</b>	<b>(1,886,783)</b>
<b>FUND BALANCE AT BEGINNING OF THE YEAR</b>	<b>9,645,529</b>	<b>9,645,529</b>	<b>9,645,529</b>	<b>-</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 9,526,736</b>	<b>\$ 9,526,736</b>	<b>\$ 7,639,953</b>	<b>\$ (1,886,783)</b>

**WILLISTOWN TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**OPEN SPACE FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Budget
	Original	Final		
REVENUES				
Earned income tax	\$ 580,000	\$ 580,000	\$ 694,925	\$ 114,925
Investment income	-	-	7,362	7,362
Intergovernmental	850,000	850,000	-	(850,000)
TOTAL REVENUES	<u>1,430,000</u>	<u>1,430,000</u>	<u>702,287</u>	<u>(727,713)</u>
EXPENDITURES				
General government	-	-	32,900	32,900
Debt service				
Principal payments	320,000	320,000	320,000	-
Interest	232,760	232,760	232,760	-
TOTAL EXPENDITURES	<u>552,760</u>	<u>552,760</u>	<u>585,660</u>	<u>32,900</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>877,240</u>	<u>877,240</u>	<u>116,627</u>	<u>(760,613)</u>
OTHER FINANCING SOURCES (USES)				
Sale of general capital assets	-	-	277,440	277,440
NET CHANGE IN FUND BALANCE	877,240	877,240	394,067	(483,173)
FUND BALANCE AT BEGINNING OF THE YEAR	<u>3,601,174</u>	<u>3,601,174</u>	<u>3,601,174</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,478,414</u>	<u>\$ 4,478,414</u>	<u>\$ 3,995,241</u>	<u>\$ (483,173)</u>

**WILLISTOWN TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL RESERVE FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Budget
	Original	Final		
REVENUES				
Investment income	\$ -	\$ -	\$ 1,689	\$ 1,689
EXPENDITURES				
Capital purchases	<u>686,267</u>	<u>686,267</u>	<u>403,699</u>	<u>(282,568)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(686,267)</u>	<u>(686,267)</u>	<u>(402,010)</u>	<u>284,257</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>-</u>	<u>-</u>	<u>612,388</u>	<u>612,388</u>
NET CHANGE IN FUND BALANCE	(686,267)	(686,267)	210,378	896,645
FUND BALANCE AT BEGINNING OF THE YEAR	<u>992,203</u>	<u>992,203</u>	<u>992,203</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 305,936</u>	<u>\$ 305,936</u>	<u>\$ 1,202,581</u>	<u>\$ 896,645</u>

# WILLISTOWN TOWNSHIP

## SCHEDULES OF CHANGES IN THE NET POLICE PENSION LIABILITY AND RELATED RATIOS LAST THREE FISCAL YEARS

	2016	2015	2014
TOTAL PENSION LIABILITY			
Service cost	\$ 300,796	\$ 371,345	\$ 329,596
Interest	1,104,355	980,854	925,637
Differences between expected and actual experience	178,091	586,760	10,626
Changes of assumptions	-	420,950	-
Benefit payments	(649,322)	(522,475)	(411,856)
NET CHANGE IN TOTAL PENSION LIABILITY	<u>933,920</u>	<u>1,837,434</u>	<u>854,003</u>
TOTAL PENSION LIABILITY, BEGINNING	<u>15,256,350</u>	<u>13,418,916</u>	<u>12,564,913</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 16,190,270</u>	<u>\$ 15,256,350</u>	<u>\$ 13,418,916</u>
PLAN FIDUCIARY NET POSITION			
Contributions			
Employer	\$ 650,760	\$ 676,635	\$ 659,842
Member	85,697	99,710	82,269
Net investment income	920,691	45,493	754,980
Benefit payments, including refunds of member contributions	(649,322)	(522,475)	(448,256)
Administrative expense	-	(1,600)	(30,230)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	<u>1,007,826</u>	<u>297,763</u>	<u>1,018,605</u>
Plan fiduciary net position, beginning	<u>12,399,352</u>	<u>12,101,589</u>	<u>11,082,984</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 13,407,178</u>	<u>\$ 12,399,352</u>	<u>\$ 12,101,589</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 2,783,092</u>	<u>\$ 2,856,998</u>	<u>\$ 1,317,327</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>82.81%</u>	<u>81.27%</u>	<u>90.18%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,762,481</u>	<u>\$ 1,984,774</u>	<u>\$ 1,861,059</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>157.91%</u>	<u>143.95%</u>	<u>70.78%</u>

**Changes of assumptions:** In 2015 the investment rate of return assumption was changes from 7.5% to 7.25%. In 2015, the mortality assumption was changed from Scale BB to Scale AA.

\* The requirement for this schedule is to present ten years of information. However, until a full ten year trend is complete, only available information is present.

