

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Township of Falls, County of Bucks, Commonwealth of Pennsylvania, was founded in 1692. The Township is a second-class township and is governed by an elected board of five supervisors and a board-appointed Township Manager. Falls Township covers approximately 26.5 square miles in Lower Bucks County and has a population of 34,865 per the 2000 U.S. Census.

The Township of Falls provides a full range of municipal services. These services include police protection; fire protection; park and recreation activities; highway maintenance and reconstruction operations; refuse; and general administrative services.

The Township has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 61 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

The financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. These statements present each major fund as a separate column on the fund financial statements, and all non-major funds are aggregated and presented in a single column.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities. All assets and liabilities are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The accounts of the Township are organized and operated on the basis of funds.

The Township reports the following major governmental funds:

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

The *Capital Reserve Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities and capital assets, other than those financed by proprietary and fiduciary funds.

The Township reports the following major proprietary fund:

The *Pinewood Pool Fund* accounts for operations of a recreational pool.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Measurement focus, basis of accounting, and financial statement presentation, continued

Additionally, the Township reports the following Fiduciary funds:

The *Police Pension Trust Fund* accounts for the accumulation of resources for pension benefit payments to qualified uniformed police officers.

The *Non-uniformed Pension Trust Fund* accounts for the accumulation of resources for pension benefit payments to qualified employees of the Township other than uniformed officers.

The *Township Escrow and Subdivision Fund* is used to account for assets held by the Township in an agent capacity for developers as required by developer agreements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Pinewood pool fund are charges to customers for pool memberships. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

Investments for the Township are reported at fair value. The State Treasurer's Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Position or Equity, continued

2. Receivables and Payables

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

Real estate taxes are levied on March 1 and payable under the following terms: 2% discount March 1 through May 1; face amount May 2 through July 1; and a 10% penalty after July 1. Taxes unpaid are liened in January of the subsequent year.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land, buildings and systems, improvements, machinery and equipment, and infrastructure (roads, bridges, sidewalks and similar items), are reported in the governmental or business-type activities columns in the government-wide financial statements.

The Township defines capital assets as assets with an estimated useful life in excess of two years and an initial, individual cost greater than \$5,000. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value. Infrastructure includes retroactive reporting of assets prior to June 30, 1980.

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

Major outlays for capital assets and improvements are capitalized as projects as constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Position or Equity, continued

4. Capital Assets, continued

Property, plant, and equipment of the Township is being depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	25
Land Improvements	10
Infrastructure - Roads	40
Infrastructure – Street Light Poles	50
Infrastructure – Street Lights	10
Vehicles	6
Machinery and equipment	8

5. Compensated Absences

It is the Township’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. The Township does not have any bonds payable outstanding. In the fund financial statements, Governmental Funds recognize issuance of long term debt during the current period. The face amount of debt issued is reported as other financing sources and payment of principal and interest reported as expenditures.

7. Other Post Employment Benefits (“OPEB”) Other than Pensions

The Township provides other post employment benefits to police officers, public works, and AFSCME group employees, as part of their collective bargaining agreement. The actuarial liability amortized over 30 years is reported in the government-wide financial statements.

8. Comparative data

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

9. Net Position

Net position is considered restricted if the use is constrained to a particular purpose. The government-wide statement of net position reports \$1,853,004 of restricted net position, \$5,429 is restricted by enabling legislation.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Assets, Liabilities, and Net Position or Equity, continued

10. Fund Equity

The Township reports fund balance in accordance with GASB Statement No. 54. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally 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. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the Board of Supervisors – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Supervisors removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects amounts constrained by the township's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board of Supervisors or the finance director, who has been given the authority by a resolution of the Board of Supervisors have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Use of fund balance. The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the recycling fund. All appropriations lapse at fiscal year end. All agencies of the government submit requests for appropriations to the township manager and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board of Supervisors. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level. There were no budgetary transfers during the year.

Encumbrance accounting is employed in governmental funds. All encumbrances are liquidated at year end.

B. Excess of Expenditures over Appropriations

For the year end December 31, 2017, expenditures exceeded appropriations in the following funds. These over-expenditures were funded by interfund transfers and available fund balances.

