

UPPER PROVIDENCE TOWNSHIP
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2017



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

UPPER PROVIDENCE TOWNSHIP

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UPPER PROVIDENCE TOWNSHIP

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FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board of Supervisors
Upper Providence Township
Oaks, 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 Providence Township as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Upper Providence Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Upper Providence Township as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

To the Members of the Board of Supervisors
Upper Providence Township
Oaks, Pennsylvania

Emphasis of Matter

For the year ended December 31, 2017, Upper Providence Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 19, budgetary comparison information on pages 69 and 70, pension plan information on pages 71 through 79 and postemployment benefits other than pension information on pages 80 through 83 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.



Oaks, Pennsylvania
October 8, 2018

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Our discussion and analysis for Upper Providence Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the Township's financial statements, which begin with the statement of net position.

FINANCIAL HIGHLIGHTS

- The assets of the Township exceeded its liabilities by \$85,424,260 (net position).
- The Township's total net position increased by \$2,116,362.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Township. The components of the report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements and notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

The independent auditors' report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

Management's discussion and analysis (MD&A), prepared by Township management, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the statement of net position, statement of activities, fund financial statements and the notes to the basic financial statements. Statements of net position and activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Township.

- The *statement of net position* focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.
- The *statement of activities* focuses on gross and net costs of Township programs and the extent to which such programs rely upon taxes and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other sources.

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

- *Fund financial statements* focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns.

Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net position, revenues, expenses and changes in net position and cash flows. The Proprietary Funds represent the Township's Sewer Operating Fund and can be found in more detail beginning with the Statement of Net Position, Proprietary Funds. Fiduciary Funds are used to account for resources for the Police, Firefighters' and Non-Uniformed Pension Plans as well as the Township's Post-Retirement Health Benefit Fund. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.

- The *notes to the basic financial statements* provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

Required Supplementary Information (RSI) is additional information consisting of budgetary comparisons for the General Fund and Parks and Recreation Fund, as well as the required schedules of funding progress for the pension and post-retirement health benefits.

REPORTING THE TOWNSHIP AS A WHOLE

Statistics

Tables of statistics provide information about real estate tax rates by jurisdiction for the last ten years. Upper Providence Township eliminated the real estate tax in the year 2001, and it was not increased from zero mills until 2017. Also listed are General Fund tax revenues by source, property tax levies and collections, assessed and estimated actual values of taxable property and the Township's ten largest employers.

Statement of Net Position and Statement of Activities

Our analysis of the Township as a whole begins with the statement of net position. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Township as a whole and about its activities in a way that helps answer this question. In these statements, we divide the Township into two kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including police, public works, safety and codes, parks and recreation and administration. Real estate transfer and earned income taxes, fees and charges and grants finance most of these activities.
- **Business-Type Activities** - The Township charges a fee to customers to help it cover most of the cost of certain services it provides. The Township's sewer system is reported here.

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's governmental and business-type activities, with comparative data from the fiscal year 2016.

Table 1

Statements of Net Position

Years Ended December 31, 2016 and 2017

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2016 | 2017 |
| ASSETS | | |
| Cash and investments | \$ 14,894,693 | \$ 14,779,854 |
| Other assets | 2,580,610 | 2,552,823 |
| Internal balances | (4,199,949) | (3,825,000) |
| Capital assets | 48,672,585 | 51,390,240 |
| TOTAL ASSETS | <u>61,947,939</u> | <u>64,897,917</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources, pension activity | <u>1,395,869</u> | <u>622,463</u> |
| LIABILITIES | | |
| Other liabilities | 2,502,375 | 2,861,024 |
| Net pension liability | <u>3,943,988</u> | <u>3,062,366</u> |
| TOTAL LIABILITIES | <u>6,446,363</u> | <u>5,923,390</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources, pension activity | <u>56,848</u> | <u>325,033</u> |
| NET POSITION | | |
| Net investment in capital assets | 48,672,585 | 51,390,240 |
| Restricted | 1,132,395 | 914,021 |
| Unrestricted | <u>7,035,617</u> | <u>6,967,696</u> |
| TOTAL NET POSITION | <u>\$ 56,840,597</u> | <u>\$ 59,271,957</u> |

Cash and investments represent 22.77% of Upper Providence Township's total governmental assets.

By far the largest portion of the Township's governmental assets, 79.19%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment). The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending.

Assets in the business-type activities column reflect the Township's investment in its sewer system. The Township operates and maintains two pumping stations and 121 miles of sewer lines. The \$15.3 million in cash and investments allows for future investment in the sewer facilities.

Accumulated depreciation reflects 49.67% of total capital assets for governmental activities and 51.71% of total capital assets for business-type activities. The percentage rates reflect the Township's continued commitment to provide services through effective and efficient use of resources.

Total change in net position is \$2,431,360 for governmental activities and \$(314,998) for business-type activities.

| Business-Type Activities | | Total Primary Government | | Total Percentage Change 2016 to 2017 |
|--------------------------|----------------------|--------------------------|----------------------|---|
| 2016 | 2017 | 2016 | 2017 | |
| \$ 16,745,116 | \$ 15,333,345 | \$ 31,639,809 | \$ 30,113,199 | -4.82% |
| 60,375 | 120,465 | 2,640,985 | 2,673,288 | 1.22% |
| 4,199,949 | 3,825,000 | - | - | 0.00% |
| 5,567,677 | 6,873,509 | 54,240,262 | 58,263,749 | 7.42% |
| <u>26,573,117</u> | <u>26,152,319</u> | <u>88,521,056</u> | <u>91,050,236</u> | 2.86% |
| - | - | 1,395,869 | 622,463 | -55.41% |
| 105,816 | 16 | 2,608,191 | 2,861,040 | 9.69% |
| - | - | 3,943,988 | 3,062,366 | -22.35% |
| <u>105,816</u> | <u>16</u> | <u>6,552,179</u> | <u>5,923,406</u> | -9.60% |
| - | - | 56,848 | 325,033 | 471.76% |
| 5,567,677 | 6,873,509 | 54,240,262 | 58,263,749 | 7.42% |
| 18,699,472 | 16,793,602 | 19,831,867 | 17,707,623 | -10.71% |
| <u>2,200,152</u> | <u>2,485,192</u> | <u>9,235,769</u> | <u>9,452,888</u> | 2.35% |
| \$ <u>26,467,301</u> | \$ <u>26,152,303</u> | \$ <u>83,307,898</u> | \$ <u>85,424,260</u> | 2.54% |

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenues and transfers for governmental activities for fiscal year 2017 were \$19,725,064. Revenues and transfers by source were as follows:

| | Amount | Percent of Total |
|------------------------------------|----------------------|---------------------|
| REVENUES AND TRANSFERS | | |
| Real estate taxes | \$ 2,566,557 | 13.01% |
| Per capita taxes | 11,060 | 0.06% |
| Real estate transfer taxes | 1,437,719 | 7.29% |
| Earned income taxes | 9,351,033 | 47.41% |
| Local services tax | 946,208 | 4.80% |
| Special assessments | 49,620 | 0.25% |
| Franchise tax | 573,200 | 2.91% |
| Public realty tax and licenses | 10,677 | 0.05% |
| Interest income | 205,743 | 1.04% |
| Gain on sale of capital assets | 36,985 | 0.19% |
| Interfund transfers, net | 368,789 | 1.87% |
| Miscellaneous | 219,343 | 1.11% |
| Charges for services | 2,264,114 | 11.48% |
| Operating grants and contributions | 664,737 | 3.37% |
| Capital grants and contributions | 1,019,279 | 5.17% |
| TOTAL | <u>\$ 19,725,064</u> | <u>100.00%</u> |

The Township's governmental programs are broken down into six main cost centers, including general government, public safety, health and welfare, sanitation, highways and streets and culture and recreation. Total expenditures for fiscal year 2017 were \$17,293,704. Expenditures by source were as follows:

| | Amount | Percent of Total |
|----------------------------|----------------------|---------------------|
| EXPENDITURES | | |
| General government | \$ 2,221,462 | 12.85% |
| Public safety | 8,691,798 | 50.26% |
| Public works | | |
| Sanitation | 98,827 | 0.57% |
| Highways and streets | 2,442,673 | 14.12% |
| Culture and recreation | 896,003 | 5.18% |
| Interest on long-term debt | 66,445 | 0.38% |
| Depreciation (unallocated) | 2,856,618 | 16.52% |
| Miscellaneous | 19,878 | 0.11% |
| TOTAL | <u>\$ 17,293,704</u> | <u>100.00%</u> |

UPPER PROVIDENCE TOWNSHIP**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)****YEAR ENDED DECEMBER 31, 2017**

Table 2**Changes in Net Position*****Years Ended December 31, 2016 and 2017***

| | Governmental Activities | |
|------------------------------------|-------------------------|----------------------|
| | 2016 | 2017 |
| REVENUES | | |
| Program revenues | | |
| Charges for services | \$ 2,123,032 | \$ 2,264,114 |
| Operating grants and contributions | 220,750 | 664,737 |
| Capital grants and contributions | 1,222,192 | 1,019,279 |
| General revenues | | |
| Real estate taxes | - | 2,566,557 |
| Per capita taxes | 115,589 | 11,060 |
| Real estate transfer taxes | 1,201,277 | 1,437,719 |
| Earned income taxes | 8,762,533 | 9,351,033 |
| Local services tax | 837,443 | 946,208 |
| Special assessments | 51,983 | 49,620 |
| Franchise tax | 555,865 | 573,200 |
| Public realty tax and licenses | 11,576 | 10,677 |
| Interest income | 114,807 | 205,743 |
| Gain on sale of capital assets | 33,111 | 36,985 |
| Interfund transfers, net | 1,948,732 | 368,789 |
| Miscellaneous | 156,182 | 219,343 |
| TOTAL REVENUES | <u>17,355,072</u> | <u>19,725,064</u> |
| EXPENSES | | |
| General government | 1,174,082 | 2,221,462 |
| Public safety | 8,820,498 | 8,691,798 |
| Public works | | |
| Sanitation | 90,970 | 98,827 |
| Highways and streets | 3,010,821 | 2,442,673 |
| Culture and recreation | 1,270,431 | 896,003 |
| Interest on long-term debt | - | 66,445 |
| Depreciation (unallocated) | 2,997,817 | 2,856,618 |
| Miscellaneous | 36,054 | 19,878 |
| Sewer | - | - |
| TOTAL EXPENSES | <u>17,400,673</u> | <u>17,293,704</u> |
| CHANGE IN NET POSITION | (45,601) | 2,431,360 |
| NET POSITION, BEGINNING | <u>56,886,198</u> | <u>56,840,597</u> |
| NET POSITION, ENDING | <u>\$ 56,840,597</u> | <u>\$ 59,271,957</u> |

| Business-Type Activities | | Total Primary Government | | Total Percentage Change 2016 to 2017 |
|--------------------------|----------------------|--------------------------|----------------------|---|
| 2016 | 2017 | 2016 | 2017 | |
| \$ 2,851,462 | \$ 2,888,395 | \$ 4,974,494 | \$ 5,152,509 | 3.58% |
| - | - | 220,750 | 664,737 | 201.13% |
| - | - | 1,222,192 | 1,019,279 | -16.60% |
| - | - | - | 2,566,557 | 0.00% |
| - | - | 115,589 | 11,060 | -90.43% |
| - | - | 1,201,277 | 1,437,719 | 19.68% |
| - | - | 8,762,533 | 9,351,033 | 6.72% |
| - | - | 837,443 | 946,208 | 12.99% |
| - | - | 51,983 | 49,620 | -4.55% |
| - | - | 555,865 | 573,200 | 3.12% |
| - | - | 11,576 | 10,677 | -7.77% |
| 99,062 | 210,250 | 213,869 | 415,993 | 94.51% |
| - | - | 33,111 | 36,985 | 11.70% |
| (1,948,732) | (368,789) | - | - | 0.00% |
| - | - | 156,182 | 219,343 | 40.44% |
| <u>1,001,792</u> | <u>2,729,856</u> | <u>18,356,864</u> | <u>22,454,920</u> | 22.32% |
| - | - | 1,174,082 | 2,221,462 | 89.21% |
| - | - | 8,820,498 | 8,691,798 | -1.46% |
| - | - | 90,970 | 98,827 | 8.64% |
| - | - | 3,010,821 | 2,442,673 | -18.87% |
| - | - | 1,270,431 | 896,003 | -29.47% |
| - | - | - | 66,445 | 0.00% |
| - | - | 2,997,817 | 2,856,618 | -4.71% |
| - | - | 36,054 | 19,878 | -44.87% |
| 2,600,543 | 3,044,854 | 2,600,543 | 3,044,854 | 17.09% |
| <u>2,600,543</u> | <u>3,044,854</u> | <u>20,001,216</u> | <u>20,338,558</u> | 1.69% |
| (1,598,751) | (314,998) | (1,644,352) | 2,116,362 | 228.70% |
| <u>28,066,052</u> | <u>26,467,301</u> | <u>84,952,250</u> | <u>83,307,898</u> | -1.94% |
| <u>\$ 26,467,301</u> | <u>\$ 26,152,303</u> | <u>\$ 83,307,898</u> | <u>\$ 85,424,260</u> | 2.54% |

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Culture and Recreation Highlights

In June, 2011, the Township completed the Recreation Center at Anderson Farm Park. The Township Community Center has been open since 2011 and includes a gym, fitness center, conference rooms and various other facilities. Recreational programs continue to be expanded at the center. The annual Community Day provided fireworks and fun for all age groups and was a huge success as always.

