

EASTTOWN TOWNSHIP
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2018



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Supervisors
Easttown Township
Devon, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Easttown Township as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Easttown Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Easttown Township's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

To the Board of Supervisors
Easttown Township
Devon, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Easttown Township as of December 31, 2018, and the respective changes in financial position--modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

For the year ended December 31, 2018, Easttown Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 11, budgetary comparison information on pages 52 and 53, pension plan information on pages 54 through 59 and postemployment benefits other than pension information on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maille LLP

West Chester, Pennsylvania
July 17, 2019

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

The management of Easttown Township offers the readers of the Township's basic financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the introductory section of this report and the Township's basic financial statements in the financial section of this report.

USING THIS ANNUAL REPORT

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

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Township's modified cash basis of accounting.

Government-Wide Financial Statements

The government-wide financial statements are comprised of the statement of net position and the statement of activities. These statements are designed to provide readers with a broad overview of the Township's finances utilizing the modified cash basis method of accounting. Under the modified cash basis method of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense. Thus, assets, liabilities, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods.

The statement of net position presents information on all the Township's assets and liabilities, including capital assets and long-term liabilities, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating.

The statement of activities presents information showing how the Township's net position changed during the most recent fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

The government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, police, fire, community development, planning, public works, etc. The business-type activities of the Township include sanitary sewer, utility and solid waste operations.

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

The government-wide financial statements include not only the Township itself but also the Easttown Municipal Authority. Although the Authority is a legally separate entity, it functions for all practical purposes as a part of the Township and, therefore, has been included as a blended component unit as an integral part of the primary government.

The government-wide financial statements can be found later in this report.

Fund Financial Statements

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. All of the funds of the Township can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds - Governmental Funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. The Governmental Funds financial statements utilize the modified cash basis of accounting. Under the modified cash basis method of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

Because the focus of the Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions. Both the Governmental Funds balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities.

The Township maintains numerous individual Governmental Funds. Information is presented separately in the Governmental Funds balance sheet and statement of revenues, expenditures and changes in fund balances for the General Fund, Capital Projects Fund, Highway Aid Fund, Library Fund and Parks and Recreation Fund, all of which are considered to be major funds.

The Township adopts an annually appropriate budget for all Governmental and Proprietary Funds.

Proprietary Funds - The Township maintains Proprietary Funds for the sanitary sewer system and the municipal waste contract. The Proprietary Funds provide the same type of information as the government-wide financial statements.

The Proprietary Funds financial statements can be found later in this report.

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds - Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources are not available to support the Township's own programs.

The Fiduciary Funds financial statements can be found later in this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are found in the following pages of this report.

Required Supplementary Information

The management's discussion and analysis, the General Fund budgetary comparison schedule (page 52), the schedule of changes in the net police pension plan liability and related ratios (page 54), the schedule of police pension plan contributions (page 55), the schedule of police pension plan investment returns (page 56), the schedule of changes in the net non-uniformed employees' pension plan liability and related ratios (page 57), the schedule of non-uniformed employees' pension plan contributions (page 58), the schedule of non-uniformed employees' pension plan investment returns (page 59) and the schedule of changes in the total other postemployment benefit plan liability and related ratios (page 60) represent financial information required by the GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as "the basic financial statements").

Basis of Accounting

The Township has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the Township's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of connection fees and Solid Waste Fund receivables in the Proprietary Funds and long-term debt and depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for Proprietary Fund activities.

A FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Position--Modified Cash Basis

The Township's combined net position, resulting from modified cash basis transactions, was \$3,113,674 at December 31, 2018. Net position of the governmental activities decreased \$623,854, which was the result of a \$292,268 loss on government funds, a loss of \$326,933 for the difference between capital expenditures reclassified to assets and depreciation recorded as expenditures, \$338,888 of expense related to the pension plans and \$325,199 of expense incurred for the OPEB plan. These losses were offset by \$630,000 of principal debt expense reclassified to the balance sheet as a decrease to debt.

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

Statements of Net Position--Modified Cash Basis**December 31, 2018 and 2017**

	2018		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current and other assets	\$ 2,977,668	\$ 11,776,276	\$ 14,753,944
Capital assets	7,978,740	12,171,664	20,150,404
TOTAL ASSETS	10,956,408	23,947,940	34,904,348
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	106,347	106,347
Deferred outflows related to pensions	1,317,430	-	1,317,430
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,317,430	106,347	1,423,777
LIABILITIES			
Long-term debt	3,161,297	18,942,348	22,103,645
Other liabilities	10,823,164	-	10,823,164
TOTAL LIABILITIES	13,984,461	18,942,348	32,926,809
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	92,984	-	92,984
Deferred outflows related to OPEB	194,658	-	194,658
TOTAL DEFERRED INFLOWS OF RESOURCES	287,642	-	287,642
NET POSITION			
Net investment in capital assets	4,817,443	(5,272,792)	(455,349)
Restricted	1,018,690	-	1,018,690
Unrestricted	(7,834,398)	10,384,731	2,550,333
TOTAL NET POSITION	\$ (1,998,265)	\$ 5,111,939	\$ 3,113,674

2017		
Governmental Activities	Business-Type Activities	Totals
\$ 3,192,737	\$ 8,438,025	\$ 11,630,762
<u>8,307,965</u>	<u>12,925,507</u>	<u>21,233,472</u>
<u>11,500,702</u>	<u>21,363,532</u>	<u>32,864,234</u>
-	119,701	119,701
<u>830,100</u>	<u>-</u>	<u>830,100</u>
<u>830,100</u>	<u>119,701</u>	<u>949,801</u>
3,844,581	19,729,497	23,574,078
<u>6,994,305</u>	<u>-</u>	<u>6,994,305</u>
<u>10,838,886</u>	<u>19,729,497</u>	<u>30,568,383</u>
506,131	-	506,131
<u>-</u>	<u>-</u>	<u>-</u>
<u>506,131</u>	<u>-</u>	<u>506,131</u>
4,463,384	(5,312,922)	(849,538)
1,040,867	-	1,040,867
<u>(4,518,466)</u>	<u>7,066,658</u>	<u>2,548,192</u>
<u>\$ 985,785</u>	<u>\$ 1,753,736</u>	<u>\$ 2,739,521</u>