<u>Fund</u>	<u>Excess</u>
Rescue Squad Fund	\$ 152

C. Deficit Fund Balance

At December 31, 2017, the nonmajor special revenue funds have deficit fund balances as follows: Fire Protection - \$20,511 and Library \$1,182. These deficits will be eliminated through a combination of increased revenues, decreased expenditures, and interfund transfers.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under Act No. 72 enacted by the general assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Depository Insurance Corporation. The uninsured deposits, (as defined by Statement No. 40 of the Government Accounting Standards Board) of the Township in the amount of \$7,184,336 were collateralized by this pool of assets maintained by the Township's depository institutions.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

A. Deposits and Investments, continued

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of December 31, 2017, \$7,184,336 of the Township’s bank balance of \$8,615,679 was exposed to custodial credit risk as follows:

Collateral held by pledging bank’s trust department not in the Township’s name	\$7,184,336
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State statutes authorize the Township to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer’s Investment Pool.

Accounting principles generally accepted in the United States of America establish a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. Measurements using quoted prices in active markets for identical assets and liabilities fall within Level 1 of the hierarchy; measurements using significant other observable inputs fall within Level 2, and measurements using significant unobservable inputs fall within Level 3.

Information related to the Township’s investments measured at fair value on a recurring basis at December 31, 2017, is as follows:

Government-Wide Investments (not including Fiduciary):

Investment	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
PA Local Government Investment Trust	\$ 7,698,507	\$ 7,698,507	\$	\$
PA Treasury Invest Community Pool	36,980	36,980		
First National Bank Money Market	810,771	810,771		
SEI Government Fund	1,619,258	1,619,258		
Federal Home Loan Mortgage Corp	6,299,495		6,299,495	
Federal Home Loan Bank	2,275,609		2,275,609	
Federal National Mortgage Association	6,207,000		6,207,000	
Federal Farm Credit Banks	1,841,000		1,841,000	
United States Treasury Notes	3,994,360	3,994,360		
	\$ 30,782,980	\$ 14,159,876	\$ 16,623,104	\$ -

Fiduciary Investments:

Investment	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 20,514,329	\$ 20,514,329		
PA Local Government Investment Trust	10,283,997	10,283,997		
	\$ 30,798,326	\$ 30,798,326	\$ -	\$ -

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

A. Deposits and Investments, continued

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Township has no investments subject to custodial credit risk.

Credit Risk. Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Township has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2017, the Township’s investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
PA Local Government Investment Trust	AA+ / A-1+
PA Treasury Invest Community Pool	AAA
Federal Home Loan Mortgage Corp	Unavailable
Federal Home Loan Bank	Unavailable
Federal National Mortgage Association	Unavailable
Federal Farm Credit Banks	Unavailable
Bond Mutual Funds	B,BB,A

Concentration of Credit Risk. A concentration of investments in any one single user of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. The Township does not have a formal policy regarding concentration of credit risk. More than five percent of the Government-wide investments are invested in the following single issuers:

<u>Investment</u>	<u>Fair Value</u>	<u>Percent of total Government Wide Investments</u>
Federal Home Loan Mortgage Corp	\$ 6,299,495	20%
Federal Home Loan Bank	2,275,609	7%
Federal National Mortgage Association	6,207,000	20%
Federal Farm Credit Banks	1,841,000	6%
United States Treasury Notes	3,994,360	13%

Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect an investment’s value. The Township does not have a formal policy regarding interest rate risk. As of December 31, 2017, the Township’s investments had the following weighted average maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Home Loan Mortgage Corp	\$ 6,299,495	1.62
Federal Home Loan Bank	2,275,609	1.53
Federal National Mortgage Association	6,207,000	1.51
Federal Farm Credit Banks	1,841,000	0.29
Bond Mutual Funds	3,786,051	Less than 1
Bond Mutual Funds	1,391,652	6 - 10
Bond Mutual Funds	2,417,534	not available

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

A. Deposits and Investments, continued

A portion of the Township's investments are in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania Treasury Investment Community Pool, which both act like money market mutual funds in that the objective is to maintain a stable net asset value of \$1 per share. These investments are not subject to interest rate risk.

