

**UPPER MACUNGIE TOWNSHIP**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2016*



*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

# UPPER MACUNGIE TOWNSHIP

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YEAR ENDED DECEMBER 31, 2016

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## **FINANCIAL SECTION**

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

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

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

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

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

### ***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.

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Upper Macungie Township, Pennsylvania, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

For the year ended December 31, 2016, Upper Macungie Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and No. 79, *Certain External Investment Pools and Pool Participants*. 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 the management's discussion and analysis on pages 6 through 20, budgetary comparison information on pages 59 and 60 and pension plan information on pages 61 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Macungie 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.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maillie LLP*

Oaks, Pennsylvania  
August 31, 2017



# UPPER MACUNGIE TOWNSHIP

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

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This discussion and analysis of Upper Macungie Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Please read it in conjunction with the Township's basic financial statements, which begin on page 21.

## FINANCIAL HIGHLIGHTS

- Real property tax remained at 0.64 mills and the earned income tax rate remained at 1.0% for the Township in 2016.
- The Township continues to have no outstanding debt.
- The assets of the Township exceeded its liabilities by \$88.9 million (net position).
- The Township's governmental activities total net position increased from 2015 by \$3.7 million or 4.4% and unrestricted net position increased by \$4.0 million or 11.8% in 2016.
- Business-type activities (Sewer and Refuse Funds) net positions increased by \$5.0 million or by 21.9%. The unrestricted portion of net positions increased by \$4.6 million or by 31.2%.
- Cash, cash equivalents and investments shown on the statement of net position, increased \$5.4 million as compared to 2015.
- During 2016, the Upper Macungie Township Authority was dissolved. All assets and liabilities were taken over and assumed by the Township.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 21 and 22) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 23. For governmental activities, these statements explain how services were financed in the short term as well as what remains for future spending. The Governmental and Proprietary Funds financial statements also report the Township's operations in more detail than the entity-wide statements by providing information about the Township's most significant funds. The remaining statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

### **Entity-Wide Financial Statements**

The first two statements are entity-wide financial statements, the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.

# UPPER MACUNGIE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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The entity-wide statements report information about the Township as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide statements report the Township's net position and how it has changed. Net position, the difference between the Township's assets and liabilities, is one way to measure the Township's financial health or position. In the long run, increases or decreases in the Township's net position are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Township, consideration must be made to additional nonfinancial factors, such as changes in the Township's property tax base and the adequacy of Township services.

It is estimated that the Township has about 15% of its land remaining for commercial, industrial, or residential development, which could take decades to occur.

Based on the following demographic table (Table - 1), the Township is an enviable environment to live, work and transact business.

**Table 1 - Demographic Data**

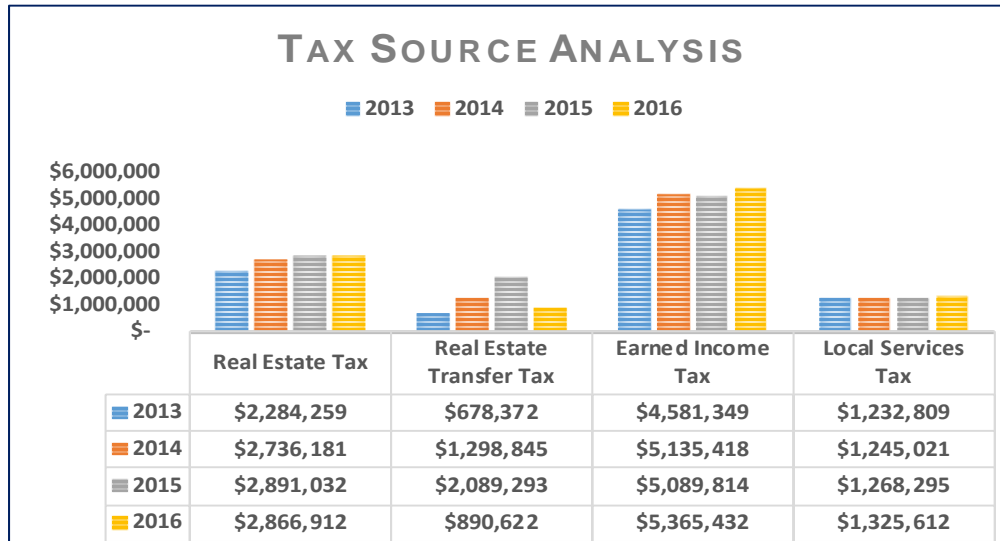
	<u>Upper Macungie Township</u>	<u>Lehigh County</u>	<u>Pennsylvania</u>	<u>United States</u>
<b>Per capita income</b>	\$ 39,896	\$ 28,688	\$ 29,291	\$ 28,930
<b>Median family income</b>	\$ 99,337	\$ 68,605	\$ 68,158	\$ 66,011
<b>% of population below poverty level</b>	1.6%	9.7%	9.3%	11.3%

Source: U.S. Census Bureau, 2011 - 2015 American Community Survey 5-Year Estimates

The graph on the next page provides an overview of the various taxes collected during the years 2013 through 2016. Earned income tax (EIT) and local services tax (LST) provide data regarding our residents and employees that work within the Township boundaries. Analysis of the EIT revenue shows growth of residents working and living in the Township. LST analysis provides insight into the consistent increase of employment in the Township.

Real estate tax revenue remained almost the same in 2016 as compared to 2015. During this time, no new large development occurred. The Township did experience a drop in real estate transfer tax as commercial sales decreased from \$291 million to \$45.2 million in 2016.

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



The entity-wide financial statements of the Township are divided into two categories:

- **Governmental Activities** - All the Township's basic services are included here, such as public safety, public works, parks and recreation and administration. Property taxes, state and federal grants and charges for services finance most of these activities.
- **Business-Type Activities** - The Township operates a Sewer Fund and charges fees to the customers of the utilities for operational expenses and tapping fees from new construction for capital related projects. The Township also operates a Refuse and Recycling Fund for which it contracts with a trash hauler to collect trash and co-mingled recycled items. These costs to the Township is passed on to residents in the form of a user fee. These fees have remained the same for the past two years, which can be seen on Table 2 of the next page.

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

**Table 2 - Sewer & Refuse Rates**  
**Years Ended December 31, 2016 and 2015**

<b>SEWER -</b>	2016	2015
<b>RESIDENTIAL</b>		
Base rate (annually)	\$ 356.00	\$ 356.00
Discount (5% discount if paid by March 30th)	338.20	338.20
Quarterly	89.00	89.00
Per gallon additional use over 27,000 gallons per quarter	4.18	4.18
<b>SMALL COMMERCIAL</b>	91.52	91.52
<b>SCHOOLS/INSTITUTIONAL</b>	148.79	148.79
<b>COMMERCIAL</b>		
Base rate (monthly)	105.09	105.09
Per 1,000 gallon additional	4.90	4.90
BOD (per pound)	0.29	0.28
TSS (per pound)	0.35	0.34
TKN (per pound)	0.36	0.35
FOG (per pound)	0.52	0.51
<b>REFUSE -</b>		
<b>RESIDENTIAL</b>		
Annually:		
Under 65	\$ 288.00	\$ 288.00
65 and Over	258.00	258.00
Quarterly:		
Under 65	72.00	72.00
65 and Over	64.50	64.50

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the Township's general services were financed in the short term as well as what remains for future spending. Proprietary Funds statements offer short-term and long-term information about the activities that the Township operates like a business. Fiduciary Funds financial statements provide information about financial relationships where the Township acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Township's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental 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 Funds statements provide a detailed short-term view of the Township's operations and the services it provides.

# UPPER MACUNGIE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the Governmental Funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The Township's Governmental Funds include the General Fund, Capital Reserve Fund, Street Light Fund, Fire Protection Fund, Fire Alarm Fund, Stormwater Maintenance Fund, Medical Expense Fund, Highway Aid Fund, Volunteer Fire Relief Aid Fund, Recreation Capital Fund, Capital Equipment Fund and Traffic Improvement Fund.

- **Proprietary Funds** - These funds are used to account for Township activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the Township charges customers for services it provides, whether to outside customers or to other units in the Township, these services generally are reported in the Propriety Funds. The Township's two Propriety Funds are the Sewer Fund and Refuse and Recycling Fund.
- **Fiduciary Funds** - The Township is the trustee, or fiduciary, for the Non-Uniformed Employees' Pension Plan and escrow funds. All of the Township's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations.

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

**ENTITY-WIDE FINANCIAL ANALYSIS OF THE TOWNSHIP**

The total net position for the Township's primary government activities, both governmental and business-type, was \$88,870,793 at December 31, 2016. Governmental activities totaled \$60,830,141 and business type activities \$28,040,652. The overall net increase in net position from 2105 to 2016 increased \$5,901,966. Governmental activities increase \$855,295 and business-type activities \$5,046,671. Our analysis focuses on the net position (Table 3) and changes in net Position (Table 4) of the Township's governmental and business-type activities.

**Table 3 - Statement of Net Position**  
**Years Ended December 31, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>ASSETS</b>						
Current and other assets	\$ 20,559,850	\$ 18,428,359	\$ 20,766,178	\$ 15,320,232	\$ 41,326,028	\$ 33,748,591
Capital and related assets	40,977,952	42,220,470	8,839,114	8,202,451	49,817,066	50,422,921
<b>TOTAL ASSETS</b>	<b>61,537,802</b>	<b>60,648,829</b>	<b>29,605,292</b>	<b>23,522,683</b>	<b>91,143,094</b>	<b>84,171,512</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	1,229,724	876,977	48,136	52,754	1,277,860	929,731
<b>LIABILITIES</b>						
Long-term liabilities	-	-	84,012	81,939	84,012	81,939
Other liabilities	964,029	788,800	1,494,685	455,378	2,458,714	1,244,178
<b>TOTAL LIABILITIES</b>	<b>964,029</b>	<b>788,800</b>	<b>1,578,697</b>	<b>537,317</b>	<b>2,542,726</b>	<b>1,326,117</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	973,356	762,160	34,079	44,139	1,007,435	806,299
<b>FUND BALANCES/NET POSITION</b>						
Net investment in capital assets	40,977,952	42,220,470	8,839,114	8,202,451	49,817,066	50,422,921
Restricted	1,422,166	1,029,798	-	-	1,422,166	1,029,798
Unrestricted	18,430,023	16,724,578	19,201,538	14,791,530	37,631,561	31,516,108
<b>TOTAL FUND BALANCES/NET POSITION</b>	<b>\$ 60,830,141</b>	<b>\$ 59,974,846</b>	<b>\$ 28,040,652</b>	<b>\$ 22,993,981</b>	<b>\$ 88,870,793</b>	<b>\$ 82,968,827</b>

A more detailed view of net position of the township finds that the largest portion is comprised of net investment in capital assets. This amount of \$49,817,066 or 56.1% is the Township's investment in land, buildings, vehicles, equipment and infrastructure. The Township maintains and uses these capital assets to meet the service demands of its residents and therefore these assets are not available for future spending.