General Fund Budgetary Highlights

Development continues at the Township, but at a slower rate than prior years. Thus far, this development has not had an adverse effect on the Township's earned income tax revenues due to the increase of job opportunities.

The large shopping area on Route 29 and Arcola Road (Providence Town Center) in the Township will continue to create a need for additional public safety, which serves residents as well as commercial establishments.

Business-Type Activities

Business-type activities comprise the Township's sewer system. Total revenue from this activity is \$2,888,395 (see changes in Business-Type Activities). Charges for services account for 93.21% of revenue. Quarterly sewer rental rates were \$19.50 since 1967, increased to \$25.00 per quarter on July 1, 2002, increased to \$45.00 per quarter in 2008, and an additional rate increase to \$48.50 took effect for 2013. The rate did not change in 2016 or 2017. The low rates were primarily due to a 40-year set contract with the Montgomery County Sewer Authority. In 2002, there was a takeover of ownership and operations of the Oaks Regional Sewage Treatment Plant by the Lower Perkiomen Valley Regional Sewer Authority (LPVRSA), which has six members (including Upper Providence Township).

The fee increase was necessary to accommodate a planned expansion of the plant, as well as the increasing costs of operation due to stringent State and Federal mandates which resulted in the requirement for new and expensive technology. In addition, each municipality is responsible for ongoing maintenance and operation of its own collection system, including lines and pump stations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Upper Providence Township's investment in capital assets for its governmental and business-type activities as of December 31, 2017, totals \$58,263,749 (net of accumulated depreciation). Township investment in capital assets includes land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements and infrastructure. Infrastructure includes roads, bridges, stormwater and sewer lines and traffic signals.

UPPER PROVIDENCE TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2017

Table 3
Capital Assets at Year-End (Including Additions)
Year Ended December 31, 2017

| | Balance at December 31, 2016 | Net Additions | Balance at December 31, 2017 |
|--|------------------------------------|---------------------|------------------------------------|
| GOVERNMENTAL ACTIVITIES | | | |
| Capital assets not being depreciated | | | |
| Land | \$ 8,093,813 | \$ 1,689,160 | \$ 9,782,973 |
| Capital assets being depreciated | | | |
| Land improvements | 3,406,614 | 427,443 | 3,834,057 |
| Infrastructure | 59,655,322 | 1,898,109 | 61,553,431 |
| Automobiles | 4,944,620 | 200,287 | 5,144,907 |
| Building and improvements | 16,014,350 | 1,077,307 | 17,091,657 |
| Equipment, furniture and fixtures | 4,558,188 | 145,460 | 4,703,648 |
| | <u>96,672,907</u> | <u>5,437,766</u> | <u>102,110,673</u> |
| Accumulated depreciation | <u>(48,000,322)</u> | <u>(2,720,111)</u> | <u>(50,720,433)</u> |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | <u>48,672,585</u> | <u>2,717,655</u> | <u>51,390,240</u> |
| TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS | <u>48,672,585</u> | <u>2,717,655</u> | <u>51,390,240</u> |
| BUSINESS-TYPE ACTIVITIES | | | |
| Capital assets being depreciated | | | |
| Sewage system | 12,592,824 | 1,641,327 | 14,234,151 |
| Accumulated depreciation | <u>(7,025,147)</u> | <u>(335,495)</u> | <u>(7,360,642)</u> |
| TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS | <u>5,567,677</u> | <u>1,305,832</u> | <u>6,873,509</u> |
| CAPITAL ASSETS, net | <u>\$ 54,240,262</u> | <u>\$ 4,023,487</u> | <u>\$ 58,263,749</u> |

Property, plant, system infrastructure and equipment of the primary government are depreciated using the straight-line method.

The Township began construction on a new police administration building in 2014 and the Police Department officially moved into their new building on June 1, 2015. The new building is 12,000 square feet and includes training rooms, a forensic processing room and training facilities. The new building allowed the Police Department to become accredited on September 15, 2017 by the Pennsylvania Chiefs of Police Association.

Additional information on the Township's capital assets can be found in Notes A and D to the financial statements.

Debt

The Township had no outstanding debt at December 31, 2017 and 2016. The Township issued the 2017 General Obligation Note in March of 2017 in the amount of \$10,000,000, no amounts were outstanding on the note as of December 31, 2017, but the full amount was available for the Township to withdraw.

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

Upper Providence Township services an area of 18.2 square miles and a community of 21,219 residents (2010 census). Located along the Route 422 corridor in Montgomery County, Upper Providence Township has been one of the fastest growing communities in Pennsylvania for the last 15 years.

From 1990 to 2010, job growth rose 226% in Upper Providence to 14,674 jobs. Some of the world's most important medical advances come from three of Upper Providence's (and the world's) largest employers: Pfizer, GlaxoSmithKline and Quest Diagnostics. Combined, these companies employ nearly 175,000 people worldwide.

At the same time, the population grew 37% to 21,219 in 2010 over 2000. Homes built since 1990 comprise the majority of the Upper Providence housing stock.

As companies have expanded in Upper Providence, new residents and new businesses arrived, prompting more than 300,000 square feet in new retail space in 2001/02 alone. The Township's first contemporary hotel was built in 1998 (The Hampton Inn and Bob Evans Restaurant) along with Regal Cinema, a 24-screen movie theater. Target and Lowe's opened in the Oaks section of Upper Providence Township in 2001/02. BJ's Wholesale opened in 2009. A new Hilton Garden Inn hotel was built along Route 422. The big stores that opened at the Providence Town Center include Dick's Sporting Goods, LA Fitness Center, Best Buy, PetSmart, Five Below, Wegman's, Home Goods, Michael's, Raymour and Flanigan, Olive Garden, P.F. Chang's Restaurant, The Movie Tavern and Firebirds.

Collections of the earned income taxes are also a good indicator of local economic conditions. For 2017, the Township's collection of these taxes was \$9,351,033.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for funds it receives and disburses. If you have questions about this report or to request additional finance information (to include component units), please contact the Director of Finance at 1286 Black Rock Road, Oaks, PA 19456.

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Table 4
General Fund Tax Revenues by Source
Budget Basis (Unaudited)
Last Ten Fiscal Years

| <u>Year</u> | <u>Property (1)</u> | <u>Property Transfer</u> | <u>Earned Income Tax</u> | <u>Per Capita Tax</u> | <u>Local Services Tax</u> | <u>Total Tax Revenues</u> |
|-------------|---------------------|------------------------------|------------------------------|---------------------------|-------------------------------|-------------------------------|
| 2008 | \$ - | \$ 670,072 | \$ 7,209,889 | \$ 57,016 | \$ 507,747 | \$ 8,444,724 |
| 2009 | - | 615,593 | 8,396,993 | 74,554 | 587,988 | 9,675,128 |
| 2010 | - | 565,763 | 7,081,082 | 62,128 | 651,986 | 8,360,959 |
| 2011 | - | 601,384 | 6,628,109 | 62,454 | 702,463 | 7,994,410 |
| 2012 | - | 670,343 | 7,055,931 | 61,023 | 628,091 | 8,415,388 |
| 2013 | - | 1,022,833 | 7,847,803 | 68,435 | 649,105 | 9,588,176 |
| 2014 | - | 1,130,984 | 7,911,333 | 56,931 | 889,491 | 9,988,739 |
| 2015 | - | 1,092,852 | 8,303,081 | 55,413 | 774,907 | 10,226,253 |
| 2016 | - | 1,201,277 | 8,762,533 | 115,589 | 837,443 | 10,916,842 |
| 2017 | 2,566,557 | 1,437,719 | 9,351,033 | 11,060 | 946,208 | 14,312,577 |

NOTES:

(1) Current, prior, delinquent and interim property (real estate) taxes. During the period 2008 through 2016 no tax was due because the millage rate was zero.

Source: Upper Providence Township Financial Statements

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Table 5
Property Tax Levies and Collections (Unaudited)
Last Ten Fiscal Years

| Year | (1) Tax Levy | Current Tax Collections | Percent of Levy Collected | Delinquent Tax Collections | Total Tax Collections | Total Collections as Percent of Current Levy | Outstanding Delinquent Taxes | Outstanding Delinquent Taxes as Percent of Current Levy |
|------|-----------------|----------------------------|---------------------------------|----------------------------------|--------------------------|--|------------------------------------|--|
| 2008 | \$ - | \$ - | N/A | \$ - | \$ - | N/A | \$ - | N/A |
| 2009 | - | - | N/A | - | - | N/A | - | N/A |
| 2010 | - | - | N/A | - | - | N/A | - | N/A |
| 2011 | - | - | N/A | - | - | N/A | - | N/A |
| 2012 | - | - | N/A | - | - | N/A | - | N/A |
| 2013 | - | - | N/A | - | - | N/A | - | N/A |
| 2014 | - | - | N/A | - | - | N/A | - | N/A |
| 2015 | - | - | N/A | - | - | N/A | - | N/A |
| 2016 | - | - | N/A | - | - | N/A | - | N/A |
| 2017 | 1.2 Mills | 2,546,622 | 99% | - | 2,546,622 | 99% | 21,318 | 1% |

NOTES:

(1) Includes all Township millages. During the period 2008 through 2016 no tax was due because the millage rate was zero.

Source: Upper Providence Township Real Estate Tax Collector
Upper Providence Township Finance Department

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2017

Table 6
Assessed and Estimated Actual Value of Taxable Property (Unaudited)
Last Ten Fiscal Years

| Year | Estimated Actual Value | Assessed Value | Ratio of Total Assessed to Total Estimated Actual Value (1) |
|------|---------------------------|-------------------|--|
| 2008 | \$ 1,959,124,598 | \$ 1,959,124,598 | 100.0 |
| 2009 | 1,999,815,038 | 1,999,815,038 | 100.0 |
| 2010 | 2,041,449,590 | 2,041,449,590 | 100.0 |
| 2011 | 1,955,568,835 | 1,955,568,835 | 100.0 |
| 2012 | 1,984,400,565 | 1,984,400,565 | 100.0 |
| 2013 | 2,026,313,185 | 2,026,313,185 | 100.0 |
| 2014 | 2,067,307,175 | 2,067,307,175 | 100.0 |
| 2015 | 2,128,084,006 | 2,128,084,006 | 100.0 |
| 2016 | 2,166,501,551 | 2,166,501,551 | 100.0 |
| 2017 | 2,165,419,166 | 2,165,419,166 | 100.0 |

NOTES:

- (1) Common level ratio published by the PA State Tax Equalization Board.
(2) The last county-wide reassessment was conducted in 1998.

Source: Montgomery County Board of Assessment Appeals

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2017

Table 7
Property Tax Rates
Direct and Overlapping Governments (Unaudited)
Last Ten Fiscal Years

Upper Providence Township has a uniform millage for all residents and businesses. There are two overlapping jurisdictions that also levy a real estate tax based on assessed value compiled by Montgomery County. These jurisdictions are the Spring Ford Area School District and Montgomery County.

| Year | Upper Providence Township | Spring-Ford Area School District | Montgomery County | Total Millage |
|------|---------------------------------|--|----------------------|------------------|
| 2008 | 0.00 | 22.19 | 2.70 | 24.89 |
| 2009 | 0.00 | 23.07 | 2.70 | 25.77 |
| 2010 | 0.00 | 23.53 | 2.89 | 26.42 |
| 2011 | 0.00 | 24.29 | 3.15 | 27.44 |
| 2012 | 0.00 | 24.77 | 3.15 | 27.92 |
| 2013 | 0.00 | 25.25 | 3.15 | 28.40 |
| 2014 | 0.00 | 26.02 | 3.15 | 29.17 |
| 2015 | 0.00 | 26.06 | 3.15 | 29.21 |
| 2016 | 0.00 | 26.24 | 3.46 | 29.70 |
| 2017 | 1.20 | 26.24 | 3.85 | 31.29 |

NOTES:

(1) A county-wide reassessment was conducted in 1998. The previous reassessment was completed in 1970.