B. Receivables

Receivables as of year end for the government's individual major funds, fiduciary funds and non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Reserve</u>	<u>Nonmajor Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 33,865	\$ -	\$ 59,000	\$ -	\$ 92,865
Accounts/other	2,545,490	1	-	309,566	2,855,057
Gross receivables	2,579,355	1	59,000	309,566	2,947,922
Less: allowance for uncollectibles	(219,635)	-	-	-	(219,635)
Total net receivables	<u>\$ 2,359,720</u>	<u>\$ 1</u>	<u>\$ 59,000</u>	<u>\$ 309,566</u>	<u>\$ 2,728,287</u>

C. Unearned/Unavailable Revenue

Governmental funds report unearned or unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenue is considered a liability, while unavailable revenue is reported as a deferred inflow of resources. At the end of the current fiscal year, the components of unearned/unavailable revenue reported in governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable - general fund	\$ 31,898	\$
Delinquent property taxes receivable - special revenue funds	55,569	
Accounts receivable, not available	9,171	
Accounts receivable, unearned		228,944
Total Governmental unearned/unavailable revenue	<u>\$ 96,638</u>	<u>\$ 228,944</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

D. Capital Assets

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Governmental Activities:</i>				
Capital assets not being depreciated				
Land	\$ 16,460,926	\$	\$	\$ 16,460,926
Construction in progress	573,516	315,838		889,354
Total capital assets not being depreciated	<u>17,034,442</u>	<u>315,838</u>	<u>-</u>	<u>17,350,280</u>
Capital Assets being depreciated				
Buildings	5,953,049	11,242		5,964,291
Improvements other than buildings	15,324,061	276,591		15,600,652
Machinery, equipment, and vehicles	8,883,459	499,824	186,825	9,196,458
Infrastructure	110,584,540	1,939,412		112,523,952
Total capital assets being depreciated	<u>140,745,109</u>	<u>2,727,069</u>	<u>186,825</u>	<u>143,285,353</u>
Less accumulated depreciation for:				
Buildings	3,387,199	224,644		3,611,843
Improvements other than buildings	13,476,950	471,523		13,948,473
Machinery, equipment, and vehicles	7,137,172	555,409	130,392	7,562,189
Infrastructure	41,473,737	2,866,593		44,340,330
Total accumulated depreciation	<u>65,475,058</u>	<u>4,118,169</u>	<u>130,392</u>	<u>69,462,835</u>
Total capital assets being depreciated, net	<u>75,270,051</u>	<u>(1,391,100)</u>	<u>56,433</u>	<u>73,822,518</u>
Governmental activities capital assets, net	<u>\$ 92,304,493</u>	<u>\$ (1,075,262)</u>	<u>\$ 56,433</u>	<u>\$ 91,172,798</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-type Activities:</i>				
Capital assets not being depreciated				
Land	\$ 162,700	\$	\$	\$ 162,700
Capital Assets being depreciated				
Machinery and equipment	19,730			19,730
Less accumulated depreciation for:				
Machinery and equipment	13,811	1,973		15,784
Business-type activities capital assets, net	<u>\$ 168,619</u>	<u>\$ (1,973)</u>	<u>\$ -</u>	<u>\$ 166,646</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

D. Capital Assets, continued

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

Governmental Activities:

General government	\$	173,751
Public safety		305,134
Public works		3,086,498
Culture and recreation		<u>552,786</u>
Total depreciation expense - governmental activities	\$	<u>4,118,169</u>

Depreciation expense for business-type activities was \$1,973.

E. Interfund Receivables, Payables, and Transfers

The following is a summary of interfund receivables and payables at December 31, 2017:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 747,224	\$ 89
Capital Reserve	-	593,939
Pool Fund	-	132,658
Nonmajor Funds	<u>214</u>	<u>20,752</u>
	<u>\$ 747,438</u>	<u>\$ 747,438</u>

The amounts payable for the Pool Fund and Nonmajor Funds are recorded to eliminate negative cash balances in those funds. Other amounts payable represent reimbursable expenses paid on behalf of one fund by another fund of Falls Township.