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

**Table 4 - Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 2,026,977	\$ 3,551,757	\$ 10,227,890	\$ 9,335,043	\$ 12,254,867	\$ 12,886,800
Operating grants and contributions	1,291,437	899,961	336,990	145,243	1,628,427	1,045,204
Capital grants and contributions	-	-	2,172,124	-	2,172,124	-
General revenues						
Real estate taxes	2,866,912	2,891,032	-	-	2,866,912	2,891,032
Real estate transfer taxes	890,622	2,089,293	-	-	890,622	2,089,293
Earned income taxes	5,365,432	5,089,814	-	-	5,365,432	5,089,814
LST taxes	1,325,612	1,268,295	-	-	1,325,612	1,268,295
Grants and contributions, non-program	227,143	177,161	-	-	227,143	177,161
Investment income	62,991	27,200	85,422	21,214	148,413	48,414
Rents and royalties	383,596	376,566	-	-	383,596	376,566
Other revenues	57,564	26,101	-	-	57,564	26,101
Gain on sale of assets	34,470	161,700	-	-	34,470	161,700
Transfers	325,459	284,000	(325,459)	(284,000)	-	-
<b>TOTAL REVENUES</b>	<b>14,858,215</b>	<b>16,842,880</b>	<b>12,496,967</b>	<b>9,217,500</b>	<b>27,355,182</b>	<b>26,060,380</b>
<b>EXPENSES</b>						
Current						
General government	1,647,487	2,444,059	-	-	1,647,487	2,444,059
Public safety	6,088,523	3,587,559	-	-	6,088,523	3,587,559
Public works						
Highways and streets	4,542,537	2,992,751	-	-	4,542,537	2,992,751
Culture and recreation	1,471,798	932,393	-	-	1,471,798	932,393
Miscellaneous expenses	252,575	240,081	-	-	252,575	240,081
Sewer	-	-	5,606,084	3,100,682	5,606,084	3,100,682
Sewer capital reserve	-	-	50,451	13,784	50,451	13,784
Refuse	-	-	1,793,761	1,675,485	1,793,761	1,675,485
<b>TOTAL EXPENSES</b>	<b>14,002,920</b>	<b>10,196,843</b>	<b>7,450,296</b>	<b>4,789,951</b>	<b>21,453,216</b>	<b>14,986,794</b>
<b>INCREASE IN NET POSITION</b>	<b>\$ 855,295</b>	<b>\$ 6,646,037</b>	<b>\$ 5,046,671</b>	<b>\$ 4,427,549</b>	<b>\$ 5,901,966</b>	<b>\$ 11,073,586</b>

**Governmental Activities**

The costs of all governmental activities for 2016 was \$14,002,920. As shown in the Statement of Activities on page 22, the amount the Township's taxpayers ultimately financed for these activities through Township taxes was \$10,448,578, which is the sum of real estate, transfer, income and LST taxes. Other costs were paid by those who directly benefited from the programs in the amount of \$2,026,977, or by other governments and organizations that subsidized certain programs with intergovernmental aid and contributions in the amount of \$1,291,437. Other income totaling \$1,091,223 is broken down as follows: Non-program grants and contributions - \$227,143; Pennsylvania State Police facility, land, cell tower and building rentals - \$383,596; interest earnings - \$62,991; gain on sales of assets - \$34,470; other revenue - \$57,564; and transfers due from proprietary funds - \$325,459.

## UPPER MACUNGIE TOWNSHIP

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

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Revenue is divided into two major components: Program Revenue and General Revenue. Program revenue is defined as charges for services, operating grants and contributions and capital grants and contributions stemming from services provided by the Township. General revenue includes taxes, investment earnings, general intergovernmental revenue and contributions, and other general revenue sources.

Total revenue for governmental activities in 2016, was \$14,858,215. Charges for services, earned income taxes, real estate taxes, real estate transfer taxes and local services tax provide the majority of the source of revenue for governmental activities within the Township. As seen on the previous page, these sources account for \$12,475,555 or 84% of total revenues. Additionally, operating grants and contributions, non-program grants and contributions, investment income, gain on sales of assets and other sources amount to \$2,382,660 or 16%.

Comparative revenue totals for 2016 versus 2015 reflect a decrease of \$1,984,665 or -11.8%.

Governmental revenue items necessitating an explanation are as follows:

- Real estate transfer tax, a tax of 0.50% assessed to any property purchase within the Township, decreased \$1,198,671 or 57.4% in 2016. Commercial and industrial property transacted in 2016 totaled \$45,224,850 in 2016, which was \$246,079,619 less than 2015.
- Real estate tax, a tax of 0.64 mills assessed on taxable properties both residential, commercial and industrial, decreased \$24,120 or by 0.8% compared to 2015.
- Earned income tax, which is collected from any Township resident at the rate of 1.0% of their wage and is divided equally between the Township and Parkland School District, increased by \$275,618 or 5.4% compared to 2015.
- Local services tax, a tax levied on each individual working in the Township at a rate of \$1.00 per week and split evenly between the Township and Parkland School District, increased \$57,317 or 4.5% compared to 2015.
- Charges for services in 2016 totaled \$2,026,977 compared to \$3,551,757 in 2015. This decrease in charges for services (revenue) was a direct result of the Township receiving lower recreation fees from developers. In 2016, \$486,984 was received from developers versus \$1,422,090 received in 2015 resulting in a difference of \$935,106. Also, charges for building, mechanical, electrical and plumbing permits were less in 2016 by \$271,519 even though the quantity of permits issued were higher.

Total expenses for all governmental activities in 2016 totaled \$14,002,920, which was more than 2015 expenses by \$3,806,077.

- The increases and decreases per governmental expense activities are mostly as a result of the Township allocating fringe benefits in a more accurate method. Prior to 2016, the Township did not allocate personnel costs including health insurance, pension and workers' compensation. These costs were charged to general government in past years. The comparative adjustments to accurately compare 2016 to 2015 are a reduction of \$853,085 to General Government and an increase to Public Safety of \$339,802, an increase of \$374,895 to Public Works and an increase of \$117,361 to Culture and Recreation.



## UPPER MACUNGIE TOWNSHIP

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

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- Effective in 2016, depreciation expenses were charged to all governmental expense activities. This resulted in a total increase of \$2,160,405.
- In 2016, capital purchases increased \$293,346 for Public Works.
- Public Safety third party building inspector expenses decreased in 2016 by \$137,311.

### **Business-Type Activities**

Total revenue in 2016 from the Township's business-type activities for both the Sewer and Refuse and Recycling Funds was \$12,496,967 as compared to 2015, which totaled \$9,217,500. Based on these numbers, revenue increased \$3,279,467 from 2015 to 2016.

- Approximately 82% of revenues come from charges for services and the remainder 18% from operating grants and contributions, capital grants and contributions, and general revenues.
- Residential fees for both Sewer and Refuse and Recycling totaled \$465,221 more than the fees collected in 2015. Industrial and commercial charges collected in 2016 were \$473,363 more than that in 2015.
- With the dissolution of the Upper Macungie Township Authority, the balance of funds from the Authority were contributed to the Sewer Fund in the amount of \$2,172,124.

Expenses from both the Sewer and Refuse and Recycling Funds totaled \$7,450,296 in 2016 versus \$4,789,951 in 2015. The following factors were attributable to the increase in expenses.

- The majority cost factor in 2016 was the return of normal charges billed by Lehigh County Authority (LCA) to the Sewer Fund for pre-treatment of flow. Overpayments made by the Sewer Fund to LCA in previous years were credited to charges in 2015 and in previous years. In 2016, those credits were used up and the Sewer Fund had to pay the actual amounts due. The increase of \$2,500,117 is reflective of these charges paid in 2016.
- Payments to Waste Management, the Township's contracted trash and recycling provider, increased \$100,033 due to increased residential pick-ups and also a rate increase to the Township in the amount of 2.5%.

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

Most of the activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. Governmental Funds of the Township include the General Fund and Capital Reserve Fund. Additionally, Special Revenue Funds include the Township's Street Light Fund, Fire Protection Fund, Fire Alarm Fund, Stormwater Maintenance Fund, Medical Expense Fund, Highway Aid Fund and the Volunteer Fire Relief Aid Fund. Three other funds exist under Capital Projects Funds which include the Recreation Capital Fund, Capital Equipment Fund and Traffic Improvement Fund. Most of the Township's activity occurs in the General Fund.

On page 23 of this report, the Township's Governmental Funds reported combined ending balances of \$19,493,615. The unassigned balance totals \$9,651,406, which represents funds available for spending at the Township's discretion. The remainder of the fund balances is segregated into four categories. Nonspendable, Restricted for, Committed to and Assigned to. The following table 5 provides definitions of each of these categories.

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

**Table 5 - Components of Fund Balance for Governmental Funds**

Fund Balance Categories:

<p>Nonspendable fund balance (inherently nonspendable)</p>	<p>a) Portion of net resources that cannot be spent because of their form  b) Portion of net resources that cannot be spent because they must be maintained intact</p>
<p>Restricted fund balance (externally enforceable limitation on use)</p>	<p>a) Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments  b) Limitations imposed by law through constitutional provisions or enabling legislation</p>
<p>Committed fund balance (self-imposed limitations set in place prior to the end of the period)</p>	<p>a) Limitation imposed at the highest level of decision making that requires formal action at the same level to remove</p>
<p>Assigned fund balance (limitation resulting from intended use)</p>	<p>a) Intended use established by highest level of decision making  b) Intended use established by body designated for that purpose  c) Intended use established by official designated for that purpose</p>
<p>Unassigned fund balance (residual net resources)</p>	<p>a) Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance  b) Excess of nonspendable, restricted and committed fund balance over total fund balance</p>

The following information can be followed in more detail on page 23, and in the Supplementary Information Section on pages 69 and 71.

**General Fund**

The General Fund is the chief operating fund of the Township. As of December 31, 2016, the total fund balance of the General Fund was \$9,993,231. The assets that comprise the fund balance for the General Fund are predominately held in bank accounts as cash and investments. The General Fund has an unassigned fund balance of \$9,805,776.

**Capital Reserve Fund**

The Capital Reserve Fund is used to account for financial resources planned for use in the acquisition of capital equipment and capital improvements for the Township. The Capital Reserve Fund has an assigned fund balance of \$3,168,713.

**Street Light Fund**

A special revenue fund called the Street Light Fund is used by the Township to account for the revenue inflow of tax dollars to pay for the PPL electric and maintenance charges associated with public street lighting in various locations and developments in the Township. The Street Lighting Fund has a negative fund balance of \$154,370 at year end 2016.

# **UPPER MACUNGIE TOWNSHIP**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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## **Fire Protection Fund**

This special revenue fund accounts for the fire hydrant tax assessed to each property owner that has their residence situate within 600 feet of a public fire hydrant. The outflow for expenses are paid to Lehigh County Authority for the maintenance and water flow for each hydrant. The Fire Protection Fund has a restricted fund balance of \$321,554.

## **Stormwater Maintenance Fund**

This fund is earmarked to account for the revenue and costs associated with run-off stormwater mandates as promulgated under the Federal and Commonwealth Departments of Environmental Protection. Current revenue is derived from developer contributions. The Stormwater Maintenance Fund has an assigned fund balance of \$317,899.

## **Medical Expense Fund**

This fund has been established to account for the Township's administrative health care costs associated with the Affordable Health Care Act. Revenue flow is provided by any dividend return from the Township's health insurance pool. The Medical Expense Fund has an assigned fund balance of \$569,764.

## **Highway Aid Fund**

The Township's Highway Aids Fund is used to separately account for both revenue received from the Commonwealth of Pennsylvania in the form of liquid fuels allocations and the expenses associated with road improvements, snow removal and capital purchases for the Public Works Department. The Highway Aid Fund has a restricted fund balance of \$1,100,612 as of December 31, 2016.