Source: Upper Providence Township Real Estate Tax Collector

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2017

Table 8
Ten Largest Employers (Unaudited)
2017

| | <u>Business Name</u> | <u>Type of Business</u> | <u>Employees</u> |
|-----|---|-------------------------|------------------|
| 1) | SEI Investments | Investments | 3,032 |
| 2) | GlaxoSmithKline | Pharmaceutical | 2,011 |
| 3) | Wyeth Pharmaceuticals, Inc. | Pharmaceutical | 1,058 |
| 4) | Pfizer | Pharmaceutical | 818 |
| 5) | Wegman's Food Market | Grocery Store | 538 |
| 6) | Spring-Ford Area School District | Education | 486 |
| 7) | Parkhouse Nursing and Rehabilitation Center | Nursing | 468 |
| 8) | FIS Management Services LLC | Software | 447 |
| 9) | Tri-County Medical Equipment and Supply LLC | Medical Supplies | 433 |
| 10) | Quest Diagnostics | Diagnostics | 416 |
| | | | <u>9,707</u> |

NOTES:

(1) **The ten largest employers represent 44% of the total Township work force.**

Source: Upper Providence Township Earned Income Tax Collector

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Table 9
Miscellaneous Statistics
2017

| | | | | |
|---------------------------------------|--|------------------------------|--|--|
| <u>Date Founded:</u> | 1805 | | | |
| <u>Form of Government:</u> | Township of the Second Class | | | |
| <u>Area:</u> | 18.2 Square Miles 11,655 Acres | | | |
| <u>Population:</u> | 1980: 9,551 1990: 9,682 | 2000: 15,398 2010: 21,219 | | |
| <u>Age Characteristics:</u> | Median Age: Percent Under 18: Percent 18-64: Percent 65 and over: | 41 21% 67% 12% | | |
| <u>Fire Protection:</u> | Paid Career Firefighters Volunteer Fire Company: Black Rock Fire Company | | | |
| <u>Police Department:</u> | 1 Station 32 Sworn Officers | | | |
| <u>Township Employees:</u> | 37 Full-time 67 Part-time and seasonal | | | |
| <u>Race/Ethnicity:</u> | Caucasian: 86.6% African-American: 2.6% Asian: 8.0% Other: 2.8% | | | |
| <u>Miles of Roads/Streets:</u> | 90 | | | |
| <u>Sewer System:</u> | | | | |
| | Miles of Sanitary Sewer: | 121 | | |
| | Pumping Stations: | 2 | | |
| | Daily Average Pumped: | 3.67 Million Gallons/Day | | |

UPPER PROVIDENCE TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Table 9 (Continued)

Miscellaneous Statistics

2017

Housing:

| | <u>2000</u> | <u>2010</u> |
|---------------------------------------|-------------|-------------|
| Median Value of Owner-Occupied Units: | \$162,900 | \$324,000 |
| Average Household Size: | 2.77 | 2.84 |
| Housing by Type: | | |
| One Unit Detached | 3,330 | 4,340 |
| One Unit Attached | 1,613 | 2,333 |
| Multiple Units | 592 | 688 |
| Other | <u>10</u> | <u>25</u> |
| Total Housing Units | 5,545 | 7,386 |

Finances:

| | |
|----------------------------------|-----------|
| Median Family Income: | \$134,151 |
| Median Household Income: | \$120,362 |
| Per Capita Income: | \$50,751 |
| Individuals Below Poverty Level: | 2.6% |
| Families Below Poverty Level: | 2.5% |

Educational Achievement:

| | |
|----------------------------|-------|
| High School Graduates: | 97.2% |
| Bachelor Degree or Higher: | 57.3% |

Education:

Education is provided by the Spring-Ford Area School District, which also services Limerick Township, Royersford Borough and Spring City Borough.

| | | |
|--------------------|----|--|
| Number of Schools: | 11 | (7 Elementary, 3 Intermediate & 1 High School) |
|--------------------|----|--|

Sources: U.S. Census Bureau (2000 & 2010 Census Data), Pennsylvania State Data Center, Spring-Ford Area School District, Township Records and American Community Survey (2012 - 2016)

UPPER PROVIDENCE TOWNSHIP

STATEMENT OF NET POSITION

DECEMBER 31, 2017

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Totals |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,254,609 | \$ 538,660 | \$ 2,793,269 |
| Investments | 11,577,038 | 1,700,316 | 13,277,354 |
| Receivables | 203,189 | 97,610 | 300,799 |
| Internal balances | (3,825,000) | 3,825,000 | - |
| Taxes receivable | 2,113,587 | - | 2,113,587 |
| Due from developers | 212,069 | - | 212,069 |
| Prepaid items | 23,978 | 4,855 | 28,833 |
| Restricted assets | | | |
| Cash equivalents | 61,004 | 986,612 | 1,047,616 |
| Investments | 887,203 | 12,107,757 | 12,994,960 |
| Deposits on EDU's | - | 18,000 | 18,000 |
| Capital assets | | | |
| Land | 9,782,973 | - | 9,782,973 |
| Land improvements | 3,834,057 | - | 3,834,057 |
| Sewer system | - | 14,234,151 | 14,234,151 |
| Infrastructure | 61,553,431 | - | 61,553,431 |
| Automobiles | 5,144,907 | - | 5,144,907 |
| Building and improvements | 17,091,657 | - | 17,091,657 |
| Equipment, furniture and fixtures | 4,703,648 | - | 4,703,648 |
| Accumulated depreciation | (50,720,433) | (7,360,642) | (58,081,075) |
| TOTAL ASSETS | <u>64,897,917</u> | <u>26,152,319</u> | <u>91,050,236</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources, pension activity | <u>622,463</u> | <u>-</u> | <u>622,463</u> |
| LIABILITIES | | | |
| Accounts payable | 630,996 | 16 | 631,012 |
| Due to developers | 948,207 | - | 948,207 |
| Long-term liabilities | | | |
| Compensated absences | 678,594 | - | 678,594 |
| Other postemployment benefits | 603,227 | - | 603,227 |
| Net pension liability | 3,062,366 | - | 3,062,366 |
| TOTAL LIABILITIES | <u>5,923,390</u> | <u>16</u> | <u>5,923,406</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources, pension activity | <u>325,033</u> | <u>-</u> | <u>325,033</u> |
| NET POSITION | | | |
| Net investment in capital assets | 51,390,240 | 6,873,509 | 58,263,749 |
| Restricted | 914,021 | 16,793,602 | 17,707,623 |
| Unrestricted | <u>6,967,696</u> | <u>2,485,192</u> | <u>9,452,888</u> |
| TOTAL NET POSITION | <u>\$ 59,271,957</u> | <u>\$ 26,152,303</u> | <u>\$ 85,424,260</u> |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2017**

| Functions/Programs | Expenses | Program Revenues | | |
|-------------------------------|---------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| PRIMARY GOVERNMENT | | | | |
| Governmental activities | | | | |
| General government | \$ 2,221,462 | \$ - | \$ - | \$ - |
| Public safety | 8,691,798 | 1,729,828 | 598,090 | 8,250 |
| Public works | | | | |
| Sanitation | 98,827 | - | 60,432 | - |
| Highways and streets | 2,442,673 | 8,724 | 6,215 | 655,029 |
| Culture and recreation | 896,003 | 525,562 | - | 356,000 |
| Interest on long-term debt | 66,445 | - | - | - |
| Depreciation (unallocated) | 2,856,618 | - | - | - |
| Miscellaneous | 19,878 | - | - | - |
| TOTAL GOVERNMENTAL ACTIVITIES | 17,293,704 | 2,264,114 | 664,737 | 1,019,279 |
| Business-type activities | | | | |
| Sewer and sewer capital | 3,044,854 | 2,888,395 | - | - |
| TOTAL PRIMARY GOVERNMENT | \$ 20,338,558 | \$ 5,152,509 | \$ 664,737 | \$ 1,019,279 |

GENERAL REVENUES

Real estate taxes
 Per capita taxes
 Real estate transfer taxes
 Earned income taxes
 Local services tax
 Special assessments
 Franchise tax
 Public realty tax and licenses
 Miscellaneous
 Interest and rents
 Gain on sale of capital assets

TRANSFERS

Interfund transfers, net

TOTAL GENERAL REVENUES AND TRANSFERS**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 | | |
|---|-----------------------------|----------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Totals |
| \$ (2,221,462) | \$ - | \$ (2,221,462) |
| (6,355,630) | - | (6,355,630) |
| (38,395) | - | (38,395) |
| (1,772,705) | - | (1,772,705) |
| (14,441) | - | (14,441) |
| (66,445) | - | (66,445) |
| (2,856,618) | - | (2,856,618) |
| (19,878) | - | (19,878) |
| (13,345,574) | - | (13,345,574) |
| - | (156,459) | (156,459) |
| (13,345,574) | (156,459) | (13,502,033) |
| 2,566,557 | - | 2,566,557 |
| 11,060 | - | 11,060 |
| 1,437,719 | - | 1,437,719 |
| 9,351,033 | - | 9,351,033 |
| 946,208 | - | 946,208 |
| 49,620 | - | 49,620 |
| 573,200 | - | 573,200 |
| 10,677 | - | 10,677 |
| 219,343 | - | 219,343 |
| 205,743 | 210,250 | 415,993 |
| 36,985 | - | 36,985 |
| 368,789 | (368,789) | - |
| 15,776,934 | (158,539) | 15,618,395 |
| 2,431,360 | (314,998) | 2,116,362 |
| 56,840,597 | 26,467,301 | 83,307,898 |
| \$ 59,271,957 | \$ 26,152,303 | \$ 85,424,260 |

UPPER PROVIDENCE TOWNSHIP**BALANCE SHEET****GOVERNMENTAL FUNDS****DECEMBER 31, 2017**

| | General Fund | Capital Projects Fund | Parks and Recreation Fund | State Liquid Fuels Highway Aid Fund (Non-major) | Total Governmental Funds |
|---|----------------------|-----------------------------|---------------------------------|---|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,284,924 | \$ 428,525 | \$ 231,702 | \$ 85,458 | \$ 2,030,609 |
| Investments | 8,680,279 | 1,392,483 | 1,111,782 | 616,494 | 11,801,038 |
| Receivables | 29,855 | 173,334 | - | - | 203,189 |
| Taxes receivable | 2,113,116 | - | - | - | 2,113,116 |
| Due from other funds | 550,000 | 388,333 | 31,048 | - | 969,381 |
| Due from developers | 212,069 | - | - | - | 212,069 |
| Prepaid expenses | 22,978 | 1,000 | - | - | 23,978 |
| Restricted assets, cash and cash equivalents | 61,004 | - | - | - | 61,004 |
| Restricted investments | 887,203 | - | - | - | 887,203 |
| TOTAL ASSETS | \$ 13,841,428 | \$ 2,383,675 | \$ 1,374,532 | \$ 701,952 | \$ 18,301,587 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 232,920 | \$ 388,016 | \$ 10,060 | \$ - | \$ 630,996 |
| Due to other funds | 44,381 | 4,200,000 | 550,000 | - | 4,794,381 |
| Due to developers | 948,207 | - | - | - | 948,207 |
| TOTAL LIABILITIES | 1,225,508 | 4,588,016 | 560,060 | - | 6,373,584 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenues. Property taxes | 19,935 | - | - | - | 19,935 |
| FUND BALANCES | | | | | |
| Nonspendable | | | | | |
| Prepaid expenses | 22,978 | 1,000 | - | - | 23,978 |
| Notes receivable | - | 173,334 | - | - | 173,334 |
| Restricted | | | | | |
| Escrows | 212,069 | - | - | - | 212,069 |
| Highway improvements | - | - | - | 701,952 | 701,952 |
| Committed | | | | | |
| Parks and recreation | - | - | 814,472 | - | 814,472 |
| Assigned | | | | | |
| Fire apparatus improvements | - | 556,190 | - | - | 556,190 |
| Equipment purchases | - | 482,768 | - | - | 482,768 |
| Open space acquisition | - | 180 | - | - | 180 |
| Unassigned | 12,360,938 | (3,417,813) | - | - | 8,943,125 |
| TOTAL FUND BALANCES | 12,595,985 | (2,204,341) | 814,472 | 701,952 | 11,908,068 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 13,841,428 | \$ 2,383,675 | \$ 1,374,532 | \$ 701,952 | \$ 18,301,587 |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2017

| | |
|---|----------------------|
| TOTAL GOVERNMENTAL FUNDS BALANCES | \$ 11,908,068 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | |
| Land | 9,782,973 |
| Land improvements | 3,834,057 |
| Infrastructure | 61,553,431 |
| Automobiles | 5,144,907 |
| Building and improvements | 17,091,657 |
| Equipment, furniture and fixtures | 4,703,648 |
| Accumulated depreciation | (50,720,433) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | |
| Other postemployment benefits | (603,227) |
| Compensated absences | (678,594) |
| Net pension liability | (3,062,366) |
| Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds. | 297,430 |
| 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 not recorded as receivables in the funds. | <u>20,406</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 59,271,957</u> |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2017