Interfund transfers for the year ended December 31, 2017, consisted of the following:

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund	\$ 620,000	\$ -
Nonmajor Funds	<u>-</u>	<u>620,000</u>
	<u>\$ 620,000</u>	<u>\$ 620,000</u>

Transfers to other funds represents unrestricted revenues collected in the General Fund to finance the Township's Crime Prevention Program (DARE) Fund and Parks and Recreation Fund.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS, continued

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Governmental Activities					
Other Post-employment benefits	\$ 3,278,542	\$ 888,156	\$ 484,327	\$ 3,682,371	\$ -
Compensated Absences	<u>1,613,158</u>	<u>182,836</u>	<u>76,697</u>	<u>1,719,297</u>	<u>662,212</u>
Total Governmental Activities	<u>\$ 4,891,700</u>	<u>\$ 1,070,992</u>	<u>\$ 561,024</u>	<u>\$ 5,401,668</u>	<u>\$ 662,212</u>

The general fund has been used to liquidate the liability for the compensated absences and other post-employment benefits of the governmental activities.

4. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to third party liability claims, damage to and loss of Township-owned property, errors and omissions by public officials, and injuries to employees. As a method of financing the risk, the Township purchases commercial insurance. The Township participates in the Delaware Valley Worker's Compensation Trust. The amount of settlement did not exceed insurance coverage for the past three years. There have been no significant reductions in insurance coverage during the year ended December 31, 2017.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial. The Township is a defendant in several lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, in the opinion of Township Management, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

C. Financial Guarantee

The Township has entered into a Guarantee Agreement dated September 1, 2011, as authorized pursuant to the Debt Act, to guarantee the full and prompt payment of the Township of Falls Authority's Guaranteed Water & Sewer Revenue Bonds series 2011. The Township of Falls Authority was created pursuant to an ordinance enacted by the Board of Supervisors of the township and the Township appoints the members of the Authority Board. The guarantee extends through December 31, 2017, and the current amount outstanding is \$29,925,600 principal and interest. The Township of Falls Authority agrees in the Guarantee Agreement to reimburse the Township for any payments made.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

C. Financial Guarantee, continued

The Township has entered into a Supplemental Guarantee Agreement dated May 4, 2016, as authorized pursuant to the Debt Act, to guarantee the full and prompt payment of the Township of Falls Authority's Guaranteed Water & Sewer Revenue Bonds series 2016. The Township of Falls Authority was created pursuant to an ordinance enacted by the Board of Supervisors of the township and the Township appoints the members of the Authority Board. The guarantee extends through December 31, 2017, and the current amount outstanding is \$2,965,872 principal and interest. The Township of Falls Authority agrees in the Guarantee Agreement to reimburse the Township for any payments made.

D. Other Post-employment Benefits

Plan Description: The Township provides postemployment healthcare benefits in a single-employer plan, as per the requirements of local ordinances, for certain retired police officers, public works employees, and AFSCME union members. The Township pays; \$2,400 to \$16,800 per year for the premiums of healthcare coverage for police officers who retire with 25 years of full-time service or become disabled; \$3,600 per year for AFSCME members with no minimum eligibility requirements; and \$4,800 to \$6,000 per year for Public works employees with no minimum eligibility requirements. The Township calculates its actuarial valuation once every three years, as required. Separate financial statements are not issued for the plan.

Funding Policy: The Township has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2017 year, 40 eligible retirees received postemployment health care benefits. The Township provided age-adjusted contributions of \$484,327 toward the annual OPEB cost. Required contributions are based on projected age-adjusted pay-as-you-go financing.