## **Volunteer Fire Relief Aid Fund**

This fund is used as a conduit to record the receipt of state aid for our three volunteer fire companies and the subsequent disbursement of all funds to the same. No balance is shown as of year-end 2016.

## **Recreation Capital Fund**

This fund provides an accounting of capital enhancements, structures and land improvements to the Township's ten parks. Revenue is generated by developer fees and grant funds. Expenses include equipment purchases directly associated with park and recreation maintenance and development, recreation project costs including engineering and in-house or contracted services. The Recreation Capital Fund has a restricted fund balance of \$1,572,036.

## **Capital Equipment Fund**

The establishment of this fund was done to segregate monies set aside to purchase various capital items for each department in the general fund. Revenue is provided directly by various funds within the Township. The Capital Equipment Fund has an assigned fund balance of \$1,536,944.

## **Traffic Improvement Fund**

Revenue for this fund accrues from various escrow accounts that have been partially funded by both developers and through state grants for traffic improvements. The Traffic Improvement Fund has a restricted ending fund balance of \$101,357.

# UPPER MACUNGIE TOWNSHIP

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

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## Fiduciary Fund

The Fiduciary Fund is used to segregate the assets and account for the earnings, expenses and retirement payments of the Township's Non-Uniformed Employees' Defined Benefit Pension Plan and to also segregate the assets and accounting for builders and developers escrow funds.

## Proprietary Funds

The Township's Proprietary Funds are the Sewer Fund, Sewer Capital Reserve Fund and Refuse Fund and are accounted for as business-type activities.

The unrestricted net position portions of both the Sewer, Sewer Capital Reserve and Refuse Funds are \$7,523,750, \$9,239,967 and \$2,644,117 respectively.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The statement comparing the Township's budget and actual results can be found in the Required Supplementary Information section of this document on page 59. The Board of Supervisors of the Township annual adopts the budget for all funds. No amendments may be made without the approval of the governing body.

The 2016 General Fund budget was passed December 3, 2015 with a net balance of \$1,593. This amount was reflective after consideration for all revenue, expenses and other uses including asset sale proceeds, and interfund transfers in and out.

## Revenue

Revenue for the 2016 General Fund Budget was approved at a total funding amount of \$12,210,479. This amount is approximately \$300k greater than 2015's General Fund Budget of \$11,931,600. Revenue items of mention are listed below.

- Taxes including real estate, real estate transfer, earned income and local services totaled \$8,809,500 (72.1%) of all budgeted revenue and provided the majority of funding for the General Fund. In 2015, the Township budgeted a total of \$8,501,700 for these revenue items.
- Charges for services including permits, inspections and developer fees totaled \$982,600 (8.1%) of all budgeted revenue as compared to \$991,700 in 2015.
- Intergovernmental revenue sources, which included pension state aid, public utility tax, retail liquor license fees and police grant programs accounted for \$389,879 of 2016's budget. Last year's budget (2015), this line item totaled \$362,000.
- Interest, rents and royalties for 2016 totaled \$427,900 based on the expected bank earnings and investment return on cash accounts, rental of Township land and buildings, PA State Police building rental and cell tower royalties.
- Fines and forfeits totaled \$179,000 based on expected receipts collected by local magisterial offices as well as Lehigh and Berks County Courts. In 2015, these revenues were budgeted at \$171,000.

# UPPER MACUNGIE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2016

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## Expenditures

Approved expenses for the General Fund 2016 budget were \$12,123,670. Various expenses associated with the 2016 budget will be discussed below.

- General government administration costs were \$2,675,146 or 22% of budget, including supervisor, financial, clerical, management, accounting, legal and engineering expenses. The amount budgeted for 2015 was \$3,800,500.
- Public safety expenses were \$5,969,417 or 49.2% of budget for police fire and code enforcement. In 2015, the budgeted amount was \$5,238,700.
- Public works expenses were \$2,035,560 or 16.8% of budget, which includes highway and streets maintenance. The amount of \$1,594,500 was budgeted in 2015.
- Culture and recreation expenses were \$825,047, which includes park maintenance, administration of recreational activities and functions. \$642,900 was budgeted in 2015.

## **BUDGET COMPARISON**

Actual revenue for the year exceeded budgeted revenue by \$110,572 and actual expenses for the year were less than budgeted by \$1,751,514, resulting in a net positive difference of \$1,862,086. Some of the major factors contributing to this difference will be explained below.

## Revenue

- Earned income tax collection through the Township's tax collection agency, Berkheimer and Associates, totaled \$5,365,432, which exceeded budget by \$865,432 or 19.2%.
- Real estate transfer taxes, collected by the County of Lehigh, exceeded budget by \$190,622 or 27.2% on a total amount of \$890,622.
- Local services taxes collected by the Parkland School District on behalf of the Township, totaled \$1,325,612 and was \$125,612 or 10.5% over budget.
- Real estate taxes collected in 2016 totaled \$2,424,590 based on a 99.4% collection rate and were right on budget of \$2,409,500.
- Charges for services including permits, inspections and developer fees exceeded budget by \$138,613 or 14.1% on total revenue of \$1,121,213. Development in the Township continues to expand in both residential and commercial areas. The next table 6 depicts both budgeted revenue versus actual and the quantities of permits issued.

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

**Table 6 - Permit Revenue and Volume**

	<u>2016 Budget</u>	<u>2015</u>	<u>2016 Permits</u>	<u>2015 Permits</u>
Building Permits	\$ 500,000	\$ 493,325	\$ 603	\$ 530
Electrical Permits	90,000	103,239	79	91
Sprinkler Permits	10,000	20,351	23	39
Plumbing Permits	30,000	42,426	54	44
	<u>\$ 630,000</u>	<u>\$ 659,341</u>	<u>\$ 759</u>	<u>\$ 704</u>

**Expenditures**

- Wages and salaries for all departments totaled \$4,241,596 or 1.3% less than budget for 2016. Overall, wage breakdown is as follows on Table 7.

**Table 7 - Salaries and Wages Actual Comparison to Budget**

<u>Department</u>	<u>2016 Budget</u>	<u>2016 Actual</u>	<u>Over/(Under) Budget \$'s</u>	<u>Over/Under Budget %</u>
General Government	\$ 420,352	\$ 657,593	\$ 237,241	56.4%
Public Safety	2,784,283	2,855,083	70,800	2.5%
Public Works	673,886	652,854	(21,032)	-3.1%
Culture and Recreation	363,075	336,392	(26,683)	-7.3%
	<u>\$ 4,241,596</u>	<u>\$ 4,501,922</u>	<u>\$ 260,326</u>	<u>6.1%</u>

- Fringe benefits for all departments totaled \$2,453,536, which was \$34,640 or 1.4% less than was budgeted. Health, life and disability insurance, pension and PA unemployment tax was a cumulative \$79,829 under budget. The remaining fringes of workers' compensation insurance, employers FICA and employer's match of employees' deferred compensation plan were \$45,189 over budget. Table 8 provides more department detail on these costs.

**Table 8 - Fringe Benefits Actual Comparison to Budget**

<u>Department</u>	<u>2016 Budget</u>	<u>2016 Actual</u>	<u>Over/(Under) Budget \$'s</u>	<u>Over/Under Budget %</u>
General Government	\$ 217,437	\$ 232,337	\$ 14,900	6.9%
Public Safety	1,689,829	1,644,839	(44,990)	-2.7%
Public Works	380,049	390,463	10,414	2.7%
Culture and Recreation	166,221	151,257	(14,964)	-9.0%
	<u>\$ 2,453,536</u>	<u>\$ 2,418,896</u>	<u>\$ (34,640)</u>	<u>-1.4%</u>

# UPPER MACUNGIE TOWNSHIP

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

- The Township's insurance policies expense for 2016, excluding workers' compensation, were \$211,265, which was over budget by 3.6% or \$7,265. Additional coverages for umbrella and traffic lights were purchased during the year as well as new coverage for a cyber risk policy.
- Professional fees for general legal and general engineering totaled \$79,750 and \$179,789 respectively and were a combined \$40,461 or 13.5% under budget.
- Total fuel (gasoline and diesel) costs of \$200,200 were budgeted for the Township in 2016. Actual use totaled \$115,887 or a savings of 42.1%.
- Salting, cindering and plowing costs for 2016 totaled \$101,969, which was below budget by \$96,091 or 48.5%. With the exception of the 32" snow fall that occurred January 22nd through the 24th, the Township did not experience any major snow or ice storms.

## CAPITAL ASSETS

Upper Macungie Township's investment in capital assets for both its governmental and business-type activities as of December 31, 2016 and 2015, totaled \$49,817,066 and \$50,422,921 respectively (net of accumulated depreciation). Township investment in capital assets include land, buildings and improvements, infrastructure (roads, bridges, stormwater and sewer lines and traffic signals), machinery, equipment and vehicles. (See table 9).

**Table 9 - Capital Assets**  
**Years Ended December 31, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 10,018,064	\$ 10,018,064	\$ -	\$ -	\$ 10,018,064	\$ 10,018,064
Buildings	9,928,252	10,178,764	-	-	9,928,252	10,178,764
Improvements other than buildings	2,300,425	2,545,863	-	-	2,300,425	2,545,863
Infrastructure	14,167,438	14,908,391	7,902,493	7,446,004	22,069,931	22,354,395
Construction in progress	427,120	48,867	45,898	-	473,018	48,867
Machinery, equipment and vehicles	4,136,653	4,520,521	890,723	756,447	5,027,376	5,276,968
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 40,977,952</b>	<b>\$ 42,220,470</b>	<b>\$ 8,839,114</b>	<b>\$ 8,202,451</b>	<b>\$ 49,817,066</b>	<b>\$ 50,422,921</b>

## FINANCIAL MANAGEMENT

Upper Macungie Township's financial report is designed to provide its residents and taxpayers with a general overview of the Township's finances and to show the Board of Supervisor's accountability for the money it receives and spends. If you have any questions about this report or would like to request additional financial information, please contact Bruce Koller, Finance Director for the Township at 395-4892, ext. 115 or bkoller@uppermac.org.

**UPPER MACUNGIE TOWNSHIP**

## STATEMENT OF NET POSITION

DECEMBER 31, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,268,555	\$ 9,527,839	\$ 17,796,394
Investments	11,170,040	9,726,333	20,896,373
Taxes receivable, net	305,781	-	305,781
Due from escrow	357,167	-	357,167
Accounts receivable, net	159,319	1,511,377	1,670,696
Internal balances	26,078	(26,078)	-
Net pension asset	85,455	-	85,455
Prepaid items	187,455	26,707	214,162
Capital assets, net	40,977,952	8,839,114	49,817,066
TOTAL ASSETS	<u>61,537,802</u>	<u>29,605,292</u>	<u>91,143,094</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pension activity	<u>1,229,724</u>	<u>48,136</u>	<u>1,277,860</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	964,029	1,494,685	2,458,714
Long-term liabilities			
Net pension liability	-	84,012	84,012
TOTAL LIABILITIES	<u>964,029</u>	<u>1,578,697</u>	<u>2,542,726</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pension activity	<u>973,356</u>	<u>34,079</u>	<u>1,007,435</u>
<b>NET POSITION</b>			
Net investment in capital assets	40,977,952	8,839,114	49,817,066
Restricted	1,422,166	-	1,422,166
Unrestricted	<u>18,430,023</u>	<u>19,201,538</u>	<u>37,631,561</u>
TOTAL NET POSITION	<u>\$ 60,830,141</u>	<u>\$ 28,040,652</u>	<u>\$ 88,870,793</u>

See accompanying notes to the basic financial statements.