**WILLISTOWN TOWNSHIP**  
**SCHEDULES OF POLICE PENSION PLAN**  
**CONTRIBUTIONS**  
**LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 650,760	\$ 676,635	\$ 659,842
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>650,760</u>	<u>676,635</u>	<u>659,842</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,762,481</u>	<u>\$ 1,984,774</u>	<u>\$ 1,861,059</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>36.92%</u>	<u>34.09%</u>	<u>35.46%</u>

**Notes to Schedule**

Methods and assumptions used to determine contribution rates:

Actuarial valuation date	January 1, 2015, projected to December 31, 2016
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Market value
Inflation	3%
Salary increases	5%
Investment rate of return	7.25%
Retirement age	Normal retirement age
Mortality	RP2000 Mortality Table (Blue Collar) with Scale BB

\* The requirement for this schedule is to present ten years of information. However, until a full ten year trend is complete, only available information is present.

**WILLISTOWN TOWNSHIP****SCHEDULES OF POLICE PENSION PLAN INVESTMENT RETURNS  
LAST THREE FISCAL YEARS**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>7.43%</u>	<u>0.15%</u>	<u>6.13%</u>

\* The requirement for this schedule is to present ten years of information. However, until a full ten year trend is complete, only available information is present.

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

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**SCHEDULE OF FUNDING PROGRESS**

Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2015	\$ -	\$ 2,676,857	\$ 2,676,857	0.00%	\$ 1,968,028	136.02%
2012	-	2,143,762	2,143,762	0.00%	1,752,334	122.34%
2009	-	1,872,984	1,872,984	0.00%	1,504,015	124.53%

## **SUPPLEMENTARY INFORMATION**

**WILLISTOWN TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**SEWER FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Budget
	Original	Final		
OPERATING REVENUES				
Sewer rents	\$ 1,946,798	\$ 1,946,798	\$ 1,901,840	\$ (44,958)
OPERATING EXPENSES				
Operations and maintenance	4,782,790	4,782,790	3,688,714	(1,094,076)
General and administrative	128,910	128,910	130,043	1,133
Depreciation and amortization	-	-	481,692	481,692
TOTAL OPERATING EXPENSES	<u>4,911,700</u>	<u>4,911,700</u>	<u>4,300,449</u>	<u>(611,251)</u>
LOSS FROM OPERATIONS	<u>(2,964,902)</u>	<u>(2,964,902)</u>	<u>(2,398,609)</u>	<u>566,293</u>
NONOPERATING INCOME (EXPENSE)				
Investment income	-	-	11,416	11,416
Tapping fees	-	-	153,209	153,209
Interfund transfers, net	-	-	-	-
Interest expense	-	-	(143,929)	(143,929)
Other	-	-	152,687	152,687
TOTAL NONOPERATING INCOME (EXPENSE), net	<u>-</u>	<u>-</u>	<u>173,383</u>	<u>173,383</u>
CHANGE IN NET POSITION	\$ <u><u>(2,964,902)</u></u>	\$ <u><u>(2,964,902)</u></u>	\$ <u><u>(2,225,226)</u></u>	\$ <u><u>739,676</u></u>

**WILLISTOWN TOWNSHIP**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2016**

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	Bartram's Bridge Preservation Fund	Special Revenue Fund <u>State Highway Fund</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ <u>2,452</u>	\$ <u>374,895</u>	\$ <u>377,347</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 28	\$ -	\$ 28
Due to other funds	-	199,064	199,064
TOTAL LIABILITIES	<u>28</u>	<u>199,064</u>	<u>199,092</u>
<b>FUND BALANCES</b>			
Restricted			
Highway and street projects	-	175,831	175,831
Bridges	2,424	-	2,424
TOTAL FUND BALANCES	<u>2,424</u>	<u>175,831</u>	<u>178,255</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,452</u>	<u>\$ 374,895</u>	<u>\$ 377,347</u>

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

	Bartram's Bridge Preservation Fund	Special Revenue Fund State Highway Fund	Total Other Governmental Funds
<b>REVENUES</b>			
Investment income and rent	\$ 8	\$ 919	\$ 927
Intergovernmental revenues	1,500	361,344	362,844
Other	46	-	46
TOTAL REVENUES	<u>1,554</u>	<u>362,263</u>	<u>363,817</u>
<b>EXPENDITURES</b>			
Public works - highways and streets	-	296,359	296,359
Culture and recreation - bridges	4,745	-	4,745
TOTAL EXPENDITURES	<u>4,745</u>	<u>296,359</u>	<u>301,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,191)	65,904	62,713
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>1,500</u>	<u>-</u>	<u>1,500</u>
NET CHANGE IN FUND BALANCES	(1,691)	65,904	64,213
FUND BALANCES AT BEGINNING OF YEAR	<u>4,115</u>	<u>109,927</u>	<u>114,042</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,424</u>	<u>\$ 175,831</u>	<u>\$ 178,255</u>