| | General Fund | Capital Projects Fund | Parks and Recreation Fund | State Liquid Fuels Highway Aid Fund (Non-major) | Total Governmental Funds |
|--|----------------------|-----------------------------|---------------------------------|---|--------------------------------|
| REVENUES | | | | | |
| Taxes | | | | | |
| Real estate | \$ 2,546,622 | \$ - | \$ - | \$ - | \$ 2,546,622 |
| Per capita | 11,060 | - | - | - | 11,060 |
| Real estate transfer | 1,437,719 | - | - | - | 1,437,719 |
| Earned income | 9,351,033 | - | - | - | 9,351,033 |
| Local services tax | 946,208 | - | - | - | 946,208 |
| Licenses and permits | 556,234 | - | - | - | 556,234 |
| Fines and forfeits | 148,016 | - | - | - | 148,016 |
| Interest and rents | 226,176 | 20,967 | 1,339 | 14,861 | 263,343 |
| Intergovernmental | 652,247 | - | - | 655,029 | 1,307,276 |
| Charges for services | 2,096,473 | - | 8,793 | - | 2,105,266 |
| Contributions | 43,500 | 31,417 | 356,000 | - | 430,917 |
| Miscellaneous | 197,341 | - | - | - | 197,341 |
| TOTAL REVENUES | 18,212,629 | 52,384 | 366,132 | 669,890 | 19,301,035 |
| EXPENDITURES | | | | | |
| General government | 1,598,915 | 1,771,485 | - | - | 3,370,400 |
| Public safety | 8,279,769 | 184,751 | - | - | 8,464,520 |
| Public works | | | | | |
| Sanitation | 100,776 | - | - | - | 100,776 |
| Highways and streets | 2,786,878 | 875,472 | - | 994,338 | 4,656,688 |
| Culture and recreation | 976,972 | - | 2,077,031 | - | 3,054,003 |
| Miscellaneous | 19,878 | 1,680 | - | - | 21,558 |
| Debt service | - | 489,326 | - | - | 489,326 |
| TOTAL EXPENDITURES | 13,763,188 | 3,322,714 | 2,077,031 | 994,338 | 20,157,271 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 4,449,441 | (3,270,330) | (1,710,899) | (324,448) | (856,236) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from issuance of long-term debt | - | 422,881 | - | - | 422,881 |
| Proceeds from sale of capital assets | - | 36,985 | - | - | 36,985 |
| Interfund transfers in | 368,789 | 3,083,303 | 19,127 | - | 3,471,219 |
| Interfund transfers out | (3,083,303) | (19,127) | - | - | (3,102,430) |
| TOTAL OTHER FINANCING SOURCES (USES) | (2,714,514) | 3,524,042 | 19,127 | - | 828,655 |
| NET CHANGE IN FUND BALANCES | 1,734,927 | 253,712 | (1,691,772) | (324,448) | (27,581) |
| FUND BALANCES AT BEGINNING OF YEAR | 10,861,058 | (2,458,053) | 2,506,244 | 1,026,400 | 11,935,649 |
| FUND BALANCES AT END OF YEAR | \$ 12,595,985 | \$ (2,204,341) | \$ 814,472 | \$ 701,952 | \$ 11,908,068 |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

| | | |
|--|----|----------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ | (27,581) |
|--|----|----------|

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

2,717,655

Other postemployment benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.

(89,992)

Net pension liability and related deferrals are reported in the statement of activities, however they do not require the use of current financial resources, and therefore, are not reported as expenditures in the Governmental Funds.

(159,969)

Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.

(28,688)

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 deferred on the funds.

19,935

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 2,431,360

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

| | Enterprise Funds | | |
|--|--------------------------|---------------------------|-------------------------------|
| | Sewer Revenue Fund | Sewer Capital Funds | Total Proprietary Funds |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 538,660 | \$ - | \$ 538,660 |
| Investments | 1,700,316 | - | 1,700,316 |
| Receivables | 97,610 | - | 97,610 |
| Due from other funds | 125,767 | 4,200,000 | 4,325,767 |
| Prepaid expenses | 4,855 | - | 4,855 |
| TOTAL CURRENT ASSETS | <u>2,467,208</u> | <u>4,200,000</u> | <u>6,667,208</u> |
| NONCURRENT ASSETS | | | |
| Restricted assets | | | |
| Cash equivalents | - | 986,612 | 986,612 |
| Investments | - | 12,107,757 | 12,107,757 |
| Deposits on EDU's | 18,000 | - | 18,000 |
| TOTAL RESTRICTED ASSETS | <u>18,000</u> | <u>13,094,369</u> | <u>13,112,369</u> |
| Capital assets | | | |
| Sewer system | - | 14,234,151 | 14,234,151 |
| Accumulated depreciation | - | (7,360,642) | (7,360,642) |
| TOTAL CAPITAL ASSETS, net of accumulated depreciation | <u>-</u> | <u>6,873,509</u> | <u>6,873,509</u> |
| TOTAL NONCURRENT ASSETS | <u>18,000</u> | <u>19,967,878</u> | <u>19,985,878</u> |
| TOTAL ASSETS | <u>2,485,208</u> | <u>24,167,878</u> | <u>26,653,086</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 16 | - | 16 |
| Due to other funds | - | 500,767 | 500,767 |
| TOTAL CURRENT LIABILITIES | <u>16</u> | <u>500,767</u> | <u>500,783</u> |
| NET POSITION | | | |
| Net investment in capital assets | - | 6,873,509 | 6,873,509 |
| Restricted | - | 16,793,602 | 16,793,602 |
| Unrestricted | 2,485,192 | - | 2,485,192 |
| TOTAL NET POSITION | <u>\$ 2,485,192</u> | <u>\$ 23,667,111</u> | <u>\$ 26,152,303</u> |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP
**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

| | Enterprise Funds | | |
|---|--------------------------|---------------------------|-------------------------------|
| | Sewer Revenue Fund | Sewer Capital Funds | Total Proprietary Funds |
| OPERATING REVENUES | | | |
| Charges for sales and services | | | |
| Sewer rents | \$ 2,282,857 | \$ - | \$ 2,282,857 |
| Connection and other fees | 594,706 | 10,832 | 605,538 |
| TOTAL OPERATING REVENUES | <u>2,877,563</u> | <u>10,832</u> | <u>2,888,395</u> |
| OPERATING EXPENSES | | | |
| Contracted services | 2,037,948 | 99,404 | 2,137,352 |
| Supplies | 5,070 | - | 5,070 |
| Miscellaneous | 13,374 | 717 | 14,091 |
| Professional services | 55,736 | 150,778 | 206,514 |
| Repairs and maintenance | 35,793 | 287,457 | 323,250 |
| Electric and water | 18,596 | - | 18,596 |
| Insurance | 4,486 | - | 4,486 |
| Depreciation | - | 335,495 | 335,495 |
| TOTAL OPERATING EXPENSES | <u>2,171,003</u> | <u>873,851</u> | <u>3,044,854</u> |
| OPERATING INCOME (LOSS) | 706,560 | (863,019) | (156,459) |
| NON-OPERATING REVENUES | | | |
| Earnings on investments | <u>29,997</u> | <u>180,253</u> | <u>210,250</u> |
| INCOME (LOSS) BEFORE INTERFUND TRANSFERS | <u>736,557</u> | <u>(682,766)</u> | <u>53,791</u> |
| INTERFUND TRANSFERS | | | |
| Transfers in | - | 82,728 | 82,728 |
| Transfers out | <u>(451,517)</u> | <u>-</u> | <u>(451,517)</u> |
| TOTAL INTERFUND TRANSFERS | <u>(451,517)</u> | <u>82,728</u> | <u>(368,789)</u> |
| CHANGE IN NET POSITION | 285,040 | (600,038) | (314,998) |
| NET POSITION AT BEGINNING OF YEAR | <u>2,200,152</u> | <u>24,267,149</u> | <u>26,467,301</u> |
| NET POSITION AT END OF YEAR | <u>\$ 2,485,192</u> | <u>\$ 23,667,111</u> | <u>\$ 26,152,303</u> |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

| | Enterprise Funds | | Total Proprietary Funds |
|---|--------------------------|---------------------------|-------------------------------|
| | Sewer Revenue Fund | Sewer Capital Funds | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 2,822,328 | \$ 10,832 | \$ 2,833,160 |
| Payments to suppliers | (2,181,653) | (638,361) | (2,820,014) |
| Payments to other funds | (125,767) | 500,767 | 375,000 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 514,908 | (126,762) | 388,146 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfer (to) from other funds | (451,517) | 82,728 | (368,789) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition, construction and improvement of capital assets | - | (1,641,327) | (1,641,327) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net sales of investments | 326,834 | 1,336,109 | 1,662,943 |
| Earnings on investments | 29,997 | 180,253 | 210,250 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 356,831 | 1,516,362 | 1,873,193 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 420,222 | (168,999) | 251,223 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 118,438 | 1,155,611 | 1,274,049 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 538,660 | \$ 986,612 | \$ 1,525,272 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 706,560 | \$ (863,019) | \$ (156,459) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | |
| Depreciation | - | 335,495 | 335,495 |
| (Increase) decrease in | | | |
| Receivables | (55,235) | - | (55,235) |
| Due from other funds | (125,767) | - | (125,767) |
| Prepaid expenses | (4,855) | - | (4,855) |
| Increase (decrease) in accounts payable | | | |
| Accounts payable | (5,795) | (100,005) | (105,800) |
| Due to other funds | - | 500,767 | 500,767 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 514,908 | \$ (126,762) | \$ 388,146 |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP**STATEMENT OF FIDUCIARY NET POSITION****FIDUCIARY FUNDS****DECEMBER 31, 2017**

| | Police Pension Fund | Firefighters Pension Fund | Non-Uniformed Pension Fund | Post-Retirement Health Benefit Fund |
|--|---------------------------|---------------------------------|----------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 277,496 | \$ 980 | \$ 220,087 | \$ 23,403 |
| Investments | 9,277,172 | 44,175 | 7,073,646 | 883,560 |
| Due from Non-Uniformed Pension Fund | - | 185,278 | - | - |
| TOTAL ASSETS | \$ 9,554,668 | \$ 230,433 | \$ 7,293,733 | \$ 906,963 |
| LIABILITIES AND NET POSITION | | | | |
| LIABILITIES | | | | |
| Due to Firefighters Pension Fund | \$ - | \$ - | \$ 185,278 | \$ - |
| Benefits payable | - | - | 4,025 | - |
| TOTAL LIABILITIES | - | - | 189,303 | - |
| NET POSITION | | | | |
| Reserved for plan participants | \$ 9,554,668 | \$ 230,433 | \$ 7,104,430 | \$ 906,963 |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

| | Police Pension Fund | Firefighters Pension Fund | Non-Uniformed Pension Fund | Post-Retirement Health Benefit Fund |
|--|---------------------------|---------------------------------|----------------------------------|---|
| ADDITIONS | | | | |
| Contributions, employer and Commonwealth | \$ 572,772 | \$ 43,053 | \$ 462,171 | \$ - |
| Plan Members | 9,734 | - | - | - |
| Total contributions | 582,506 | 43,053 | 462,171 | - |
| Investment income | | | | |
| Interest and dividends | 199,325 | 25,774 | 130,820 | 19,167 |
| Gain (loss) on sales | - | - | - | 4,895 |
| Increase in fair market value of assets | 1,015,756 | 2,766 | 841,902 | 78,495 |
| TOTAL ADDITIONS | 1,797,587 | 71,593 | 1,434,893 | 102,557 |
| DEDUCTIONS | | | | |
| Administrative expenses | 30,868 | 1,283 | 24,753 | 7,954 |
| Payments to participants | 240,524 | - | 218,592 | 18,006 |
| TOTAL DEDUCTIONS | 271,392 | 1,283 | 243,345 | 25,960 |
| CHANGE IN NET POSITION | 1,526,195 | 70,310 | 1,191,548 | 76,597 |
| NET POSITION AT BEGINNING OF YEAR, restated for Firefighters and Non-Uniformed Pension Funds | 8,028,473 | 160,123 | 5,912,882 | 830,366 |
| NET POSITION AT END OF YEAR | \$ 9,554,668 | \$ 230,433 | \$ 7,104,430 | \$ 906,963 |

See accompanying notes to the basic financial statements.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Upper Providence Township (the "Township") operates under a three-member Board of Supervisors and provides public safety, health and welfare, public works, culture and recreation, conservation and development, public improvements, planning and zoning and general administrative services.

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Reporting Entity

The Township, for financial purposes, includes all of the funds relevant to the operation of Upper Providence Township, except as noted.

The Township utilizes Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. In evaluating the Township as a primary government, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the Township to evaluate the possible inclusion of related entities within its reporting entity is financial accountability and the nature and significance of the relationship.

The Township has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Township's financial statements. In addition, the Township is not aware of any entity which would exercise such oversight which would result in the Township being considered a component unit entity.

Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Township are grouped into the categories governmental, proprietary and fiduciary.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township reports the following major Governmental Funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by the Proprietary Funds).