# UPPER MACUNGIE 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>PRIMARY GOVERNMENT</b>				
Governmental activities				
General government	\$ 1,647,487	\$ 109,758	\$ 196,291	\$ -
Public safety	6,088,523	1,339,448	313,571	-
Public works - highways and streets	4,542,537	-	781,575	-
Culture and recreation	1,471,798	577,771	-	-
Miscellaneous expenses	252,575	-	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>14,002,920</b>	<b>2,026,977</b>	<b>1,291,437</b>	<b>-</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Sewer Fund	5,606,084	8,075,088	189,793	-
Sewer Capital Reserve Fund	50,451	15,244	-	2,172,124
Refuse Fund	1,793,761	2,137,558	147,197	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>7,450,296</b>	<b>10,227,890</b>	<b>336,990</b>	<b>2,172,124</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 21,453,216</b>	<b>\$ 12,254,867</b>	<b>\$ 1,628,427</b>	<b>\$ 2,172,124</b>

### GENERAL REVENUES

#### Taxes

Real estate taxes

Real estate transfer taxes

Earned income taxes

Local services taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Rents and royalties

Miscellaneous

Gain on sale of asset

#### TRANSFERS

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.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ (1,341,438)	\$ -	\$ (1,341,438)
(4,435,504)	-	(4,435,504)
(3,760,962)	-	(3,760,962)
(894,027)	-	(894,027)
<u>(252,575)</u>	<u>-</u>	<u>(252,575)</u>
<u>(10,684,506)</u>	<u>-</u>	<u>(10,684,506)</u>
-	2,658,797	2,658,797
-	2,136,917	2,136,917
-	490,994	490,994
<u>-</u>	<u>5,286,708</u>	<u>5,286,708</u>
<u>(10,684,506)</u>	<u>5,286,708</u>	<u>(5,397,798)</u>
2,866,912	-	2,866,912
890,622	-	890,622
5,365,432	-	5,365,432
1,325,612	-	1,325,612
227,143	-	227,143
62,991	85,422	148,413
383,596	-	383,596
57,564	-	57,564
34,470	-	34,470
325,459	(325,459)	-
<u>11,539,801</u>	<u>(240,037)</u>	<u>11,299,764</u>
855,295	5,046,671	5,901,966
<u>59,974,846</u>	<u>22,993,981</u>	<u>82,968,827</u>
<u>\$ 60,830,141</u>	<u>\$ 28,040,652</u>	<u>\$ 88,870,793</u>

# UPPER MACUNGIE TOWNSHIP

## BALANCE SHEET

### GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,536,281	\$ 137,053	\$ 6,595,221	\$ 8,268,555
Investments	8,147,607	3,022,433	-	11,170,040
Taxes receivable, net	303,276	-	2,505	305,781
Due from escrow	357,167	-	-	357,167
Due from other funds	23,781	-	2,297	26,078
Other receivables	135,925	9,227	14,167	159,319
Prepaid expenses	187,455	-	-	187,455
<b>TOTAL ASSETS</b>	<b>\$ 10,691,492</b>	<b>\$ 3,168,713</b>	<b>\$ 6,614,190</b>	<b>\$ 20,474,395</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 681,510	\$ -	\$ 282,519	\$ 964,029
<b>TOTAL LIABILITIES</b>	<b>681,510</b>	<b>-</b>	<b>282,519</b>	<b>964,029</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues, property taxes	16,751	-	-	16,751
<b>FUND BALANCES</b>				
Nonspendable, prepaid expenses	187,455	-	-	187,455
Restricted for				
Road and street improvements	-	-	1,100,612	1,100,612
Fire protection	-	-	321,554	321,554
Assigned to				
Capital projects	-	3,168,713	-	3,168,713
Fire protection	-	-	15,514	15,514
Stormwater	-	-	317,899	317,899
Recreation activities	-	-	1,572,036	1,572,036
Road and street improvements	-	-	101,357	101,357
Employee benefits	-	-	569,764	569,764
Capital purchases	-	-	1,536,944	1,536,944
Operations	-	-	950,361	950,361
Unassigned	9,805,776	-	(154,370)	9,651,406
<b>TOTAL FUND BALANCES</b>	<b>9,993,231</b>	<b>3,168,713</b>	<b>6,331,671</b>	<b>19,493,615</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 10,691,492</b>	<b>\$ 3,168,713</b>	<b>\$ 6,614,190</b>	<b>\$ 20,474,395</b>

See accompanying notes to the basic financial statements.

# UPPER MACUNGIE TOWNSHIP

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

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TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 19,493,615
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	10,018,064
Construction in progress	427,120
Depreciable capital assets, net	30,532,768
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the Governmental Funds.</p>	
	256,368
<p>Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	16,751
<p>Net pension asset is not recorded as an asset in the Governmental Funds; however, this item is reported as an asset in the government-wide financial statements.</p>	
	<u>85,455</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 60,830,141</u></u>

*See accompanying notes to the basic financial statements.*

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

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 10,004,976	\$ -	\$ 442,322	\$ 10,447,298
Fines and forfeits	197,193	-	44,660	241,853
Licenses and permits	5,589	-	-	5,589
Intergovernmental	455,729	-	1,000,278	1,456,007
Charges for services	1,121,213	-	649,215	1,770,428
Interest, rents, and royalties	422,249	22,092	2,246	446,587
Refund of prior year expenditures	102,238	-	214,905	317,143
Miscellaneous	11,864	-	45,700	57,564
<b>TOTAL REVENUES</b>	<b>12,321,051</b>	<b>22,092</b>	<b>2,399,326</b>	<b>14,742,469</b>
<b>EXPENDITURES</b>				
Current				
General government	1,397,003	14,140	7,924	1,419,067
Public safety	6,037,292	-	672,945	6,710,237
Public works	1,993,506	-	1,464,978	3,458,484
Culture and recreation	696,149	-	550,096	1,246,245
Miscellaneous	248,206	-	-	248,206
<b>TOTAL EXPENDITURES</b>	<b>10,372,156</b>	<b>14,140</b>	<b>2,695,943</b>	<b>13,082,239</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,948,895</b>	<b>7,952</b>	<b>(296,617)</b>	<b>1,660,230</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	-	37,886	37,886
Interfund transfers in	325,459	-	1,718,435	2,043,894
Interfund transfers out	(1,718,435)	-	-	(1,718,435)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,392,976)</b>	<b>-</b>	<b>1,756,321</b>	<b>363,345</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>555,919</b>	<b>7,952</b>	<b>1,459,704</b>	<b>2,023,575</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>9,437,312</b>	<b>3,160,761</b>	<b>4,871,967</b>	<b>17,470,040</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 9,993,231</b>	<b>\$ 3,168,713</b>	<b>\$ 6,331,671</b>	<b>\$ 19,493,615</b>

*See accompanying notes to the basic financial statements.*

## UPPER MACUNGIE 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	\$ 2,023,575
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$2,160,405) exceeds capital outlays (\$921,303) in the current period.</p>	(1,239,102)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales and disposals) is to decrease net assets.</p>	(3,416)
<p>Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds.</p>	1,280
<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>	
Pension expense	<u>72,958</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 855,295</u>

*See accompanying notes to the basic financial statements.*

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

	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Sewer Capital Reserve Fund</u>	<u>Totals</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 3,357,543	\$ 2,393,731	\$ 3,776,565	\$ 9,527,839
Investments	4,249,725	-	5,476,608	9,726,333
Accounts receivable, net	1,290,556	209,333	-	1,499,889
Accrued interest	-	-	11,488	11,488
Prepaid expenses	24,189	2,518	-	26,707
	<u>8,922,013</u>	<u>2,605,582</u>	<u>9,264,661</u>	<u>20,792,256</u>
<b>TOTAL CURRENT ASSETS</b>				
<b>CAPITAL ASSETS</b>				
Utility system	15,227,012	-	-	15,227,012
Construction in progress	2,295	43,603	-	45,898
Equipment and furniture	2,528,943	173,540	157,228	2,859,711
Accumulated depreciation	(9,272,833)	(10,846)	(9,828)	(9,293,507)
	<u>8,485,417</u>	<u>206,297</u>	<u>147,400</u>	<u>8,839,114</u>
<b>TOTAL CAPITAL ASSETS</b>				
<b>TOTAL ASSETS</b>				
	<u>17,407,430</u>	<u>2,811,879</u>	<u>9,412,061</u>	<u>29,631,370</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources - pension activity	36,904	11,232	-	48,136
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and other liabilities	1,344,631	125,361	24,693	1,494,685
Due to other funds	-	26,078	-	26,078
	<u>1,344,631</u>	<u>151,439</u>	<u>24,693</u>	<u>1,520,763</u>
<b>TOTAL CURRENT LIABILITIES</b>				
<b>NONCURRENT LIABILITIES</b>				
Net pension liability	64,409	19,603	-	84,012
	<u>1,409,040</u>	<u>171,042</u>	<u>24,693</u>	<u>1,604,775</u>
<b>TOTAL LIABILITIES</b>				
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources - pension activity	26,127	7,952	-	34,079
<b>NET POSITION</b>				
Investment in capital assets	8,485,417	206,297	147,400	8,839,114
Unrestricted	7,523,750	2,437,820	9,239,968	19,201,538
	<u>16,009,167</u>	<u>2,644,117</u>	<u>9,387,368</u>	<u>28,040,652</u>
<b>TOTAL NET POSITION</b>				

See accompanying notes to the basic financial statements.

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Sewer Capital Reserve Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 8,009,281	\$ 2,140,309	\$ 15,244	\$ 10,164,834
Other operating revenue	65,807	-	-	65,807
Intergovernmental	189,793	147,197	2,172,124	2,509,114
<b>TOTAL OPERATING REVENUES</b>	<u>8,264,881</u>	<u>2,287,506</u>	<u>2,187,368</u>	<u>12,739,755</u>
<b>OPERATING EXPENSES</b>				
Administration	151,944	-	40,464	192,408
Salaries and wages	606,483	195,992	-	802,475
Treatment expense	3,891,974	-	-	3,891,974
Contracted services	267,365	1,495,070	-	1,762,435
Fuel and utilities	48,771	-	160	48,931
Repairs and maintenance	85,150	22,535	-	107,685
Insurance expense	2,068	39,523	-	41,591
Supplies expense	20,999	29,795	-	50,794
Miscellaneous	-	2,751	-	2,751
Depreciation	531,330	10,846	9,827	552,003
<b>TOTAL OPERATING EXPENSES</b>	<u>5,606,084</u>	<u>1,796,512</u>	<u>50,451</u>	<u>7,453,047</u>
<b>OPERATING INCOME</b>	2,658,797	490,994	2,136,917	5,286,708
<b>NONOPERATING REVENUES</b>				
Interest and investment revenue	18,695	17,468	49,259	85,422
<b>INCOME BEFORE TRANSFERS</b>	2,677,492	508,462	2,186,176	5,372,130
<b>TRANSFERS</b>	<u>(728,877)</u>	<u>(153,615)</u>	<u>557,033</u>	<u>(325,459)</u>
<b>CHANGE IN NET POSITION</b>	1,948,615	354,847	2,743,209	5,046,671
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>14,060,552</u>	<u>2,289,270</u>	<u>6,644,159</u>	<u>22,993,981</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 16,009,167</u>	<u>\$ 2,644,117</u>	<u>\$ 9,387,368</u>	<u>\$ 28,040,652</u>