The following table shows the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation:

<u>Description</u>	
Normal cost (service cost for one year)	\$ 168,280
Interest on Normal Cost	38,104
Amortization of Unfunded Actuarial Accrued Liability	<u>784,325</u>
Annual Required Contribution (ARC)	990,709
Interest on net OPEB Obligation	131,142
Adjustment to Annual Required Contribution	<u>(233,695)</u>
Annual OPEB Cost (expense)	888,156
Contributions toward the OPEB Cost	<u>(484,327)</u>
Increase in Net OPEB Obligation	403,829
Net OPEB Obligation, Beginning of Year	<u>3,278,542</u>
Net OPEB Obligation, End of Year	<u>\$ 3,682,371</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

D. Other Post-employment Benefits, continued

Annual OPEB Cost and Net OPEB Obligation: The Township’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 845,288	44%	2,826,103
12/31/2016	864,140	48%	3,278,542
12/31/2017	888,156	55%	3,682,371

Funded Status and Funding Progress: As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$11,443,561, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$11,443,561. The covered payroll (annual payroll of active participating employees) was \$8,950,071 for the 2017 year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 127.9 percent.

Actuarial Methods and Assumptions: 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 and termination, mortality, and the healthcare cost trends. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. 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.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Township’s OPEB actuarial valuation as of January 1, 2017 used the entry age normal actuarial cost method to estimate both the unfunded liability as of December 31, 2017 and to estimate the Township’s annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.0 percent rate of return on invested assets. The actuarial assumptions include an annual health care cost trend rate of 6.25% initially for the 2018 year, decreasing by .25% per year to an ultimate level of 5%. There is no inflation rate increase or projected salary or post-retirement benefit increases. The amortization method for the unfunded actuarial liability is “level dollar amount”. The remaining amortization period at December 31, 2017 is 20 years, using level dollar open amortization.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans

The Township maintains a single-employer defined benefit pension plan that covers all of the Township's full-time sworn police officers, a cash balance defined benefit pension plan administered by the Pennsylvania Municipal Retirement System (PMRS) agent multiple-employer system for employees in the public works union, and a single-employer defined contribution pension plan that covers all other full-time employees.

Police Pension Plan

Plan Description

The Falls Township Police Pension Plan is a single-employer defined benefit plan covering the full-time police officers. The Plan was established effective January 1, 1969, is controlled by the provisions of Ordinance 93-5, which amended Chapter 72 of the Falls Township Code and was restated by Ordinance No. 2001-16, as amended. The Plan is governed by the Board of Township Supervisors, who has delegated the authority to manage Plan assets to SEI Investments Management Corporation. Complete financial statements may be obtained at the township building. A separate, audited GAAP-basis pension plan report is not issued.

Benefits Provided

The following is a summary of the Plan benefit provisions:

- *Eligibility Requirements:*
 - Normal Retirement – Age 50 with 25 years of service
 - Early Retirement – None
 - Vesting – 100% after the completion of 12 years of vesting service
- *Retirement Benefit:* 50% of average salary during the last 36 months of employment, plus \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.
- *Survivor Benefit:* Killed-in-service – 100% of salary. Post-retirement – 50% of retirement benefit; Vested – refund of contributions with interest or 50% of vested benefit payable beginning at officer's super-annuation retirement date.
- *Disability Benefit Service Related:* 50% of average 36 months compensation.
- *Post Retirement Adjustments:* Those members who begin retirement benefits on or after January 1, 1992 may be provided a C.O.L.A. in accordance with Act 600. In no such case shall the benefit exceed 75% of salary and the total C.O.L.A. shall not exceed 30%.
- *Pre Act 44 Deferred Retirement Option 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.
- *Member Contributions:* 5% contribution rate and 5% interest rate credited to member contributions.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Police Pension Plan, continued

Plan Membership

Membership of the plan consisted of the following at December 31, 2017:

Active Plan Members	46
Inactive Plan Members Currently Receiving Benefits	58
Inactive Plan Members Entitled to but not yet Receiving Benefits	<u>0</u>
Total	<u>104</u>

Contributions and Funding Policy

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation (MMO) to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated member contributions.

As a condition of participation, full-time officers are required to contribute 5% of compensation into the Plan. This contribution is governed by the Plan's ordinances and collective bargaining agreement. In accordance with Act 205, as amended, the Township was required to contribute to the Plan for the year 2017. The payment from the Commonwealth for State Aid is recognized as revenue in the General Fund and an expenditure to the Fiduciary Fund. The Township contributed State Aid of \$633,179 and Township contribution of \$1,956,735, into the plan for 2017.