The *Recreation Fund* is a special revenue fund used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The Township reports the following major Proprietary Funds:

The *Sewer Revenue Fund* and *Sewer Capital Funds* are used to account for sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the Township reports the following non-major Governmental Fund:

The *State Liquid Fuels Highway Aid Fund* is a special revenue fund used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The Township reports the following Fiduciary Funds:

The *Police Pension Fund*, *Non-Uniformed Pension Fund* and *Post-Retirement Health Benefit Fund* are used to account for assets held by the Township in a trustee capacity for the benefit of plan participants. The reporting focus of these funds is on net position and changes in net position.

Basis of Presentation and Accounting

The basic financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major Governmental Funds are aggregated and presented in a single column. Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' ongoing operations. The principal operating revenues of the Township's Enterprise Funds are sewer charges. Operating expenses for the Township's Enterprise Funds include supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with an original maturity of one year or less and with no restrictions on withdrawal are considered cash equivalents.

Investments

Investments are reported at fair value pursuant to 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*. Under 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.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g., roads, bridges, curbs, sidewalks, drainage systems and lighting systems), 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 \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

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

| | <u>Years</u> |
|-----------------------------------|--------------|
| Land improvements | 15-20 |
| Sewer system | 10-40 |
| Infrastructure | 15-50 |
| Automobiles | 3-5 |
| Building and improvements | 7-40 |
| Equipment, furniture and fixtures | 3-7 |

Accrued Compensated Absences

Effective January 1, 2002, employees, upon retirement, will receive compensation for one third of total sick days accumulated, with a maximum of 60 days.

The Township accrues sick days at one third of total sick days accumulated, which represents the Township's liability.

Tax Collection

The tax collector is an elected official who is responsible for collecting taxes on behalf of the Township, County and School District. The Township regards the tax collector's office as a separate entity and, therefore, does not account for its activity in the financial statements.

Real Estate Taxes

Real estate taxes are recorded as revenues when the taxes are levied. All property tax receivables are shown net of an allowance for uncollectibles. At December 31, 2017, all tax receivables were deemed to be fully collectible. There is no tax receivable allowance due to the materiality of the outstanding receivables.

Real estate taxes are levied on January 1 on property values assessed as of the same date. Taxes are billed March 1 and are due on June 30 of each year. A 2% discount is provided for taxes paid prior to May 30. A 10% penalty is applied to taxes paid after June 30. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fund Balance and GASB Statement No. 54

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 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 the Board of Supervisors or by an official or body to which the Board of Supervisors delegates the authority.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Supervisors establishes (and modifies or rescinds) fund balance commitments and assignments 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.

The details of the fund balances are included in the Governmental Funds balance sheet (page 22).

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 differences between expected and actual experience of the pension plan and changes in plan assumptions.

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. The deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of differences between expected and actual experience of the pension plan and the net difference between projected and actual earnings on pension plan investments.

NOTE B - CASH AND INVESTMENTS

The Township's cash and cash equivalents consist of deposits with financial institutions and certificates of deposit with original maturities of one year or less.

State statutes authorize the Township to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The Township's cash and cash investments consist of deposits with financial institutions.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - CASH AND INVESTMENTS (Continued)

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. Deposits are collateralized under Act 72 of the 1971 Session of the Pennsylvania General Assembly whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of depository insurance limits. The Township does not have a deposit policy for custodial credit risk. As of December 31, 2017, the carrying amount of the Township's deposits was \$4,138,851 and the bank balance was \$4,941,769. Of the bank balance, \$660,619 was covered by depository insurance. However, \$452,807 of the deposits exceeded the FDIC insurance coverage and was properly collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania. \$3,828,343 of the bank balance is invested in state investment pools, which is uninsured and uncollateralized. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share and is rated by a nationally recognized statistical rating organization and subject to an independent annual audit.

Investments

As of December 31, 2017, the Township had the following investments:

| Investment Type | Amortized Cost | Fair Value | Investment Maturities |
|---|----------------------|----------------------|--------------------------|
| | | | Less Than One Year |
| Certificates of deposit | \$ 405,323 | \$ - | \$ 405,323 |
| State investment pools | 26,541,924 | - | 26,541,924 |
| Mutual funds primarily invested in U.S. securities | - | 16,808,489 | 16,808,489 |
| Limited partnership interests | 19,131 | - | 19,131 |
| | <u>\$ 26,966,378</u> | <u>\$ 16,808,489</u> | <u>\$ 43,774,867</u> |

A portion of the Township's investments is in the PLGIT programs, 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 PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2017, is \$26,541,924. These assets maintain a stable net asset value of \$1 per share. 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 and limited partnership interests are valued at amortized cost in accordance with GASB Statement No. 79.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - CASH AND INVESTMENTS (Continued)

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.

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's investments in mutual funds are recurring fair value measurements. These investments are valued using quoted market prices (Level 1 inputs).

Credit Risk - State law limits investments in obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The Township has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer. More than 5% of the Township's police pension investments are invested in the following items:

| | |
|--|--------|
| VANGUARD TOTAL BOND MARKET ETF (mostly U.S. securities) | 12.94% |
| VANGUARD INTL EQUITY INDEX (mostly foreign securities) | 24.03% |
| VANGUARD CRSP US LARGE CAP GROW IND ETF (mostly U.S. securities) | 16.90% |
| VANGUARD INTERMEDIATE TERM CORP BOND ETF (mostly U.S securities) | 7.73% |
| VANGUARD CRSP US MID CAP INDEX (mostly U.S. securities), | 5.75% |
| VANGUARD CRSP US LARGE CAP VALUE IND ET (mostly U.S. securities) | 16.91% |
| VANGUARD SMALL CAP ETF (mostly U.S. securities) | 5.74% |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE C - RECEIVABLES

Receivables are comprised of the following:

| | Governmental Activities | Business-Type Activities | Totals |
|--|----------------------------|-----------------------------|---------------------|
| Other receivables | \$ 203,189 | \$ - | \$ 203,189 |
| Real estate taxes | 109,269 | - | 109,269 |
| Earned income tax | 1,720,304 | - | 1,720,304 |
| Real estate transfer taxes | 73,943 | - | 73,943 |
| Local services tax | 209,600 | - | 209,600 |
| Sewer rents, assessments and connections receivable | - | 97,610 | 97,610 |
| | <u>\$ 2,316,305</u> | <u>\$ 97,610</u> | <u>\$ 2,413,915</u> |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE D - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | Balance at December 31, 2016 | Additions | Deletions | Balance at December 31, 2017 |
|---|------------------------------------|---------------------|------------------|------------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 8,093,813 | \$ 1,689,160 | \$ - | \$ 9,782,973 |
| Capital assets being depreciated | | | | |
| Land improvements | 3,406,614 | 427,443 | - | 3,834,057 |
| Infrastructure | 59,655,322 | 1,898,109 | - | 61,553,431 |
| Automobiles | 4,944,620 | 336,794 | (136,507) | 5,144,907 |
| Building and improvements | 16,014,350 | 1,077,307 | - | 17,091,657 |
| Equipment, furniture and fixtures | 4,558,188 | 145,460 | - | 4,703,648 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED | 88,579,094 | 3,885,113 | (136,507) | 92,327,700 |
| Accumulated depreciation | | | | |
| Land improvements | (1,918,728) | (170,780) | - | (2,089,508) |
| Infrastructure | (33,649,965) | (1,724,765) | - | (35,374,730) |
| Automobiles | (4,945,761) | (152,879) | 136,507 | (4,962,133) |
| Building and improvements | (3,458,499) | (541,689) | - | (4,000,188) |
| Equipment, furniture and fixtures | (4,027,369) | (266,505) | - | (4,293,874) |
| TOTAL ACCUMULATED DEPRECIATION | (48,000,322) | (2,856,618) | 136,507 | (50,720,433) |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | 40,578,772 | 1,028,495 | - | 41,607,267 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net | 48,672,585 | 2,717,655 | - | 51,390,240 |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets being depreciated | | | | |
| Sewer system | 12,592,824 | 1,641,327 | - | 14,234,151 |
| Accumulated depreciation | (7,025,147) | (335,495) | - | (7,360,642) |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net | 5,567,677 | 1,305,832 | - | 6,873,509 |
| CAPITAL ASSETS, net | \$ 54,240,262 | \$ 4,023,487 | \$ - | \$ 58,263,749 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE E - NOTES RECEIVABLE FROM FIRE COMPANIES

Capital Projects Fund

On October 21, 1999, the Township entered into an agreement to loan \$400,000 to a local fire company. The note is to be repaid to the Township in 30 yearly installments of \$13,333, with 0% interest per annum.

| | |
|--|-------------------|
| 1999 note receivable from fire company | \$ <u>173,334</u> |
|--|-------------------|

NOTE F - LONG TERM DEBT

In March of 2017 the Township issued the General Obligation Note of 2017 in the amount of \$10,000,000 to finance various capital projects. The Township initially drew \$422,881 from the note for capital projects and the issuance costs of the note. In December of 2017 the Township repaid all amounts drawn on the note. As of December 31, 2017 there is no balance outstanding and the full amount of the note is available to the Township.

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

Summary of Significant Accounting Policies

Police Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Township's Police Pension 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 the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description

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

Plan Membership - At December 31, 2017, plan membership consisted of the following:

| | |
|--|-----------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 7 |
| Current active members | <u>28</u> |
| | <u>35</u> |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Benefits Provided - Normal retirement can be at age 55 with 25 years of service at 50% of average compensation adjusted by accrued benefits. Effective January 1, 1999, the police officers may retire upon completion of 20 years active duty service. The amount of pension benefits payable shall be reduced by a ratio of years of service at retirement divided by years of service at the superannuation retirement date and shall be further actuarially reduced for early pay out. The ratio shall be as follows:

| | |
|----------------|-----------------|
| 20 years | 20/25th |
| 21 years | 21/25th |
| 22 years | 22/25th |
| 23 years | 23/25th |
| 24 years | 24/25th |
| 25 years | Full retirement |

Member personnel are 100% vested after 12 years of service. Death and disability benefit provisions parallel retirement benefit provisions. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The state provides an allocation of funds, which must be used for pension funding. In 2017, member personnel were required to contribute 1% of salary to the plan. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

In 2017, the MMO obligation for the plan was \$572,772. Contributions of \$572,772 were made by the Township.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings.

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Advisory Board. It is the policy of the Pension Advisory Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

The following was the Board's adopted asset allocation policy as of December 31, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity | 50% |
| International equity | 21% |
| Fixed income | 28% |
| Real estate | 0% |
| Cash | 1% |
| | <u>100%</u> |

Concentrations - More than 5% of the Township's investments are in mutual funds investing in U.S. stocks and mutual funds investing in foreign stocks. These investments are 69% and 24%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 15.04%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2017, were as follows:

| | |
|--|----------------------------|
| Total pension liability | \$ 11,576,421 |
| Plan fiduciary net position | <u>(9,554,668)</u> |
| NET PENSION LIABILITY | <u>\$ 2,021,753</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>82.54%</u> |

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-----------------------------------|
| Inflation | 3.0% |
| Salary increases | 5.0% average, including inflation |
| Investment rate of return | 7.5% |

Mortality rates were based on the RP-2000 tables.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

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 plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|----------------------|---|
| Domestic equity | 7.0% |
| International equity | 6.0% |
| Fixed income | 2.5% |
| Real estate | 7.0% |
| Cash | 0.0% |

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

Changes in Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|--------------------------------------|--|--|
| BALANCE AT DECEMBER 31, 2016 | \$ 10,518,639 | \$ 8,028,473 | \$ 2,490,166 |
| Changes for the year | | | |
| Service cost | 463,452 | - | 463,452 |
| Interest | 814,637 | - | 814,637 |
| Differences between expected and actual experience | 20,217 | - | 20,217 |
| Contributions | | | |
| Employer | - | 572,772 | (572,772) |
| Member | - | 9,734 | (9,734) |
| Net investment income | - | 1,215,081 | (1,215,081) |
| Benefit payments | (240,524) | (240,524) | - |
| Administrative expense | - | (30,868) | 30,868 |
| Net changes | 1,057,782 | 1,526,195 | (468,413) |
| BALANCE AT DECEMBER 31, 2017 | \$ 11,576,421 | \$ 9,554,668 | \$ 2,021,753 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

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 liability 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 (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|-----------------------|--------------------------|------------------------------------|--------------------------|
| Net pension liability | \$ <u>3,745,011</u> | \$ <u>2,021,753</u> | \$ <u>598,886</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2017, the Township recognized pension expense of \$803,850. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 87,981 | \$ - |
| Changes in assumptions | 322,577 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>-</u> | <u>68,347</u> |
| | \$ <u>410,558</u> | \$ <u>68,347</u> |

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

| | |
|-----------------------------------|------------|
| Year Ended <u>December 31,</u> | |
| 2018 | \$ 107,695 |
| 2019 | 107,695 |
| 2020 | (38,433) |
| 2021 | (78,572) |
| 2022 | 41,683 |
| Thereafter | 202,143 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN)

Summary of Significant Accounting Policies

Firefighters' 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. Financial information of the Township's Firefighters' Pension 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 the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description

Plan Administration - The Upper Providence Township Firefighters' Pension Plan is a single-employer defined pension plan. The Plan was a spin-off of the Upper Providence Township Non-Uniform Pension Plan. The Plan was amended and restated by Ordinance No. 2016-46B, effective January 1, 2016. The plan is governed by the Board of Supervisors of the Township of Upper Providence which may amend plan provisions, and which is responsible for the management of Plan assets. The Board of Supervisors has delegated the authority to manage certain Plan assets to the INR Advisors. The plan is required to file Form PC-202C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2017.