*See accompanying notes to the basic financial statements.*



**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Sewer Capital Reserve Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 7,965,818	\$ 1,930,976	\$ 57,671	\$ 9,954,465
Payments to employees	(606,765)	(199,079)	-	(805,844)
Payments to suppliers	<u>(3,589,059)</u>	<u>(1,476,614)</u>	<u>(15,930)</u>	<u>(5,081,603)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,769,994</u>	<u>255,283</u>	<u>41,741</u>	<u>4,067,018</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition, construction and improvements of capital assets	(925,625)	(263,041)	-	(1,188,666)
Proceeds from grant	189,793	147,197	2,172,124	2,509,114
Transfers (to) from other funds	<u>(728,877)</u>	<u>(153,615)</u>	<u>557,033</u>	<u>(325,459)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,464,709)</u>	<u>(269,459)</u>	<u>2,729,157</u>	<u>994,989</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale of investments	-	71,976	-	71,976
Purchase of investments	(4,026,868)	-	(257,992)	(4,284,860)
Earnings on investments	<u>18,695</u>	<u>17,468</u>	<u>54,201</u>	<u>90,364</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(4,008,173)</u>	<u>89,444</u>	<u>(203,791)</u>	<u>(4,122,520)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,702,888)	75,268	2,567,107	939,487
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,060,431</u>	<u>2,318,463</u>	<u>1,209,458</u>	<u>8,588,352</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,357,543</u>	<u>\$ 2,393,731</u>	<u>\$ 3,776,565</u>	<u>\$ 9,527,839</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 2,658,797	\$ 490,994	\$ 2,136,917	\$ 5,286,708
Proceeds from grant	(189,793)	(147,197)	(2,172,124)	(2,509,114)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	531,330	10,846	9,827	552,003
Pension expense	(282)	(3,087)	-	(3,369)
(Increase) decrease in				
Accounts receivable	(109,270)	(209,333)	-	(318,603)
Interest receivable	-	-	(3,273)	(3,273)
Prepaid expenses	(19,824)	(2,518)	-	(22,342)
Due from other funds	-	-	45,700	45,700
Increase in accounts payable and other liabilities	<u>899,036</u>	<u>115,578</u>	<u>24,694</u>	<u>1,039,308</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,769,994</u>	<u>\$ 255,283</u>	<u>\$ 41,741</u>	<u>\$ 4,067,018</u>

See accompanying notes to the basic financial statements.

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

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	Pension Trust Fund	Escrow Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 205,364	\$ 1,264,370
Investments		
Equities	3,639,514	-
Fixed income	2,265,786	-
<b>TOTAL INVESTMENTS</b>	<u>5,905,300</u>	<u>-</u>
Accounts receivable	<u>16,081</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>6,126,745</u>	<u>\$ 1,264,370</u>
<b>LIABILITIES</b>		
Escrows payable	-	\$ 907,203
Due to General Fund	<u>-</u>	<u>357,167</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 1,264,370</u>
<b>NET POSITION</b>		
Held in trust for benefits	<u>\$ 6,126,745</u>	

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2016

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	Pension Trust Fund
	<u>                    </u>
ADDITIONS	
Contributions	
Employer	\$ <u>295,561</u>
Investment earnings	
Net increase in fair value of investments	177,783
Interest	70,019
Dividends	80,767
Investment activity expense	<u>(25,364)</u>
TOTAL INVESTMENT EARNINGS	<u>303,205</u>
TOTAL ADDITIONS	598,766
DEDUCTIONS	
Benefits	<u>407,434</u>
CHANGE IN NET POSITION	191,332
NET POSITION AT BEGINNING OF YEAR	<u>5,935,413</u>
NET POSITION AT END OF YEAR	<u>\$ <u>6,126,745</u></u>

*See accompanying notes to the basic financial statements.*

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

Upper Macungie Township (the "Township") complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**Reporting Entity**

Financial accountability is defined in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. The Township is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. The Township also may be financially accountable if an organization is fiscally dependent on the Township regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Based on the aforementioned criteria, the Township does not have any component units to report.

**Basis of Presentation**

**Government-Wide Financial Statements** - The statement of net position and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as Pension and Agency Funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under Proprietary Funds below. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Therefore, Governmental Funds financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements of Governmental Funds.

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

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

Internal activity is limited to interfund transfers which are eliminated to avoid “doubling up” revenues and expenses. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from Special Revenue Funds and the restrictions on their net position use.

**Fund Financial Statements** - Fund financial statements report detailed information about the Township. The focus of Governmental and Enterprise Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The two major Governmental Funds are each presented in a single column on the Governmental Fund financial statements. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds financial statements are presented by fund type.

The Township reports the following major Governmental Funds:

- The *General Fund* is the Township’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* is used to account for financial resources to be used for the acquisition of capital equipment and capital improvements in the governmental activities.

The Other Governmental Funds of the Township are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The Township reports the following Proprietary Funds:

- The *Sewer Fund* accumulates resources necessary for the operation of the sewage collection system.
- The *Refuse Fund* accumulates resources necessary for the collection and disposal of refuse and recycling within the Township.
- The *Sewer Capital Reserve Fund* is used to account for financial resources to be used for the acquisition of capital equipment and capital improvements in the sewage collection system.

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

Additionally, the Township reports the following Fiduciary Funds to account for assets held by the Township in a trustee capacity:

- The *Pension Trust Fund* is used to account for financial resources restricted for retirement benefits of the non-uniformed employees participating under the Township's defined benefit pension plan.

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

- The *Escrow Fund* is used to account for financial resources held by the Township on a purely custodial basis. Assets in the Escrow Fund equal liabilities.

**Governmental Funds** - All Governmental Funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major Governmental Funds of the Township include the General Fund and the Capital Reserve Fund. All other Governmental Funds are grouped together and presented in a separate column as Other Governmental Funds. Details of the other governmental funds can be found in the supplementary section starting on page 67.

Revenue Recognition - In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period.

Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis.

Property tax and earned income tax receivables collected after 60 days from year-end, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

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

*Expenditure Recognition* - The measurement focus of Governmental Funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, as provided in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain Governmental Funds liabilities and expenditures, such as compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the Governmental Funds.

**Proprietary Funds** - Proprietary Funds are accounted for using the accrual basis of accounting. These funds account for operations financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in the Proprietary Funds. The Township's only Proprietary Funds are Enterprise Funds.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. The principal operating revenues of the Township's Enterprise Funds is user fees. Operating expenses for the Township's Enterprise Funds include sewer disposal, refuse and recycling collection and disposal, salaries, supplies and administrative costs and depreciation. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Fiduciary Funds**

*Trust and Agency Funds* - Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These include Pension and Agency Funds. The Pension Funds account for the activities of the Non-Uniformed Pension Fund. Pension Funds are accounted for in essentially the same manner as Proprietary Funds since the measurement of the economic resources is critical. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the escrow accounts held by the Township.

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

**Budgets and Budgetary Accounting**

The Township is required by state law to adopt annual budgets for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Township Board of Supervisors is then called for the purpose of adopting the proposed budget.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Township Board of Supervisors.
- The budget must be filed with the Pennsylvania Department of Community and Economic Development by January 31.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of Township Board of Supervisors. Amendments are presented to Township Board of Supervisors at its regular meetings. Each amendment must have Township Board of Supervisors approval. Such amendments are made before the fact, are reflected in the official minutes of the Township Board of Supervisors and are not made after fiscal year-end as dictated by law.

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by Township Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.



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

**Cash and Cash Equivalents**

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**

With the exception of Pension Trust Funds, statutes authorize the Township to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository under PA Act 72. Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. 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 their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at December 31, 2016, was in excess of the minimum requirements just described.

The Township has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

The law provides that the government's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the government to be prudent. Investments for the Township are reported at fair value.

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

**Transactions Between Funds**

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

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

	<u>Years</u>
Buildings and improvements	15-40
Infrastructure	20-50
Vehicles	5-7
Machinery and equipment	5-30

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

**Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category. Accordingly, the item, *unavailable revenue*, which arises only under a modified accrual basis of accounting, is 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 amount become available. In addition, the deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of difference between expected and actual experience of the pension plan.

**Net Position Flow Assumption**

Sometimes the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

**Fund Balance**

The Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (the Township Board of Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the Township intends to use for a specific purpose. Intent can be expressed by Township Board of Supervisors or by an official or body to which the Township Board of Supervisors delegates the authority. The Board has not delegated the authority to assign fund balance as of December 31, 2016.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Township Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

The Township will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**Restricted Net Position**

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

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

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**NOTE B - TAXES**

For 2016, tax was levied on the assessed value of real estate at a total of 0.64 mills.

The taxable assessed valuation of property as of January 1, 2016, was \$3,817,221,400.

The real estate tax collection calendar is as follows:

Initial billing.....	April 1
Discount period .....	April 1 to May 31
Face period .....	June 1 to July 31
Penalty period .....	August 1 and thereafter
Lien date .....	January 31

Other taxes levied in 2016, are as follows:

Real estate transfer tax .....	1% of sale price
Earned income tax.....	1% of gross income
LST tax.....	\$52 per person

**NOTE C - DEPOSITS AND INVESTMENTS**

**Deposits**

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

At December 31, 2016, the carrying amount of the Township's deposits was \$19,580,138 and the bank balance was \$19,610,486. Of the bank balance, \$500,000 was covered by federal depository insurance and \$19,110,486 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Township's name.

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

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

**Investments**

As of December 31, 2016, the Township's Governmental Funds had the following investments and maturities:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Maturities</u>	
			<u>0 to 5 Years</u>	<u>5 to 10 Years</u>
U.S. Treasury notes	\$ -	\$ 1,110,006	\$ 1,110,006	\$ -
State investment pools	2,927,607	-	2,927,607	-
Certificates of deposit	5,220,000	-	5,220,000	-
Federal Home Loan Mortgage Corporation (FHLMC)	-	813,161	706,438	106,723
Federal National Mortgage Association (FNMA)	-	1,099,266	841,334	257,932
	<u>\$ 8,147,607</u>	<u>\$ 3,022,433</u>	<u>\$ 10,805,385</u>	<u>\$ 364,655</u>

As of December 31, 2016, the Township's Proprietary Fund had the following investments and maturities:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Maturities</u>	
			<u>0 to 5 Years</u>	<u>5 to 10 Years</u>
U.S. Treasury notes	\$ -	\$ 1,906,752	\$ 1,906,752	\$ -
State investment pools	524,725	-	524,725	-
Certificates of deposit	3,725,000	-	3,725,000	-
Federal Home Loan Mortgage Corporation (FHLMC)	-	1,475,214	1,332,917	142,297
Federal National Mortgage Association (FNMA)	-	2,094,642	1,642,449	452,193
	<u>\$ 4,249,725</u>	<u>\$ 5,476,608</u>	<u>\$ 9,131,843</u>	<u>\$ 594,490</u>

A portion of the Township's investments is in the PSDLAF program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2016, is \$10,157,332. These assets maintain a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79. The Township had \$3,452,332 invested in a PSDLAF MAX account at December 31, 2016. This investment incurs a penalty if funds, other than state aid, are withdrawn within 14 days of deposit.

Certificates of deposit held by banks of \$8,945,000 are stated at cost.