Basis of Accounting

For 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 Plan and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan's financial statements are prepared using the accrual basis of accounting. Plan payments and member/employer contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Police Pension Plan, continued

Expenses

Investment expenses consist of investment management, custodial fees, and other significant investment related costs. Administrative expenses consist of consulting, actuarial, legal, and accounting services, along with any other significant plan related costs. The above expenses are allowable pension plan expenditures in accordance with act 205 and may be funded with Plan assets.

Net Pension Liability

An actuarial valuation of the total pension liability is performed biennially. The total pension liability as of December 31, 2017 was determined as part of an actuarial valuations at January 1, 2017. Update procedures were used to roll forward January 1, 2017 liabilities to the plan's fiscal plan year ending December 31, 2017. The actuarial assumptions used in the January 1, 2017 valuation are as follows:

Actuarial assumptions:

Inflation rate	2.25%
Salary increases	5.00%
Investment rate of return	8.00%
Mortality rates	Blue Collar RP-2000 Mortality Table

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Based upon the Plan's current targeted investment allocation and the associated long-term expected investment returns for its asset classes, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Police Pension Plan, continued

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 8.0% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate.

	1% Decrease 7.0%	Current Discount Rate 8.0%	1% Increase 9.0%
Net Pension Liability	\$ 22,956,077	\$ 17,798,276	\$ 13,435,888

Long Term Expected Rate of Return on Investments

The long-term expected rate of return on the Plan's investments was determined using an asset allocation study conducted by the Plan's investment management consultant in December 2017 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were 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 or arithmetic real rates of return for each major class included in the Plan's target asset allocation as of December 31, 2017 are listed in the table below:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Large Cap Stocks	18.0%	8.11%
Domestic Mid/Small Cap Stocks	9.0%	8.08%
World Equity ex-US	18.0%	9.38%
Emerging Markets Equity	4.0%	11.46%
U.S. High Yield	4.0%	6.13%
Emerging Markets Debt	4.0%	7.45%
Dynamic Asset Allocation	7.0%	9.81%
Diversified ST Fixed Income	14.0%	3.55%
Core Fixed Income	22.0%	4.26%
Total Net Blended Return		6.32%

* Excludes 2.5% inflation assumption

Long Term Expected Rate of Return (Including Inflation) 8.82%

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Non Uniform Defined Benefit Pension Plan

Plan Description

The Falls Township Non Uniform Defined Benefit Pension Plan is a single-employer defined benefit plan covering the full-time employees covered by the public works union in accordance with Ordinance No. 2010-01. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system with the purpose to administer sound, cost effective pensions for local government employees. PMRS was created by act of the Pennsylvania General Assembly in 1974 and is headquartered in Harrisburg, Pennsylvania. Responsibility for the organization and administration of the System is vested in the eleven-member PMRS Board. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the publications page of the PMRS website at www.pmrs.state.pa.us, or a copy can be obtained by contacting the PMRS accounting office at 717-787-2065.

Benefits Provided

The following is a summary of the Plan benefit provisions:

- *Eligibility Requirements:*
 - Normal Retirement – Age 60
 - Early Retirement – Age 55 and 25 years of service
 - Vesting – 100% after the completion of 8 years of service
- *Retirement Benefit:* The member will receive an annuity equal to a single life annuity starting on the effective date of retirement with a present value equal to the accumulated municipal contributions and any member deductions, regular interest and all excess investment earnings credited to the member’s account.
- *Early Retirement:* Benefits will be actuarially reduced for each year or partial year thereof prior to age sixty (60) that early retirement takes place.
- *Member Contributions:* 5% contribution rate
- *Voluntary Member Contributions:* Up to 15%

Plan Membership

Membership of the plan consisted of the following at December 31, 2017:

Active Plan Members	16
Inactive Plan Members Currently Receiving Benefits	1
Inactive Plan Members Entitled to but not yet Receiving Benefits	<u>1</u>
Total	<u>18</u>

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Non Uniform Defined Benefit Pension Plan, continued

Contributions and Funding Policy

Due to the plan design as a cash balance pension plan, there are no actuarially determined contributions for the plan. The statutorily required contribution is 5% of covered employee payroll.