Plan Membership - The plan provides pension benefits for full-time paid firefighters of the Township. At December 31, 2017, plan membership consisted of the following:

| | |
|--|-------|
| Active employees | 5 |
| Retirees and beneficiaries currently receiving benefits | - |
| Terminated employees entitled to benefits but not yet receiving them | - |
| | <hr/> |
| | 5 |
| | <hr/> |

Benefits Provided - Plan benefit provisions are as follows:

Eligibility Requirements

| | |
|--------------------|---|
| Normal Retirement: | Age 62 |
| Early Retirement: | Age 55 and ten years of service |
| Vesting: | 10% per year of service up to 100% after ten years of service |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

Retirement Benefit

A monthly benefit equal to 2% of average monthly compensation (total pay averaged over the highest consecutive 36 months of employment), multiplied by years of service, up to a maximum benefit of 50%.

Death Benefit

Years of Service 1 to 10:

A lump sum of benefit paid to the surviving spouse equal to the actuarial equivalent present value of the vested benefit as of date of death.

After Ten Years of Service
but Before Retirement:

A monthly benefit paid to the surviving spouse equal to the pension the participant would have been eligible for at date of death under the 100% joint and survivor option. Benefit will be payable at the participant's normal retirement date or at the participant's early retirement date, subject to the early retirement reduction.

After Retirement:

Optional annuity forms chosen at retirement.

Disability Benefit

Service Related:

For disablement and qualification for social security disability benefits, a monthly benefit equal to the normal retirement benefit will be payable following six months of disablement for duration of disability prior to normal retirement.

Post-Retirement Adjustments

Effective each January, a retiree will receive an increase in the monthly benefit equal to the lesser of 3% or the percentage change in the CPI-W (Philadelphia Region) during the last year times the pension benefit. The total of all increases may not exceed 30% of the participant's original monthly benefit.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

DROP Benefit

Participant may remain in DROP for 5 years. At DROP termination, the participant receives the lump sum value of the DROP account and begins receiving a monthly pension benefit.

Early Retirement Benefit

Normal retirement benefit using service and compensation at termination, payable at normal retirement. If elected anytime after early retirement eligibility, it will be reduced by 1/180 for each of the first 60 months early, and by 1/360 for each additional month by which payment precedes normal retirement date.

Member Contributions

Amount or Rate: None

Interest Rate Credited to
Member Contributions: N/A

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. Member personnel are not required to contribute. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

In 2017, the MMO obligation for the Firefighters' Pension Plan was \$38,053. Contributions of \$43,053 were made by the Township.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

Investments

Investment Policy - The plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. According to an investment policy statement, the plan's target asset allocation is as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|--------------------|--------------------------|
| Stocks | 70% |
| Bonds | 27% |
| Cash | 3% |
| | <u>100%</u> |

Concentrations - The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2017, 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.
(\$230,433 x 5% = \$11,522)

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 16.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2017, were as follows:

| | |
|--|------------------|
| Total pension liability | \$ 265,556 |
| Plan fiduciary net position | <u>(230,433)</u> |
| NET PENSION LIABILITY | <u>\$ 35,123</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>86.8%</u> |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

| | |
|---------------------------|--------------------------|
| Inflation | 3% |
| Salary increases | 5.5% including inflation |
| Investment rate of return | 7.25% |

Mortality rates were based on the RP-2000 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 inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|--------------|---|
| Equities | 6.3% |
| Fixed income | 2.0% |
| Cash | 0.0% |

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the minimum municipal obligation. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

Changes in Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|------------------------------|--------------------------------------|--|--|
| BALANCE AT DECEMBER 31, 2016 | \$ 201,927 | \$ 160,123 | \$ 41,804 |
| Changes for the year | | | |
| Service cost | 45,678 | - | 45,678 |
| Interest | 17,951 | - | 17,951 |
| Contributions | | | |
| Employer | - | 43,053 | (43,053) |
| Net investment income | - | 28,540 | (28,540) |
| Benefit payments | - | - | - |
| Administrative expense | - | (1,283) | 1,283 |
| Net changes | 63,629 | 70,310 | (6,681) |
| BALANCE AT DECEMBER 31, 2017 | \$ 265,556 | \$ 230,433 | \$ 35,123 |

The December 31, 2016 balances were included in the non-uniform plan totals at December 31, 2016.

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

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|-----------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability | \$ 98,125 | \$ 35,123 | \$ (15,466) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2017, the Township recognized pension expense of \$48,518. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 12,146 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN (FIREFIGHTERS' PENSION PLAN) (Continued)

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

| <u>Year Ended</u> <u>December 31,</u> | |
|--|------------|
| 2018 | \$ (3,037) |
| 2019 | (3,037) |
| 2020 | (3,037) |
| 2021 | (3,035) |
| 2022 | - |
| Thereafter | - |

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

Summary of Significant Accounting Policies

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. Financial information of the Township's Non-Uniformed Employees' Pension 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 the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description

Plan Administration - The Township's Non-Uniformed Pension Plan is a single-employer defined benefit pension plan. The plan was established effective January 1, 1969, and entered into a Joinder Agreement with the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT) dated September 2, 1986. The plan was amended and restated by Resolution No. 2016-46A, effective January 1, 2016. The plan is governed by the Board of Supervisors of Upper Providence Township which may amend plan provisions, and which are responsible for the management of plan assets. The Board of Supervisors has delegated the authority to manage certain plan assets to INR Advisors. The plan is required to file Form PC-203C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2017.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Plan Membership - The plan provides pensions for full-time employees, excluding police officers and paid firefighters, of the Township. As of January 1, 2017, the plan is closed to new participants. At December 31, 2017, plan membership consisted of the following:

| | |
|--|------------------|
| Active employees | 21 |
| Retirees and beneficiaries currently receiving benefits | 16 |
| Terminated employees entitled to benefits but not yet receiving them | <u>7</u> |
| | <u><u>44</u></u> |

Benefits Provided - Plan benefit provisions are as follows:

Eligibility Requirements

| | |
|--------------------|---|
| Normal Retirement: | Age 62 |
| Early Retirement: | Age 55 and ten years of service |
| Vesting: | 10% per year of service up to 100% after ten years of service |

Retirement Benefit

A monthly benefit equal to 2% of average monthly compensation (total pay averaged over the highest consecutive 36 months of employment), multiplied by years of service, up to a maximum benefit of 50%. For those hired before May 2, 2005, the benefit shall be no less than 1.5% of average monthly compensation, multiplied by years of service.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Death Benefit

| | |
|---------------------------|---|
| Years of Service 1 to 10: | A lump sum of benefit paid to the surviving spouse equal to the actuarial equivalent present value of the vested benefit as of date of death. |
|---------------------------|---|

| | |
|--|---|
| After Ten Years of Service but Before Retirement: | A monthly benefit paid to the surviving spouse equal to the pension the participant would have been eligible for at date of death under the 100% joint and survivor option. Benefit will be payable at the participant's normal retirement date or at the participant's early retirement date, subject to the early retirement reduction. |
|--|---|

| | |
|-------------------|--|
| After Retirement: | Optional annuity forms chosen at retirement. |
|-------------------|--|

Disability Benefit

| | |
|------------------|--|
| Service Related: | For disablement and qualification for social security disability benefits, a monthly benefit equal to the normal retirement benefit will be payable following six months of disablement for duration of disability prior to normal retirement. |
|------------------|--|

| | |
|----------------------|------|
| Non-Service Related: | Same |
|----------------------|------|

Post-Retirement Adjustments

Effective each January, a retiree will receive an increase in the monthly benefit equal to the lesser of 3% or the percentage change in the CPI-W (Philadelphia Region) during the last year times the pension benefit. The total of all increases may not exceed 30% of the participant's original monthly benefit.

DROP Benefit

Participant may remain in DROP for 5 years. At DROP termination, the participant receives the lump sum value of the DROP account and begins receiving a monthly pension benefit.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Vesting Benefit

Normal retirement benefit using service and compensation at termination multiplied by the vesting percentage, payable at normal retirement. The benefit may be elected earlier, but will be reduced for early retirement.

Early Retirement Benefit

Normal retirement benefit using service and compensation at termination, payable at normal retirement. If elected anytime after early retirement eligibility, it will be reduced by 1/180 for each of the first 60 months early, and by 1/360 for each additional month by which payment precedes normal retirement date.

Member Contributions

Amount or Rate: None

Interest Rate Credited to
Member Contributions: N/A

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. Member personnel are not required to contribute. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

In 2017, the MMO obligation for the Non-Uniformed Employees' Pension Plan was \$432,169. Contributions of \$462,171 were made by the Township.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Investments

Investment Policy - The plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. According to an investment policy statement, the plan's target asset allocation is as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|--------------------|--------------------------|
| Stocks | 60% |
| Bonds | 37% |
| Cash | 3% |
| | <u>100%</u> |

Concentrations - The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2017, the plan had the following 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.
(\$7,104,430 x 5% = \$355,222)

| | |
|--|--------------|
| Vanguard CRSPUS Large Cap Growth Ind ETF | \$ 1,243,065 |
| Vanguard CRSPUS Large Cap Value Ind ETF | 1,265,527 |
| Vanguard Small Cap ETF | 428,029 |
| Vanguard Total Bond Market ETF | 965,299 |
| Vanguard Intl Equity Index | 1,777,360 |
| Vanguard Intermediate Term Corp Bond ETF | 578,172 |
| Vanguard CRSPUS Mid Cap Index ETF | 431,217 |

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 16.09%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2017, were as follows:

| | |
|--|---------------------|
| Total pension liability | \$ 8,109,920 |
| Plan fiduciary net position | <u>(7,104,430)</u> |
| NET PENSION LIABILITY | <u>\$ 1,005,490</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>87.6%</u> |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

| | |
|---------------------------|--------------------------|
| Inflation | 3% |
| Salary increases | 5.5% including inflation |
| Investment rate of return | 7.25% |

In the January 1, 2017 actuarial valuation mortality rates were based on the RP-2014 Mortality Table, in previous years mortality rates were based on the RP-2000 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 inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|--------------|---|
| Equities | 6.3% |
| Fixed income | 2.0% |
| Cash | 0.0% |

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the minimum municipal obligation. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Changes in Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|--------------------------------------|--|--|
| BALANCE AT DECEMBER 31, 2016 | \$ 7,324,900 | \$ 5,912,882 | \$ 1,412,018 |
| Changes for the year | | | |
| Service cost | 231,448 | - | 231,448 |
| Interest | 555,741 | - | 555,741 |
| Differences between expected and actual experience | (28,083) | - | (28,083) |
| Changes of assumptions | 244,506 | - | 244,506 |
| Contributions | | | |
| Employer | - | 462,171 | (462,171) |
| Net investment income | - | 972,722 | (972,722) |
| Benefit payments | (218,592) | (218,592) | - |
| Administrative expense | - | (24,753) | 24,753 |
| Net changes | 785,020 | 1,191,548 | (406,528) |
| BALANCE AT DECEMBER 31, 2017 | \$ 8,109,920 | \$ 7,104,430 | \$ 1,005,490 |

The December 31, 2016 balances included amounts that were transferred into the Firefighters Pension Plan in 2017.

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

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|-----------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability | \$ 2,030,232 | \$ 1,005,490 | \$ 143,914 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2017, the Township recognized pension expense of \$398,331. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 70,851 |
| Changes in assumptions | 211,905 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 173,689 |
| | \$ 211,905 | \$ 244,540 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

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

| Year Ended December 31, | |
|----------------------------|-----------|
| 2018 | \$ 26,445 |
| 2019 | 26,443 |
| 2020 | (64,480) |
| 2021 | (88,013) |
| 2022 | 23,689 |
| Thereafter | 43,281 |

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

The OPEB Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Township's OPEB Plan is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due.

Plan Description

The Township's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retired employees. Spouses and other dependents are not covered by the plan. The benefits, benefits level and employer contribution are administered by Township Supervisors and can be amended by the Township through its personnel manual and union contracts. The plan is accounted for as a trust fund and reported in the financial statements as a fiduciary fund. The plan does not issue a stand-alone financial report.