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

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

As of December 31, 2016, the Township's Non-Uniformed Employees' Pension Plan had the following investments and maturities:

	Amortized Cost	Fair Value	Maturities		
			0 to 5 Years	5 to 10 Years	More Than 10 Years
U.S. Treasury notes	\$ -	\$ 364,331	\$ 221,930	\$ 48,699	\$ 93,702
U.S. Treasury bonds	-	165,460	62,667	33,201	69,592
Domestic common stock	-	2,321,423	2,321,423	-	-
Foreign common stock	-	134,062	134,062	-	-
Mutual funds	-	1,184,029	1,184,029	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	-	95,076	95,076	-	-
Federal National Mortgage Association (FNMA)	-	131,758	131,758	-	-
Mortgage-backed securities	-	746,104	-	11,717	734,387
Corporate bonds	-	763,057	147,900	564,623	50,534
	<u>\$ -</u>	<u>\$ 5,905,300</u>	<u>\$ 4,298,845</u>	<u>\$ 658,240</u>	<u>\$ 948,215</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 did not hold any Level 2 or Level 3 investments at December 31, 2016.

**Interest Rate Risk** - The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Township's investment policy does not further limit its investment choices.

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

The balance of short-term interfund receivables/payables at December 31, 2016, was as follows:

	Receivable Fund	Payable Fund
General Fund	\$ 380,948	\$ -
Solid Waste Fund	-	23,781
Escrow Fund	-	357,167
	<u>\$ 380,948</u>	<u>\$ 380,948</u>

Interfund balances between the General and Escrow Funds arise when returns of escrow are paid from the General Fund and are not reimbursed prior to year-end.

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

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

Interfund transfers at December 31, 2016, are as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
General Fund	\$ 325,459	\$ 1,718,435
Fire Fund	17,900	-
Capital Equipment Fund	700,000	-
Impact Fees Fund	50,700	-
Operating Reserve Fund	949,835	-
Sewer Fund	442,967	1,171,844
Refuse Fund	-	153,615
Sewer Capital Reserve Fund	<u>1,000,000</u>	<u>442,967</u>
	<u>\$ 3,486,861</u>	<u>\$ 3,486,861</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts to pay for general obligations in general activities and (3) use unrestricted revenues collected in the Sewer and Refuse Funds to finance various programs/reimburse expenses accounted for in the General Fund in accordance with budgetary authorizations.



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

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 10,018,064	\$ -	\$ -	\$ 10,018,064
Construction in progress	48,867	427,120	(48,867)	427,120
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>10,066,931</b>	<b>427,120</b>	<b>(48,867)</b>	<b>10,445,184</b>
Capital assets being depreciated				
Land improvements	5,350,600	-	-	5,350,600
Buildings and improvements	12,638,606	-	-	12,638,606
Machinery, equipment and vehicles	10,776,637	334,308	(112,879)	10,998,066
Infrastructure	37,208,779	208,742	-	37,417,521
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>65,974,622</b>	<b>543,050</b>	<b>(112,879)</b>	<b>66,404,793</b>
Accumulated depreciation				
Land improvements	(2,804,737)	(245,438)	-	(3,050,175)
Buildings and improvements	(2,459,842)	(250,512)	-	(2,710,354)
Machinery, equipment and vehicles	(6,256,116)	(714,760)	109,463	(6,861,413)
Infrastructure	(22,300,388)	(949,695)	-	(23,250,083)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(33,821,083)</b>	<b>(2,160,405)</b>	<b>109,463</b>	<b>(35,872,025)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>32,153,539</b>	<b>(1,617,355)</b>	<b>(3,416)</b>	<b>30,532,768</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 42,220,470</b>	<b>\$ (1,190,235)</b>	<b>\$ (52,283)</b>	<b>\$ 40,977,952</b>

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

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

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 45,898	\$ -	\$ 45,898
<b>TOTAL CAPITAL ASSETS         NOT BEING DEPRECIATED</b>	<b>-</b>	<b>45,898</b>	<b>-</b>	<b>45,898</b>
Capital assets being depreciated				
Sewer collection system infrastructure	\$ 14,473,518	\$ 753,494	\$ -	\$ 15,227,012
Machinery and equipment	516,524	157,228	-	673,752
Vehicles	1,702,803	232,046	-	1,934,849
Office equipment and furniture	251,110	-	-	251,110
<b>TOTAL CAPITAL ASSETS         BEING DEPRECIATED</b>	<b>16,943,955</b>	<b>1,142,768</b>	<b>-</b>	<b>18,086,723</b>
Accumulated depreciation				
Sewer collection system infrastructure	(7,027,514)	(297,005)	-	(7,324,519)
Machinery and equipment	(404,086)	(53,870)	-	(457,956)
Vehicles	(1,162,739)	(178,516)	-	(1,341,255)
Office equipment and furniture	(147,165)	(22,612)	-	(169,777)
<b>TOTAL ACCUMULATED         DEPRECIATION</b>	<b>(8,741,504)</b>	<b>(552,003)</b>	<b>-</b>	<b>(9,293,507)</b>
<b>TOTAL CAPITAL ASSETS         BEING DEPRECIATED, net</b>	<b>8,202,451</b>	<b>590,765</b>	<b>-</b>	<b>8,793,216</b>
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 8,202,451</b>	<b>\$ 636,663</b>	<b>\$ -</b>	<b>\$ 8,839,114</b>

Depreciation expense was charged to governmental functions as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
General government	\$ 39,560
Public safety	155,637
Public works	1,368,130
Culture and recreation	597,078
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,160,405</b>

**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**

**Summary of Significant Accounting Policies**

**Method Used to Value Investments** - Non-Uniformed Employees' 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.

**Plan Description**

**Plan Administration** - The Township administers the Non-Uniformed Employees' Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time employees.

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

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

Management of the Non-Uniformed Employees' Pension Plan is vested in the Township Supervisors. The Township Supervisors are responsible for managing, investing and monitoring the Township's Non-Uniformed Pension Fund.

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

Inactive plan members or beneficiaries currently receiving benefits	26
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>39</u>
	<u><u>70</u></u>

**Benefits Provided** - The Non-Uniformed Employees' Pension Plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime, with payments guaranteed for the first 120 months. The amount of monthly pension is equal to 2% of average monthly compensation times years of benefit service, up to a maximum of 30 years. For members as of January 1, 2002, the minimum monthly pension is equal to 55% of average monthly compensation. Average monthly compensation is based upon the highest three consecutive plan years of employment. If a member continues working after his normal retirement date, his pension does not start until he actually retires. If an active member becomes disabled and remains disabled for six months, he is eligible for a disability pension. The monthly disability pension is equal to the actuarial equivalent of the accrued benefit at the date of disability. If a vested member dies prior to retirement, a death benefit is payable to his named beneficiary equal to the actuarial equivalent of the pension accrued to date. Unless otherwise elected, with the consent of the member's spouse, the named beneficiary shall be the member's spouse and payment shall be made in the form of a Preretirement Survivor Annuity, with any additional benefits paid in a lump sum.

Cost-of-living adjustments may be made to retirees with a maximum total cost-of-living increase of 30%.

The benefit provisions of the Township's Non-Uniformed Employees' Pension Plan are established by Township ordinances.

**Contributions** - The Township pays the full cost of the plan. Member contributions are not required. The Township is required to contribute the amounts necessary to fund the Non-Uniformed Employees' Pension Plan using the actuarial basis specified by state statute. The state also provides funds (distribution of foreign casualty insurance premium taxes) to the Township, which are used by the Township in making its regular contributions to the Non-Uniformed Employees' Pension Plan.

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

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer. In accordance with Act 205, the Township was required to contribute \$295,561 to the plan for the year 2016. Township and Commonwealth contributions in 2016 were \$111,826 and \$183,735, respectively.

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

**Investments**

**Investment Policy** - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board of Trustees to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	48%
International equity	12%
Fixed income	33%
Cash	7%
	<u>100%</u>

**Concentrations** - The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2016, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

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

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

**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 5.38%. 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 liability of the Township at December 31, 2016, were as follows:

Total pension liability	\$ 6,826,843
Plan fiduciary net position	<u>(6,126,745)</u>
NET PENSION LIABILITY	<u>\$ 700,098</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>89.74%</u>

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

Inflation	3%
Salary increases	5.0% average annual increase
Investment rate of return	7.5%

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

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

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50% - 7.50%
International equity	4.50% - 6.50%
Fixed income	1.00% - 3.00%
Cash	0.00% - 1.00%

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

**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

**Discount Rate** - The discount rate is based on the long-term expected rate of return on 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.

**Changes in the Net Position (Asset) Liability**

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a)-(b)</u>
BALANCES AT DECEMBER 31, 2015	\$ 6,537,901	\$ 5,935,413	\$ 602,488
Changes for the year			
Service cost	205,872	-	205,872
Interest	490,504	-	490,504
Differences between expected and actual experience	-	-	-
Contributions			
Employer	-	295,561	(295,561)
Net investment income	-	303,205	(303,205)
Benefit payments	<u>(407,434)</u>	<u>(407,434)</u>	<u>-</u>
Net changes	<u>288,942</u>	<u>191,332</u>	<u>97,610</u>
BALANCES AT DECEMBER 31, 2016	<u>\$ 6,826,843</u>	<u>\$ 6,126,745</u>	<u>\$ 700,098</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Township, calculated using the discount rate of 7.5%, 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 (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Net pension liability (asset)	\$ <u>1,489,073</u>	\$ <u>700,098</u>	\$ <u>23,131</u>

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

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** - For the year ended December 31, 2016, the Township recognized pension expense of \$339,372 for the Non-Uniformed Employees' Pension Plan. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 283,984
Net difference between projected and actual earnings on pension plan investments	<u>401,128</u>	<u>-</u>
	<u>\$ 401,128</u>	<u>\$ 283,984</u>

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

<u>Year Ending December 31,</u>	
2017	\$ 83,957
2018	83,957
2019	83,957
2020	(13,018)
2021	(40,569)
Thereafter	(81,139)

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

**Summary of Significant Accounting Policies**

Financial information of the Township's Police Pension Plan (the "Plan") is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due as required by Act 600 and Act 205 of the Commonwealth of Pennsylvania. 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.

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

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by GASB for aggregate PMRS investments are included in PMRS's separately issued CAFR.

**Plan Description**

The Upper Macungie Township Police Pension Plan is a single-employer defined benefit pension plan adopted pursuant to ACT 15 of 1974. The Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer Public Employee Retirement System that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

**Plan Membership**

Membership of the Plan consisted of the following at December 31, 2015:

Inactive plan members or beneficiaries currently receiving benefits	9
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>27</u>
	<u>38</u>

**Benefits Provided** - The Police Pension Plan provides retirement benefits as well as death and disability benefits under Pennsylvania Act 600. All benefits vest after 12 years of credited service. Officers are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% times credited service times final average salary but in no event is the basic benefit greater than 50% of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last three years annualized salary. Married officers will receive joint and 50% survivor annuity. Normal retirement is age 52 with at least 12 years of service. Early retirement is available after 24 years of service regardless of age.

If a member dies in service, a benefit will be paid per Act 30 equal to 100% of salary. For total and permanent disablement, a monthly benefit equal to 50% of Final Monthly Average Salary at date of disablement regardless of age or service. Covered employees are required by statute to contribute 5% of their compensation to the plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan.

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



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

**Contributions** - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the Plan’s Minimum Municipal Obligation (MMO). The MMO is based upon the Plan’s biennial actuarial valuation. In accordance with the Plan’s governing ordinance, members are required to contribute 5% of compensation to the Plan.

The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the Plan and funded through investment earnings. In accordance with Act 205, the Township was required to contribute \$529,665 to the Plan for the year 2016. Township and Commonwealth contributions in 2016 were \$284,685 and \$244,980, respectively.