As a condition of participation, full-time members of the public works union are required to contribute 5% of compensation into the Plan. This contribution is governed by the Plan's ordinances and collective bargaining agreement. In accordance with the statutorily required contribution, the Township contributed \$63,258 to the Plan for the year 2017.

Basis of Accounting

For 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 Plan and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan's financial statements are prepared using the accrual basis of accounting. Plan payments and member/employer contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Expenses

Investment expenses consist of investment management, custodial fees, and other significant investment related costs. Administrative expenses consist of consulting, actuarial, legal, and accounting services, along with any other significant plan related costs. The above expenses are allocated by PMRS to each employer account pro-rata based on their beginning fiduciary net position.

Net Pension Liability

An actuarial valuation of the total pension liability is performed biennially. The total pension liability as of December 31, 2017 was determined as part of an actuarial valuation at January 1, 2017. The measurement date for the net pension liability is December 31, 2016, which is no earlier than the end of the prior fiscal year. The actuarial assumptions used in the January 1, 2017 valuation are as follows:

Actuarial assumptions:	
Inflation rate	2.80%
Salary increases	3.30%
Investment rate of return	5.25%
Mortality rates	RP 2000 Mortality Table

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Non Uniform Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. The projection of cash flows used by PMRS for each municipal plan, used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the PMRS Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. PMRS is required by law to establish a discount rate equal to the regular interest rate. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Based upon the Plan's current targeted investment allocation and the associated long-term expected investment returns for its asset classes, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 5.25% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.25%) or 1 percentage point higher (6.25%) than the current rate.

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Net Pension Liability	\$ 485,441	\$ 98,438	\$ (287,341)

Long Term Expected Rate of Return on Investments

An experience study of PMRS was conducted in July 2015. The PMRS System's long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. Expected future real rates of return are based primarily on the 20 year historic nominal rates assuming that investment expenses will be offset by the additional return performance derived from active investment management. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce the rates of return. Best-estimates for each major class included in the Plan's target asset allocation as of December 31, 2016 are listed in the table below:

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Non Uniform Defined Benefit Pension Plan, continued

Long Term Expected Rate of Return on Investments, continued

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities Large Cap	25.0%	6.40%
Domestic Equities Mid/Small Cap	15.0%	7.00%
International Equities Developed Markets	15.0%	3.70%
International Equities Emerging Markets	10.0%	7.90%
Real Estate	20.0%	7.00%
Fixed Income	15.0%	2.40%
Total Net Blended Return		<u>5.80%</u>
Long Term Expected Rate of Return		7.50%

Police and Non Uniform Defined Benefit Pension Plans

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period for the Police Pension Plan:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/16	\$ 44,730,001	\$ 25,723,978	\$ 19,006,023
Changes for the year:			
Service Cost	736,797	-	736,797
Interest	3,539,586	-	3,539,586
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(943,976)	-	(943,976)
Changes of Assumptions	926,401	-	926,401
Contributions - Employer	-	1,956,735	(1,956,735)
Contributions - State Aid	-	633,179	(633,179)
Contributions - Member	-	353,703	(353,703)
Net Investment Income	-	2,543,064	(2,543,064)
Benefit Payments	(2,408,790)	(2,408,790)	-
Administrative Expense	-	(20,126)	20,126
Other Changes	-	-	-
Net Changes	<u>1,850,018</u>	<u>3,057,765</u>	<u>(1,207,747)</u>
Balances at 12/31/17	\$ 46,580,019	\$ 28,781,743	\$ 17,798,276

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Police and Non Uniform Defined Benefit Pension Plans, continued