Plan Membership

At December 31, 2017, plan membership consisted of the following:

| | |
|---|-----------|
| Inactive plan members or beneficiaries currently receiving benefits | 1 |
| Inactive plan members entitled to but not yet receiving benefits | - |
| Active plan members | 29 |
| | <u>30</u> |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

Benefits Provided

A retiring police officer shall have the option of being maintained on the existing health plan provided to active officers, which will continue until the retired officer becomes eligible to receive benefits through Medicare. The Township will pay 100% of the premium costs associated with coverage for the retiree only, and the retiree will have the option to add spousal or family coverage provided that the retiree pay the additional premium amounts associated with such coverage. Health plan benefits will include but will not be limited to major medical, hospitalization, prescription, vision and dental coverage.

Funding Policy

Member contributions are not required under the plan. The contribution requirements of plan members are established and may be amended by the Board of Supervisors. The Township is accounting for these expenditures on a "pay-as-you-go" basis. The costs of administering the plans are paid by the Township.

Investment Policy

The following was the Board's adopted asset allocation policy as of December 31, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|------------------------------|
| Domestic equity | 50% |
| International equity | 21% |
| Fixed income | 28% |
| Real estate | 0% |
| Cash | 1% |
| | <u>100%</u> |

Concentrations - More than 5% of the Township's investments are in U.S stocks and mutual funds investing in U.S. stocks. These investments are 36% and 54%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 12.12%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net OPEB Liability of the Township

The components of the net OPEB liability of the Township at December 31, 2017, were as follows:

| | |
|--|--------------------------|
| Total OPEB liability | \$ 1,139,452 |
| Plan fiduciary net position | <u>(906,963)</u> |
| NET OPEB LIABILITY | \$ <u>232,489</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>79.60%</u> |

Actuarial Assumptions - The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-------|
| Investment rate of return | 5.00% |
|---------------------------|-------|

The healthcare cost trend rate is 8.0% in 2017, gradually decreasing by 1% per year to an ultimate rate of 5.0%.

Mortality rates were based on the RP-2000 Combined (Blue Collar) 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 plan's target asset allocation as of December 31, 2017 (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 | 7.0% |
| International equity | 6.0% |
| Fixed income | 2.5% |
| Real estate | 7.0% |
| Cash | 0.0% |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate - The discount rate used to measure the total OPEB liability was 5.00%.

Changes in the Net OPEB Liability

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
|-------------------------------|-----------------------------------|--|-------------------------------------|
| Balances at December 31, 2016 | \$ 1,071,101 | \$ 830,366 | \$ 240,735 |
| Changes for the year | | | |
| Service cost | 57,076 | - | 57,076 |
| Interest cost | 55,959 | - | 55,959 |
| Changes for experience | (26,678) | - | (26,678) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | - | - |
| Net investment income | - | 102,557 | (102,557) |
| Benefit payments | (18,006) | (18,006) | - |
| Administrative expenses | - | (7,954) | 7,954 |
| Net changes | 68,351 | 76,597 | (8,246) |
| Balances at December 31, 2017 | \$ 1,139,452 | \$ 906,963 | \$ 232,489 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability of the Township, calculated using the discount rate of 5.00%, as well as what the Township's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.00%) or one percentage point higher (6.00%) than the current rate:

| | 1% Decrease (4.00%) | Current Discount Rate (5.00%) | 1% Increase (6.00%) |
|--------------------|---------------------------|--|---------------------------|
| Net OPEB liability | \$ 367,076 | \$ 232,489 | \$ 110,996 |

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate -

The following presents the net OPEB liability of the Township, as well as what the Township's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (7.0% decreasing to 4.0%) or one percentage point higher (9.0% decreasing to 6.0%) than the current healthcare cost trend rates:

| | 1% Decrease (7.0% Decreasing to 4.0%) | Healthcare Cost Trend Rates (8.0% Decreasing to 5.0%) | 1% Increase (9.0% Decreasing to 6.0%) |
|--------------------|--|--|--|
| Net OPEB liability | \$ <u>63,446</u> | \$ <u>232,489</u> | \$ <u>435,417</u> |

Employer Disclosures in accordance with GASB Statement No. 45

Annual OPEB Cost and Net OPEB Obligation

The Township's police plan annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

| | | |
|--|----|----------------|
| Normal cost | \$ | 57,247 |
| Amortization of unfunded actuarial accrued liability | | 28,460 |
| Interest | | 4,285 |
| | | <u>89,992</u> |
| ANNUAL REQUIRED CONTRIBUTION (ARC) | | 89,992 |
| ANNUAL OPEB EXPENSE | | 89,992 |
| Net OPEB contributions during the year | | - |
| | | <u>89,992</u> |
| INCREASE IN NET OPEB OBLIGATION | | 89,992 |
| Net OPEB obligation at beginning of year | | <u>513,235</u> |
| | | <u>513,235</u> |
| NET OPEB OBLIGATION AT END OF YEAR | \$ | <u>603,227</u> |

| <u>Year Ended December 31,</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------------|-----------------------------|---|--------------------------------|
| 2015 | \$ 83,908 | 0% | \$ 431,139 |
| 2016 | 82,096 | 0% | 513,235 |
| 2017 | 89,992 | 0% | 603,227 |

Funded Status and Funding Progress

As of January 1, 2017, the actuarial accrued liability for benefits under the Township's police OPEB plan was \$1,289,733 and the actuarial value of assets was \$830,366. The covered payroll (annual payroll of active police employees covered by the plan) was \$3,273,522, and the ratio of the UAAL to the covered payroll was 14.03%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - POLICE OTHER POSTEMPLOYMENT BENEFITS (Continued)

Methods and Assumptions

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

In the January 1, 2017 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% in 2017, decreasing by 1% per year to 5% in 2021. Retirement was assumed to take place at age 58 and 28 years of service, which is based on the premise that police officers will enter the DROP at normal retirement age and remain in the plan for three years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2017, is 30 years.

NOTE K - CONTINGENCIES

The Township may be involved in various claims and legal actions arising during the normal course of business. As of the date of this report, the outcome and financial impact of any actions cannot be determined but is not expected to have a material effect on the Township's financial position.

NOTE L - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2017, is as follows:

Due to/from Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|---------------------------|-----------------------|---------------------|
| General Fund | Parks and Recreation | \$ 550,000 |
| Capital Projects Fund | General Fund | 13,333 |
| Capital Projects Fund | Sewer Capital Funds | 375,000 |
| Parks and Recreation Fund | General Fund | 31,048 |
| Sewer Capital Funds | Capital Projects Fund | 4,200,000 |
| Sewer Capital Funds | Sewer Revenue Funds | 125,767 |
| | | <u>\$ 5,295,148</u> |

In 2014, the Sewer Capital Fund loaned the Capital Projects Fund \$4,500,000 for the purpose of financing the construction of the new Police Administration Building. The loan is interest free and is payable over 30 years. The balance outstanding as of December 31, 2017 is \$4,200,000.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE L - INTERFUND RECEIVABLES AND PAYABLES (Continued)

The remaining outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems and (3) payments between funds are made.

Interfund Transfers

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---------------------------|-----------------------|---------------------|
| General Fund | Sewer Revenue Fund | \$ 368,789 |
| Sewer Capital Fund | Sewer Revenue Fund | 82,728 |
| Parks and Recreation Fund | Capital Projects Fund | 19,127 |
| Capital Projects Fund | General Fund | <u>3,083,303</u> |
| | | <u>\$ 3,553,947</u> |

Transfers from the Sewer Revenue Fund to the General Fund are for the purpose of reimbursing the General Fund for salary and related costs. All other transfers represent allocations for the purpose of purchasing and constructing capital assets or funding operations.

NOTE M - DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The Township administers a single-employer defined contribution pension plan in which all non-uniform and fire full time employees are eligible to participate. The plan became effective on January 1, 2016 and provides retirement benefits to plan members and their beneficiaries. The Township is authorized with the Board of Supervisors to establish and amend all plan provisions.

Contributions and Funding Policy

The contribution requirements of the Township and plan members are established and may be amended by the Board of Supervisors. Plan members are not required to contribute to the plan. The Township is required to contribute 10% of covered earnings. The Township contributed \$30,573 for the year ended December 31, 2017.

UPPER PROVIDENCE TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE N - DEFINED CONTRIBUTION OTHER POST EMPLOYMENT BENEFIT PLAN

The Township provides medical insurance benefits to eligible retired employees the non-uniform other postemployment benefit plan. The benefits, benefits level and employer contribution are administered by Township Supervisors and can be amended by the Township through its personnel manual and union contracts. The Township contributes \$750 per year of service for non-uniform employees. The plan does not issue a stand-alone financial report.

NOTE O - PRIOR PERIOD ADJUSTMENT

As of January 1, 2017, the Township established the Firefighters Pension Fund. Prior to the establishment of the fund, the participants were members of the Non-Uniformed Pension fund. In order to establish the Firefighters Pension Fund, the balances of the Firefighters pensions were transferred into the new fund. This resulted in a prior period adjustment where the Firefighters Pension net position was increased by \$160,123 from \$0 to \$160,123 and the Non-Uniformed Pension net position was decreased by \$160,123 from \$6,073,005 to \$5,912,882.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER PROVIDENCE TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance With |
|---------------------------------------|-------------------|---------------------|----------------------|---------------------|
| | Original | Final | Amounts | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| REVENUES | | | | |
| Taxes | | | | |
| Real estate | \$ 2,400,000 | \$ 2,400,000 | \$ 2,546,622 | \$ 146,622 |
| Per capita | | | | |
| Delinquent | - | - | 11,060 | 11,060 |
| Real estate transfer | 900,000 | 900,000 | 1,437,719 | 537,719 |
| Earned income | 8,300,000 | 8,300,000 | 9,351,033 | 1,051,033 |
| Local services tax | 825,000 | 825,000 | 946,208 | 121,208 |
| Licenses and permits | 446,500 | 446,500 | 556,234 | 109,734 |
| Fines and forfeits | 123,750 | 123,750 | 148,016 | 24,266 |
| Interest and rents | 123,100 | 123,100 | 226,176 | 103,076 |
| Intergovernmental | 683,900 | 683,900 | 652,247 | (31,653) |
| Charges for services | 1,222,517 | 1,220,500 | 2,096,473 | 875,973 |
| Contributions | 43,500 | 43,500 | 43,500 | - |
| Miscellaneous | 66,250 | 66,250 | 197,341 | 131,091 |
| TOTAL REVENUES | 15,134,517 | 15,132,500 | 18,212,629 | 3,080,129 |
| EXPENDITURES | | | | |
| General government | 1,559,399 | 1,681,899 | 1,598,915 | 82,984 |
| Public safety | 8,579,384 | 8,579,384 | 8,279,769 | 299,615 |
| Public works | | | | |
| Sanitation | 91,841 | 91,841 | 100,776 | (8,935) |
| Highways and streets | 3,044,245 | 3,044,245 | 2,786,878 | 257,367 |
| Culture and recreation | 966,581 | 946,581 | 976,972 | (30,391) |
| Miscellaneous | 33,300 | 33,300 | 19,878 | 13,422 |
| TOTAL EXPENDITURES | 14,274,750 | 14,377,250 | 13,763,188 | 614,062 |
| EXCESS OF REVENUES | | | | |
| OVER EXPENDITURES | 859,767 | 755,250 | 4,449,441 | 3,694,191 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers in | 408,297 | 408,297 | 368,789 | (39,508) |
| Interfund transfers out | (1,268,064) | (1,546,148) | (3,083,303) | (1,537,155) |
| TOTAL OTHER FINANCING | | | | |
| SOURCES (USES) | (859,767) | (1,137,851) | (2,714,514) | (1,576,663) |
| NET CHANGE IN FUND | | | | |
| BALANCES | \$ - | \$ (382,601) | 1,734,927 | \$ 2,117,528 |
| FUND BALANCES AT BEGINNING OF | | | | |
| YEAR | | | 10,861,058 | |
| FUND BALANCES AT END | | | | |
| OF YEAR | | | \$ 12,595,985 | |

UPPER PROVIDENCE TOWNSHIP

NOTE TO THE BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2017

NOTE A - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2017, expenditures exceeded appropriations in the following General Fund object levels (the legal level of budgetary control):

| | |
|------------------------|------------|
| Public works | |
| Sanitation | \$ (8,935) |
| Culture and recreation | (30,391) |