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

**Investments**

**Investment Policy** - The plan policy in regard to the allocation of invested assets is established and may be amended by the PMRS. It is the policy of the PMRS to pursue an investment strategy that (1) maintains a fully funded status with regard to accumulated retirement benefits obligations, (2) maximizes return within reasonable and prudent levels of risk in order to minimize municipal and employee contributions, (3) maintains flexibility in determining the future level of contributions and (4) provides the ability to pay all benefit and expense obligations when due. The plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the plan’s adopted asset allocation policy as of December 31, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Large cap equities	25.0%
Small cap equities	15.0%
Int'l developed markets equities	15.0%
Int'l emerging markets equities	10.0%
Fixed income	15.0%
Real estate	12.5%
Timberland	7.5%
	<u>100%</u>

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

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

Investments are reported at fair value. The fair value is the quoted market price. The plan's fair value of investments as of December 31, 2015, was \$8,565,397. Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

**Concentrations** - At December 31, 2015, none of the plan's individual investments exceeded 5% of the total portfolio.

**Rate of Return** - For the year ended December 31, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -0.27%. 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**

Total pension liability	\$ 7,863,855
Plan fiduciary net position	<u>(8,565,397)</u>
NET PENSION (ASSET) LIABILITY	<u>\$ (701,542)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>108.92%</u>

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

Inflation .....	3%
Salary increases.....	Age related scale with merit and inflation component
Investment rate of return .....	5.5%

Mortality rates were based on the RP-2000 Mortality Tables for males or females, as appropriate.

The actuarial assumptions used in the December 31, 2015 valuation were based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008, as well as subsequent Board approved changes including the decrease in the regular interest to 5.50% for the January 1, 2013 valuation.

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

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap equities	8.70%
Small cap equities	8.40%
Int'l developed markets equities	4.60%
Int'l emerging markets equities	8.10%
Fixed income	-1.00%
Real estate	6.70%

**Discount Rate** - While it is often common practice to establish an actuarial Discount Rate that is equal to the Long Term Expected Rate of Return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

- 1.) Retiree Plan liability as a percentage of total Plan liability,
- 2.) Active Plan participant liability as a percentage of total Plan liability,
- 3.) Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
- 4.) PMRS System Long-Term Expected Rate of Return, and
- 5.) PMRS administrative expenses.

**UPPER MACUNGIE 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 <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability (Asset) <u>(a)-(b)</u>
BALANCES AT DECEMBER 31, 2014	\$ 7,534,406	\$ 8,209,004	\$ (674,598)
Adjustments	(22,879)	-	(22,879)
Changes for the year			
Service cost	417,730	-	417,730
Interest	431,789	-	431,789
Changes of assumptions	(337,961)	-	(337,961)
Contributions			
Employer	-	491,459	(491,459)
Member	-	105,289	(105,289)
Net investment income	-	(61,341)	61,341
Benefit payments	(159,230)	(159,230)	-
Administrative expense	-	(19,784)	19,784
Net changes	<u>329,449</u>	<u>356,393</u>	<u>(26,944)</u>
BALANCES AT DECEMBER 31, 2015	<u>\$ 7,863,855</u>	<u>\$ 8,565,397</u>	<u>\$ (701,542)</u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension (asset) liability of the Township, calculated using the discount rate of 5.5%, 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 (4.5%) or one percentage point higher (6.5%) than the current rate:

	<u>1%</u> <u>Decrease</u> <u>(4.5%)</u>	<u>Current</u> <u>Discount</u> <u>Rate (5.5%)</u>	<u>1%</u> <u>Increase</u> <u>(6.5%)</u>
Net pension liability (asset)	\$ <u>666,882</u>	\$ <u>(701,542)</u>	\$ <u>(1,810,575)</u>

**UPPER MACUNGIE 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, 2015, the Township recognized pension expense of \$371,321 for the Police Pension Plan. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 446,938
Changes in assumptions	-	276,513
Net difference between projected and actual earnings on pension plan investments	347,067	-
Contributions subsequent to the measurement date	<u>529,665</u>	<u>-</u>
	<u>\$ 876,732</u>	<u>\$ 723,451</u>

\$529,665 reported as deferred outflows of resources related to pensions resulting from Township contributions made subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended December 31, 2016.

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

<u>Year Ending December 31,</u>	
2017	\$ 34,955
2018	34,955
2019	18,164
2020	(86,331)
2021	(86,331)
Thereafter	(291,796)

**NOTE H - RISK MANAGEMENT**

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

The Township participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**NOTE I - SUBSEQUENT EVENT**

On August 31, 2017, the Berks County Court of Common Pleas ruled against the Township in a labor dispute with the Berks-Lehigh Regional Police Officers Association ("BLRPOA"), which provided police coverage to the Township prior to the Township forming its own police department effective December 31, 2012. The decision ordered the Township to pay the sum of \$564,084 to the BLRPOA for loss of benefits and pay under the old Collective Bargaining Agreement; however, the decision appears to have been made based on emotion rather than the rule of law and the Township, through its insurance carrier, has decided to appeal the court's decision. The appeal puts a stay on the decision of the Berks County Court of Common Pleas.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 8,809,500	\$ 8,809,500	\$ 10,004,976	\$ 1,195,476
Fines and forfeits	179,000	179,000	197,193	18,193
Licenses and permits	3,500	3,500	5,589	2,089
Intergovernmental	389,879	389,879	455,729	65,850
Charges for services	982,600	982,600	1,121,213	138,613
Interest, rents, and royalties	427,900	427,900	422,249	(5,651)
Refund of prior year expenditures	50,000	50,000	102,238	52,238
Contributions	1,368,000	1,368,000	-	(1,368,000)
Miscellaneous	100	100	11,864	11,764
<b>TOTAL REVENUES</b>	<b>12,210,479</b>	<b>12,210,479</b>	<b>12,321,051</b>	<b>110,572</b>
<b>EXPENDITURES</b>				
General government	2,675,146	2,675,146	1,397,003	1,278,143
Public safety	5,969,417	5,969,417	6,037,292	(67,875)
Public works	2,035,560	2,035,560	1,993,506	42,054
Culture and recreation	825,047	825,047	696,149	128,898
Miscellaneous	618,500	618,500	248,206	370,294
<b>TOTAL EXPENDITURES</b>	<b>12,123,670</b>	<b>12,123,670</b>	<b>10,372,156</b>	<b>1,751,514</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>86,809</b>	<b>86,809</b>	<b>1,948,895</b>	<b>1,862,086</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	725,459	725,459	325,459	(400,000)
Interfund transfers out	(810,675)	(810,675)	(1,718,435)	(907,760)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(85,216)</b>	<b>(85,216)</b>	<b>(1,392,976)</b>	<b>(1,307,760)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,593</b>	<b>1,593</b>	<b>555,919</b>	<b>554,326</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>9,437,312</b>	<b>9,437,312</b>	<b>9,437,312</b>	<b>-</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 9,438,905</b>	<b>\$ 9,438,905</b>	<b>\$ 9,993,231</b>	<b>\$ 554,326</b>

See accompanying notes to the budgetary comparison schedule.



**UPPER MACUNGIE TOWNSHIP**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2016

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**NOTE A - BUDGETARY POLICY**

The Board of Supervisors annually adopts the budget for the General Fund of the Township. Management may not amend the budget without the approval of the governing body. Uncommitted appropriations lapse at year-end. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended December 31, 2016, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

Public safety	\$ 67,875
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These excess expenditures were funded by available fund balance in the General Fund.

# UPPER MACUNGIE TOWNSHIP

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 205,872	\$ 196,069	\$ 246,293
Interest	490,504	468,561	468,884
Changes for experience	-	(365,122)	-
Benefit payments	<u>(407,434)</u>	<u>(356,284)</u>	<u>(251,980)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	288,942	(56,776)	463,197
Total pension liability, beginning	<u>6,537,901</u>	<u>6,594,677</u>	<u>6,131,480</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 6,826,843</u>	<u>\$ 6,537,901</u>	<u>\$ 6,594,677</u>
PLAN FIDUCIARY NET POSITION			
Contributions, employer	\$ 295,561	\$ 380,731	\$ 382,494
Net investment income (loss)	303,205	(37,799)	331,039
Benefit payments, including refunds of member contributions	<u>(407,434)</u>	<u>(356,284)</u>	<u>(251,980)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	191,332	(13,352)	461,553
Plan fiduciary net position, beginning	<u>5,935,413</u>	<u>5,948,765</u>	<u>5,487,212</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 6,126,745</u>	<u>\$ 5,935,413</u>	<u>\$ 5,948,765</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 700,098</u>	<u>\$ 602,488</u>	<u>\$ 645,912</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>89.74%</u>	<u>90.78%</u>	<u>90.21%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 2,154,016</u>	<u>\$ 1,973,790</u>	<u>\$ 1,811,476</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>32.50%</u>	<u>30.52%</u>	<u>35.66%</u>

**UPPER MACUNGIE TOWNSHIP**  
**SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
**CONTRIBUTIONS**  
**LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 295,561	\$ 380,731	\$ 382,494
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>295,561</u>	<u>380,731</u>	<u>382,494</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED-EMPLOYEE PAYROLL	\$ <u>2,154,016</u>	\$ <u>1,973,790</u>	\$ <u>1,811,476</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>13.72%</u>	<u>19.29%</u>	<u>21.12%</u>

**NOTES TO SCHEDULE**

Valuation date January 1, 2015 January 1, 2013

Actuarially determined contribution rates are calculated by January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	8 years	15 years
Asset valuation method	Market value	Market value
Inflation	3.00%	3.00%
Salary increases	5% annual increase	5% annual increase
Investment rate of return	7.5%	7.5%
Retirement age	Normal retirement age	Normal retirement age
Mortality	RP-2000 Mortality Table	RP-2000 Mortality Table

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available for only 2014 through 2016.

**UPPER MACUNGIE TOWNSHIP**  
SCHEDULE OF NON-UNIFORMED EMPLOYEES' 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>5.38%</u>	<u>-0.13%</u>	<u>6.79%</u>

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

	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 417,730	\$ 393,631
Interest	431,789	348,892
Differences between expected and actual experience	(22,879)	(588,800)
Changes of assumptions	(337,961)	-
Transfers	-	2,982,990
Benefit payments	<u>(159,230)</u>	<u>(159,142)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	329,449	2,977,571
Total pension liability, beginning	<u>7,534,406</u>	<u>4,556,835</u>
<b>TOTAL PENSION LIABILITY, ENDING (a)</b>	<b><u>\$ 7,863,855</u></b>	<b><u>\$ 7,534,406</u></b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions		
Employer	\$ 491,459	\$ 1,368,386
Member	105,289	95,575
Net investment income	(61,341)	120,496
Transfers	-	4,471,787
Benefit payments, including refunds of member contributions	(159,230)	(159,142)
Administrative expense	<u>(19,784)</u>	<u>(8,401)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	356,393	5,888,701
Plan fiduciary net position, beginning	<u>8,209,004</u>	<u>2,320,303</u>
<b>PLAN FIDUCIARY NET POSITION, ENDING (b)</b>	<b><u>\$ 8,565,397</u></b>	<b><u>\$ 8,209,004</u></b>
<b>NET PENSION LIABILITY (ASSET), ENDING (a)-(b)</b>	<b><u>\$ (701,542)</u></b>	<b><u>\$ (674,598)</u></b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	<u>108.92%</u>	<u>108.95%</u>
<b>COVERED-EMPLOYEE PAYROLL</b>	<b><u>\$ 2,105,760</u></b>	<b><u>\$ 1,880,292</u></b>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>	<u>-33.32%</u>	<u>-35.88%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available for 2015 and 2014 only.