Changes in Net Pension Liability, continued

The following table shows the changes in net pension liability recognized over the measurement period for the Non Uniform Defined Benefit Pension Plan:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/16	\$ 1,737,682	1,613,152	\$ 124,530
Changes for the year:			
Service Cost	136,023	-	136,023
Interest	98,040	-	98,040
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	168	-	168
Changes of Assumptions	1,770	-	1,770
Contributions - Employer	-	58,953	(58,953)
Contributions - PMRS assessment	-	20	(20)
Contributions - Member	-	77,070	(77,070)
Net Investment Income	-	131,230	(131,230)
Benefit Payments	(5,191)	(5,191)	-
Administrative Expense	-	(340)	340
Other Changes	-	(4,840)	4,840
Net Changes	230,810	256,902	(26,092)
Balances at 12/31/17	\$ 1,968,492	\$ 1,870,054	\$ 98,438

Pension Expense and Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2017, the Township recognized total pension expense of \$2,697,595 for the Police Pension Plan. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to the Police Pension Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 53,272	\$
Changes in assumptions	755,162	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	790,036	
Total	\$ 1,598,470	\$ -

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. OTHER INFORMATION, continued

E. Pension Plans, continued

Police and Non Uniform Defined Benefit Pension Plans, continued

Pension Expense and Deferred Outflows and Deferred Inflows of Resources, continued

The amounts reported as deferred outflows of resources and deferred inflows of resources related to the Police Pension Plan will be recognized in the pension expense as follows:

Year ended December 31

2018	781,497
2019	781,495
2020	143,333
2021	(106,520)
2022	(1,335)
Thereafter	-

For the year ended December 31, 2017, the Township recognized total pension expense of \$51,954 for the Non Uniform Defined Benefit Pension Plan. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to the Non Uniform Defined Benefit Pension Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 313	\$
Contributions subsequent to the measurement date	63,258	
Changes in assumptions	1,970	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	34,932	
Total	\$ 100,473	\$ -

\$63,258 reported as deferred outflows of resources related to pensions resulting from Township contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Non Uniform Defined Benefit Pension Plan will be recognized in the pension expense as follows:

Year ended December 31

2018	14,840
2019	13,687
2020	13,689
2021	(6,223)
2022	266
Thereafter	956

TOWNSHIP OF FALLS

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. OTHER INFORMATION, continued

E. Pension Plans, continued

Non Uniform Defined Contribution Pension Plan

Plan Description

The Township administers the single-employer defined contribution pension plan in which all general and public safety employees of the Township, except uniformed police officers and public works union employees, are eligible to participate. The Plan is controlled by the provisions of Ordinance 98-4. 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 Plan assets to ICMA Retirement Corporation.

Benefits Provided

The following is a summary of the Plan benefit provisions:

- *Eligibility Requirements:*
 - Normal Retirement – Age 55
 - Vesting – 100% vested immediately
- *Member Contributions:* Not required

Summary of Significant Accounting Policies

The financial statements of the NUPP are prepared using the accrual basis of accounting. The Township's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the Township's balance sheet date. The plan does not issue separate financial statements.

Contributions and Funding Policy

The contribution requirements of the Township are established and may be amended by the Board of Supervisors. Plan members are not required to contribute. The Township is required to contribute at a determined rate, which is currently 5% of annual covered payroll. The township contributed \$120,199 for the year ending December 31, 2017.

F. Tax Abatements

The Township entered into an agreement with United States Steel Corporation (USS) for the period January 1, 2005 through December 31, 2018, in which USS agrees to pay \$75,000 annually to the township for police, fire and other municipal services. In accordance with Ordinance 2004-09, the property where USS is located is designated as Keystone Opportunity Improvement Subzone property (KOIZ), which authorizes qualified businesses to obtain tax incentives to locate within the Subzone in accordance with the Pennsylvania Keystone Opportunity Improvement Zone Act (KOZ Act). In order to qualify USS must be a qualified business as defined in Sections 301 and 307 of the KOZ Act and the property must be designated as KOIZ property. All taxes are abated in the agreement, including: Real Property Tax, Earned Income Tax, Business Privilege Tax, Occupancy & Use Tax of real property, local sales and use tax, Mercantile License tax, and Net Profits tax. The amount by which tax revenues were reduced as a result of this agreement in 2017 is approximately \$77,125.

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