These excess expenditures as well as the final budget deficit were funded by available fund balance.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | | | |
| Service cost | \$ 463,452 | \$ 396,226 | \$ 387,825 | \$ 284,568 |
| Interest | 814,637 | 744,946 | 652,652 | 615,930 |
| Differences between expected and actual experience | 20,217 | 37,499 | 49,856 | 108,805 |
| Changes of assumptions | - | - | 421,577 | - |
| Benefit payments | (240,542) | (392,847) | (186,598) | (656,573) |
| NET CHANGE IN TOTAL PENSION LIABILITY | 1,057,764 | 785,824 | 1,325,312 | 352,730 |
| Total pension liability, beginning | 10,518,639 | 9,732,815 | 8,407,503 | 8,054,773 |
| TOTAL PENSION LIABILITY, ENDING (a) | \$ 11,576,403 | \$ 10,518,639 | \$ 9,732,815 | \$ 8,407,503 |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions, employer | \$ 572,772 | \$ 550,812 | \$ 572,828 | \$ 455,099 |
| Contributions-member | 9,734 | - | - | - |
| Net investment income | 1,215,081 | 391,914 | (197,384) | 96,167 |
| Benefit payments, including refunds of member contributions | (240,524) | (392,847) | (186,598) | (656,573) |
| Administrative expense | (30,868) | (21,165) | (12,150) | (9,425) |
| Other | - | - | - | (20,828) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 1,526,195 | 528,714 | 176,696 | (135,560) |
| Plan fiduciary net position, beginning | 8,028,473 | 7,499,759 | 7,323,063 | 7,458,623 |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | \$ 9,554,668 | \$ 8,028,473 | \$ 7,499,759 | \$ 7,323,063 |
| NET PENSION LIABILITY, ENDING (a)-(b) | \$ 2,021,735 | \$ 2,490,166 | \$ 2,233,056 | \$ 1,084,440 |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | 82.54% | 76.33% | 77.06% | 87.10% |
| COVERED-EMPLOYEE PAYROLL | \$ 3,177,170 | \$ 2,871,440 | \$ 2,632,396 | \$ 2,142,334 |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | 63.63% | 86.72% | 84.83% | 50.62% |

NOTES TO SCHEDULE

Changes of Assumptions: In 2015, the discount rate was changed from 8.0% to 7.5%

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 572,772 | \$ 501,532 | \$ 472,828 | \$ 455,099 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>572,772</u> | <u>550,812</u> | <u>572,828</u> | <u>455,099</u> |
| CONTRIBUTION (EXCESS) DEFICIENCY | \$ <u>-</u> | \$ <u>(49,280)</u> | \$ <u>(100,000)</u> | \$ <u>-</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 3,177,170</u> | <u>\$ 2,871,440</u> | <u>\$ 2,632,396</u> | <u>\$ 2,142,334</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>18.03%</u> | <u>17.47%</u> | <u>17.96%</u> | <u>21.24%</u> |

NOTES TO SCHEDULE

Valuation date: January 1, 2015 January 1, 2013

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

| | | |
|-------------------------------|---|---------------------------|
| Actuarial cost method | Entry age normal | Entry age normal |
| Amortization method | Level dollar, closed | Level dollar, closed |
| Remaining amortization period | 9 years | 10 years |
| Asset valuation method | Market value | Market value |
| Inflation | 3% | 3% |
| Salary increases | 5.0%, average, including inflation | 5.0%, including inflation |
| Investment rate of return | 7.5% | 8.0% |
| Retirement age | Normal retirement age | Normal retirement age |
| Mortality | RP-2000 Table (Blue Collar) with Scale AA | RP-2000 Table |

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|--|---------------|--------------|---------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>15.04%</u> | <u>5.20%</u> | <u>-1.75%</u> | <u>1.22%</u> |

NOTES TO SCHEDULE

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF CHANGES IN THE NET
FIREFIGHTERS' PENSION PLAN
LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR

| | 2017 |
|---|-------------------|
| TOTAL PENSION LIABILITY | |
| Service cost | \$ 45,678 |
| Interest | 17,951 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes of assumptions | - |
| Benefit payments, including refunds of member contributions | - |
| NET CHANGE IN TOTAL PENSION LIABILITY | 63,629 |
| Total pension liability, beginning | 201,927 |
| TOTAL PENSION LIABILITY, ENDING (a) | \$ 265,556 |
| PLAN FIDUCIARY NET POSITION | |
| Contributions, employer | \$ 43,053 |
| Net investment income | 28,540 |
| Benefit payments, including refunds of member contributions | - |
| Administrative expense | (1,283) |
| Other | - |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 70,310 |
| Plan fiduciary net position, beginning | 160,123 |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | \$ 230,433 |
| NET PENSION LIABILITY, ENDING (a)-(b) | \$ 35,123 |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | 86.8% |
| COVERED-EMPLOYEE PAYROLL | \$ 351,928 |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | 10.0% |

NOTES TO SCHEDULE

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

The January 1, 2017 beginning balance was transferred from the Non-uniform Pension Plan in 2017.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF FIREFIGHTERS'
PENSION PLAN CONTRIBUTIONS
LAST FISCAL YEAR

| | |
|---|-------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 38,053 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>43,053</u> |
| CONTRIBUTION (EXCESS) DEFICIENCY | <u>\$ (5,000)</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 351,928</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED- EMPLOYEE PAYROLL | <u>12.23%</u> |

NOTES TO SCHEDULE

Valuation date: January 1, 2017

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---------------------------|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 8 years |
| Asset valuation method | Fair value |
| Inflation | 3% |
| Salary increases | 5.5%, including inflation |
| Investment rate of return | 7.25% |
| Retirement age | Normal retirement age |
| Mortality | RP-2000 Table |

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF FIREFIGHTERS' PENSION PLAN
INVESTMENT RETURNS
LAST FISCAL YEAR

ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF
INVESTMENT EXPENSE

16.20%

NOTES TO SCHEDULE

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED
EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | | | |
| Service cost | \$ 231,448 | \$ 208,048 | \$ 210,528 | \$ 231,604 |
| Interest | 555,741 | 519,184 | 484,522 | 451,078 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | (28,083) | - | (77,520) | - |
| Changes of assumptions | 244,506 | - | - | - |
| Benefit payments, including refunds of member contributions | (218,592) | (301,754) | (130,184) | (115,673) |
| NET CHANGE IN TOTAL PENSION LIABILITY | 785,020 | 425,478 | 487,346 | 567,009 |
| Total pension liability, beginning | 7,324,900 | 7,101,349 | 6,614,003 | 6,046,994 |
| TOTAL PENSION LIABILITY, ENDING (a) | \$ 8,109,920 | \$ 7,526,827 | \$ 7,101,349 | \$ 6,614,003 |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions, employer | \$ 462,171 | \$ 518,487 | \$ 578,071 | \$ 503,231 |
| Net investment income | 972,722 | 288,734 | (46,128) | 283,402 |
| Benefit payments, including refunds of member contributions | (218,592) | (301,754) | (130,184) | (115,673) |
| Administrative expense | (24,753) | (33,832) | (39,303) | (29,410) |
| Other | - | - | - | - |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 1,191,548 | 471,635 | 362,456 | 641,550 |
| Plan fiduciary net position, beginning | 5,912,882 | 5,601,370 | 5,238,914 | 4,597,364 |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | \$ 7,104,430 | \$ 6,073,005 | \$ 5,601,370 | \$ 5,238,914 |
| NET PENSION LIABILITY, ENDING (a)-(b) | \$ 1,005,490 | \$ 1,453,822 | \$ 1,499,979 | \$ 1,375,089 |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | 87.6% | 80.7% | 78.9% | 79.2% |
| COVERED-EMPLOYEE PAYROLL | \$ 1,466,467 | \$ 2,145,038 | \$ 2,305,168 | \$ 1,968,721 |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | 68.6% | 67.8% | 65.1% | 69.8% |

NOTES TO SCHEDULE

Changes of Assumptions: In 2017, the mortality rates were based on the RP-2014 Mortality Table. In prior years, the mortality rates were based on the RP-2000 Combined Healthy Mortality Table.

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

The January 1, 2017 beginning balances included amounts that were transferred into the Firefighters Pension Plan in 2017.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF NON-UNIFORMED EMPLOYEES'
PENSION PLAN CONTRIBUTIONS
LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 432,169 | \$ 478,988 | \$ 478,071 | \$ 503,231 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>462,171</u> | <u>518,487</u> | <u>578,071</u> | <u>503,231</u> |
| CONTRIBUTION (EXCESS) DEFICIENCY | <u>\$ (30,002)</u> | <u>\$ (39,499)</u> | <u>\$ (100,000)</u> | <u>\$ -</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 1,466,467</u> | <u>\$ 2,145,038</u> | <u>\$ 2,305,168</u> | <u>\$ 1,968,721</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>31.52%</u> | <u>24.17%</u> | <u>25.08%</u> | <u>25.56%</u> |

NOTES TO SCHEDULE

Valuation date: January 1, 2015 January 1, 2013

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

| | | |
|-------------------------------|---------------------------|---------------------------|
| Actuarial cost method | Entry age normal | Entry age normal |
| Amortization method | Level dollar, closed | Level dollar, closed |
| Remaining amortization period | 8 years | 10 years |
| Asset valuation method | Fair value | Market value |
| Inflation | 3% | 3% |
| Salary increases | 5.5%, including inflation | 5.5%, including inflation |
| Investment rate of return | 7.25% | 7.25% |
| Retirement age | Normal retirement age | Normal retirement age |
| Mortality | RP-2000 Table | RP-2000 Table |

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF NON-UNIFORMED EMPLOYEES'
PENSION PLAN INVESTMENT RETURNS
LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|--|---------------|--------------|---------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>16.09%</u> | <u>5.20%</u> | <u>-0.82%</u> | <u>6.14%</u> |

NOTES TO SCHEDULE

This pension schedule is intended to present information for ten years. Additional years' information will be displayed as it becomes available.

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF CHANGES IN THE POLICE OTHER
POSTEMPLOYMENT BENEFITS PLAN LIABILITY
AND RELATED RATIOS
LAST FISCAL YEAR

| | |
|--|---------------------|
| TOTAL OPEB LIABILITY | |
| Service cost | \$ 57,076 |
| Interest | 55,959 |
| Differences between expected and actual experience | (26,678) |
| Benefit payments | (18,006) |
| NET CHANGE IN TOTAL OPEB LIABILITY | <u>68,351</u> |
| TOTAL OPEB LIABILITY, BEGINNING | <u>1,071,101</u> |
| TOTAL OPEB LIABILITY, ENDING (a) | <u>\$ 1,139,452</u> |
| PLAN FIDUCIARY NET POSITION | |
| Contributions | |
| Employer | \$ - |
| Net investment income | 102,557 |
| Benefit payments, including refunds of member contributions | (18,006) |
| Administrative expense | (7,954) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | <u>76,597</u> |
| Plan fiduciary net position, beginning | <u>830,366</u> |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | <u>\$ 906,963</u> |
| NET OPEB LIABILITY, ENDING (a)-(b) | <u>\$ 232,489</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY | <u>79.60%</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 3,273,522</u> |
| NET OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>7.10%</u> |

NOTES TO SCHEDULE

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

UPPER PROVIDENCE TOWNSHIP
SCHEDULE OF POLICE OTHER POSTEMPLOYMENT
BENEFITS PLAN CONTRIBUTIONS
LAST FISCAL YEAR

| | |
|--|--------------|
| Actuarially determined contribution | \$ - |
| Contributions in relation to the actuarially determined contribution | - |
| Contribution deficiency | \$ - |
| Covered-employee payroll | \$ 3,273,522 |
| Contribution as a percentage of covered-employee payroll | 0.00% |

NOTES TO SCHEDULE

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial valuation date | 1/1/17 |
| Actuarial cost method | Entry age |
| Amortization method | Percentage of pay, closed |
| Remaining amortization period | 30 years |
| Asset valuation method | Market value |
| Salary increases | None assumed |
| Investment rate of return | 5.00% |
| Mortality | RP-2000 Combined (Blue Collar) Mortality Table |
| Healthcare cost trend rates | 8% decreasing to 5% |

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

UPPER PROVIDENCE TOWNSHIP**SCHEDULE OF POLICE OTHER POSTEMPLOYMENT
BENEFITS PLAN INVESTMENT RETURNS
LAST FISCAL YEAR**

Annual money-weighted rate of return, net of investment expense

12.12%**NOTES TO SCHEDULE**

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

UPPER PROVIDENCE TOWNSHIP
POSTEMPLOYMENT BENEFITS OTHER
THAN PENSION FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF FUNDING PROGRESS

Police Other Postemployment Benefit Plan

| Valuation Date January 1, | (a) Actuarial Value of Assets | (b) Entry Age Actuarial Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (b)-(a) | (d) Funded Ratio (a)/(b) | (e) Covered Payroll | (f) UAAL as a Percentage of Covered Payroll (c)/(e) |
|---------------------------------|--|--|--|-----------------------------------|---------------------------|--|
| 2011 | \$ 571,710 | \$ 1,154,525 | \$ 582,815 | 49.52% | \$ 2,104,794 | 27.69% |
| 2014 | 584,474 | 1,174,996 | 590,522 | 49.74% | 2,142,334 | 27.56% |
| 2017 | 830,366 | 1,289,733 | 459,367 | 64.38% | 3,273,522 | 14.03% |