**UPPER MACUNGIE TOWNSHIP**  
**SCHEDULE OF POLICE PENSION PLAN**  
**CONTRIBUTIONS**  
**LAST TWO FISCAL YEARS**

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	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 491,459	\$ 403,119
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>491,459</u>	<u>1,368,386</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ (965,267)</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 2,105,760</u>	<u>\$ 1,880,292</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>23.34%</u>	<u>72.78%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2013

Actuarially determined contribution rates are calculated by January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	N/A
Asset valuation method	Market value
Inflation	3%
Salary increases	Age related scale with merit and inflation component
Investment rate of return	5.50%
Retirement age	Age 60 or 55 with 20 years' service
COLA increases	3.0% for those eligible
Mortality	RP 2000 Mortality Tables

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available for 2015 and 2014 only.

**UPPER MACUNGIE TOWNSHIP**  
SCHEDULE OF POLICE PENSION PLAN  
INVESTMENT RETURNS  
LAST TWO FISCAL YEARS

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	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-0.27%</u>	<u>5.20%</u>

Note: GASB Statement No. 67 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available for 2015 and 2014 only.

## **SUPPLEMENTARY INFORMATION SECTION**



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

	Special Revenue Funds	Capital Projects Funds	Total Other Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,288,554	\$ 3,306,667	\$ 6,595,221
Due from other funds	-	2,297	2,297
Taxes receivable	2,505	-	2,505
Other receivables	<u>14,167</u>	<u>-</u>	<u>14,167</u>
TOTAL ASSETS	<u>\$ 3,305,226</u>	<u>\$ 3,308,964</u>	<u>\$ 6,614,190</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	<u>\$ 183,892</u>	<u>\$ 98,627</u>	<u>\$ 282,519</u>
<b>FUND BALANCES</b>			
Restricted for			
Road and street improvements	1,100,612	-	1,100,612
Fire protection	321,554	-	321,554
Assigned to			
Fire protection	15,514	-	15,514
Stormwater	317,899	-	317,899
Recreation activities	-	1,572,036	1,572,036
Road and street improvements	-	101,357	101,357
Employee benefits	569,764	-	569,764
Capital purchases	-	1,536,944	1,536,944
Operations	950,361	-	950,361
Unassigned	<u>(154,370)</u>	<u>-</u>	<u>(154,370)</u>
TOTAL FUND BALANCES	<u>3,121,334</u>	<u>3,210,337</u>	<u>6,331,671</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,305,226</u>	<u>\$ 3,308,964</u>	<u>\$ 6,614,190</u>

# UPPER MACUNGIE TOWNSHIP

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

	Special Revenue Funds	Capital Projects Funds	Total Other Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 442,322	\$ -	\$ 442,322
Fees and fines	44,660	-	44,660
Intergovernmental	988,040	12,238	1,000,278
Charges for services	-	649,215	649,215
Investment earnings	2,096	150	2,246
Refund of prior year expenditures	214,905	-	214,905
Miscellaneous	-	45,700	45,700
	<u>1,692,023</u>	<u>707,303</u>	<u>2,399,326</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Current			
General government	5,920	2,004	7,924
Public safety	514,381	158,564	672,945
Public works	730,788	734,190	1,464,978
Culture and recreation	-	550,096	550,096
	<u>1,251,089</u>	<u>1,444,854</u>	<u>2,695,943</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	440,934	(737,551)	(296,617)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from sale of fixed assets	-	37,886	37,886
Interfund transfers in	967,735	750,700	1,718,435
	<u>967,735</u>	<u>750,700</u>	<u>1,718,435</u>
<b>NET CHANGE IN FUND BALANCES</b>			
	1,408,669	51,035	1,459,704
<b>FUND BALANCES AT BEGINNING OF YEAR</b>			
	<u>1,712,665</u>	<u>3,159,302</u>	<u>4,871,967</u>
<b>FUND BALANCES AT END OF YEAR</b>			
	<u>\$ 3,121,334</u>	<u>\$ 3,210,337</u>	<u>\$ 6,331,671</u>

**UPPER MACUNGIE TOWNSHIP**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2016**

	Special Revenue Funds				
	Street Light Fund	Fire Protection Fund	Fire Alarm Fund	Stormwater Maintenance Fund	Medical Expense Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 348,571	\$ 1,347	\$ 317,899	\$ 569,764
Taxes receivable	824	1,681	-	-	-
Other receivables	-	-	14,167	-	-
<b>TOTAL ASSETS</b>	<b>824</b>	<b>350,252</b>	<b>15,514</b>	<b>317,899</b>	<b>569,764</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	155,194	28,698	-	-	-
<b>FUND BALANCES</b>					
Restricted for					
Road and street improvements	-	-	-	-	-
Fire protection	-	321,554	-	-	-
Assigned to					
Fire protection	-	-	15,514	-	-
Stormwater	-	-	-	317,899	-
Employee benefits	-	-	-	-	569,764
Operations	-	-	-	-	-
Unassigned	(154,370)	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ (154,370)</b>	<b>\$ 321,554</b>	<b>\$ 15,514</b>	<b>\$ 317,899</b>	<b>\$ 569,764</b>

Highway Aid Fund	Volunteer Fire Relief Aid Fund	Operating Reserve Fund	Total Special Revenue Funds
\$ 1,100,612	\$ -	\$ 950,361	\$ 3,288,554
-	-	-	2,505
-	-	-	14,167
<u>1,100,612</u>	<u>-</u>	<u>950,361</u>	<u>3,305,226</u>
-	-	-	183,892
1,100,612	-	-	1,100,612
-	-	-	321,554
-	-	-	-
-	-	-	15,514
-	-	-	317,899
-	-	-	569,764
-	-	950,361	950,361
-	-	-	(154,370)
<u>\$ 1,100,612</u>	<u>\$ -</u>	<u>\$ 950,361</u>	<u>\$ 3,121,334</u>

# UPPER MACUNGIE TOWNSHIP

## COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OTHER GOVERNMENTAL SPECIAL REVENUE FUNDS YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds				
	Street Light Fund	Fire Protection Fund	Fire Alarm Fund	Stormwater Maintenance Fund	Medical Expense Fund
<b>REVENUES</b>					
Taxes	\$ 108,023	\$ 334,299	\$ -	\$ -	\$ -
Fees and fines	-	-	44,660	-	-
Intergovernmental	-	-	-	-	-
Investment earnings	-	-	34	172	-
Refund of prior year expenditures	-	-	-	-	214,905
<b>TOTAL REVENUES</b>	<b>108,023</b>	<b>334,299</b>	<b>44,694</b>	<b>172</b>	<b>214,905</b>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	5,920
Public safety	-	148,052	120,866	-	-
Public works	192,968	-	-	-	-
Culture and recreation	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>192,968</b>	<b>148,052</b>	<b>120,866</b>	<b>-</b>	<b>5,920</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(84,945)</b>	<b>186,247</b>	<b>(76,172)</b>	<b>172</b>	<b>208,985</b>
<b>OTHER FINANCING SOURCES</b>					
Interfund transfers in	-	-	17,900	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>(84,945)</b>	<b>186,247</b>	<b>(58,272)</b>	<b>172</b>	<b>208,985</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>(69,425)</b>	<b>135,307</b>	<b>73,786</b>	<b>317,727</b>	<b>360,779</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ (154,370)</b>	<b>\$ 321,554</b>	<b>\$ 15,514</b>	<b>\$ 317,899</b>	<b>\$ 569,764</b>

Highway Aid Fund	Volunteer Fire Relief Aid Fund	Operating Reserve Fund	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 442,322
-	-	-	44,660
742,577	245,463	-	988,040
1,364	-	526	2,096
-	-	-	214,905
<u>743,941</u>	<u>245,463</u>	<u>526</u>	<u>1,692,023</u>
-	-	-	5,920
-	245,463	-	514,381
537,820	-	-	730,788
-	-	-	-
<u>537,820</u>	<u>245,463</u>	<u>-</u>	<u>1,251,089</u>
206,121	-	526	440,934
-	-	949,835	967,735
206,121	-	950,361	1,408,669
<u>894,491</u>	<u>-</u>	<u>-</u>	<u>1,712,665</u>
<u>\$ 1,100,612</u>	<u>\$ -</u>	<u>\$ 950,361</u>	<u>\$ 3,121,334</u>

**UPPER MACUNGIE TOWNSHIP**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL CAPITAL PROJECTS FUNDS**  
**DECEMBER 31, 2016**

	Capital Projects Funds			Total Capital Projects Funds
	Recreation Capital Fund	Capital Equipment Fund	Traffic Improvement Fund	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,656,556	\$ 1,536,944	\$ 113,167	\$ 3,306,667
Due from other funds	<u>2,297</u>	<u>-</u>	<u>-</u>	<u>2,297</u>
<b>TOTAL ASSETS</b>	<u>1,658,853</u>	<u>1,536,944</u>	<u>113,167</u>	<u>3,308,964</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	<u>86,817</u>	<u>-</u>	<u>11,810</u>	<u>98,627</u>
<b>FUND BALANCES</b>				
Assigned to				
Recreation activities	1,572,036	-	-	1,572,036
Road and street improvements	-	-	101,357	101,357
Capital purchases	<u>-</u>	<u>1,536,944</u>	<u>-</u>	<u>1,536,944</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 1,572,036</u>	<u>\$ 1,536,944</u>	<u>\$ 101,357</u>	<u>\$ 3,210,337</u>

# UPPER MACUNGIE TOWNSHIP

## COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OTHER GOVERNMENTAL CAPITAL PROJECTS FUNDS YEAR ENDED DECEMBER 31, 2016

	Capital Projects Funds			Total Capital Projects Funds
	Recreation Capital Fund	Capital Equipment Fund	Traffic Improvement Fund	
REVENUES				
Intergovernmental	\$ 12,238	\$ -	\$ -	\$ 12,238
Charges for services	486,984	-	162,231	649,215
Investment earnings	-	-	150	150
Miscellaneous	-	45,700	-	45,700
<b>TOTAL REVENUES</b>	<b>499,222</b>	<b>45,700</b>	<b>162,381</b>	<b>707,303</b>
EXPENDITURES				
Current				
General government	-	2,004	-	2,004
Public safety	-	158,564	-	158,564
Public works	24,109	190,167	519,914	734,190
Culture and recreation	550,096	-	-	550,096
<b>TOTAL EXPENDITURES</b>	<b>574,205</b>	<b>350,735</b>	<b>519,914</b>	<b>1,444,854</b>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(74,983)	(305,035)	(357,533)	(737,551)
OTHER FINANCING SOURCES				
Proceeds from sale of fixed assets	-	37,886	-	37,886
Interfund transfers in	-	700,000	50,700	750,700
<b>NET CHANGE IN FUND BALANCES</b>	<b>(74,983)</b>	<b>432,851</b>	<b>(306,833)</b>	<b>51,035</b>
FUND BALANCES AT BEGINNING OF YEAR	1,647,019	1,104,093	408,190	3,159,302
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 1,572,036</b>	<b>\$ 1,536,944</b>	<b>\$ 101,357</b>	<b>\$ 3,210,337</b>