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

Changes in Net Position--Modified Cash Basis

For the years ended December 31, 2018 and 2017, net position of the primary government (resulting from modified cash basis transactions) changed as follows:

Statements of Changes in Net Position--Modified Cash Basis Years Ended December 31, 2018 and 2017

	2018		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
REVENUES			
Program revenues			
Charges for services	\$ 1,386,501	\$ 3,899,598	\$ 5,286,099
Operating grants and contributions	397,115	87,545	484,660
General revenues			
Taxes	6,167,339	-	6,167,339
Intergovernmental revenue	337,547	-	337,547
Licenses and permits	274,244	-	274,244
Fines and forfeitures	38,321	-	38,321
Investment income	46,115	86,961	133,076
Gain on disposal of capital asset	3,958	-	3,958
Miscellaneous	61,448	3,634,055	3,695,503
TOTAL REVENUES	<u>8,712,588</u>	<u>7,708,159</u>	<u>16,420,747</u>
EXPENSES			
General government	940,715	-	940,715
Public safety	5,795,311	-	5,795,311
Public works, highways and streets	992,776	-	992,776
Culture and recreation	881,509	-	881,509
Depreciation	406,863	-	406,863
Interest	42,457	-	42,457
Solid waste	-	1,177,787	1,177,787
Sewer	-	3,448,980	3,448,980
Transfers	276,811	(276,811)	-
TOTAL EXPENSES	<u>9,336,442</u>	<u>4,349,956</u>	<u>13,686,398</u>
CHANGE IN NET POSITION	\$ <u>(623,854)</u>	\$ <u>3,358,203</u>	\$ <u>2,734,349</u>

2017		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ 1,440,801	\$ 4,250,461	\$ 5,691,262
359,418	653	360,071
6,256,427	-	6,256,427
334,481	-	334,481
291,676	-	291,676
26,340	-	26,340
22,066	37,257	59,323
44,670	-	44,670
<u>87,069</u>	<u>998,282</u>	<u>1,085,351</u>
<u>8,862,948</u>	<u>5,286,653</u>	<u>14,149,601</u>
807,724	-	807,724
5,395,198	-	5,395,198
822,715	-	822,715
852,403	-	852,403
406,823	-	406,823
37,189	-	37,189
-	1,190,284	1,190,284
-	3,825,884	3,825,884
-	-	-
<u>8,322,052</u>	<u>5,016,168</u>	<u>13,338,220</u>
<u>\$ 540,896</u>	<u>\$ 270,485</u>	<u>\$ 811,381</u>

EASTTOWN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no budgetary adjustments in 2018. For the year ended December 31, 2018, actual revenues for property taxes, and charges for services exceeded budgeted amounts by \$119,035 and \$431,226, respectively. These variances were the result of higher than budget property taxes and permits. Actual expenditures for general government, public safety, and public works were greater than budgeted amounts by \$106,027, \$364,249 and \$151,584, respectively. These variances were primarily the result of higher than budgeted engineering, utilities and snow related expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets--Modified Cash Basis

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
GOVERNMENTAL ACTIVITIES				
Land	\$ 1,970,144	\$ -	\$ -	\$ 1,970,144
Infrastructure	272,995	-	-	272,995
Building and improvements	11,297,045	-	-	11,297,045
Library collection	1,900,000	-	-	1,900,000
Furniture and equipment	1,810,800	79,930	(54,394)	1,836,336
	<u>17,250,984</u>	<u>79,930</u>	<u>(54,394)</u>	<u>17,276,520</u>
Accumulated depreciation	<u>(8,943,019)</u>	<u>(406,863)</u>	<u>52,102</u>	<u>(9,297,780)</u>
	<u>\$ 8,307,965</u>	<u>\$ (326,933)</u>	<u>\$ (2,292)</u>	<u>\$ 7,978,740</u>
BUSINESS-TYPE ACTIVITIES				
Land	\$ 294,170	\$ -	\$ -	\$ 294,170
Buildings and equipment	19,886,366	114,204	-	19,886,366
	<u>20,180,536</u>	<u>114,204</u>	<u>-</u>	<u>20,180,536</u>
Accumulated depreciation	<u>(8,008,872)</u>	<u>(868,047)</u>	<u>-</u>	<u>(8,008,872)</u>
	<u>\$ 12,171,664</u>	<u>\$ (753,843)</u>	<u>\$ -</u>	<u>\$ 12,171,664</u>

Long-Term Debt--Modified Cash Basis

At December 31, 2018, the Township had \$22,265,000 in long-term debt arising from modified cash basis transactions. At December 31, 2018, \$3,175,000 of the debt is related to governmental activities and \$19,090,000 is related to business-type activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Easttown Township's finances are stable and the outlook indicates they will remain that way. The Board of Supervisors continues to modestly build up reserves and anticipates that this will continue into the future by using sound budgeting practices.
- The Board of Supervisors did not raise the millage rate for 2018 due to the stable nature of the overall health of the Township's financial status.

EASTTOWN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township Manager's office at 566 Beaumont Road, Devon, PA 19333-1722 or telephone at 610-687-3000.

EASTTOWN TOWNSHIP**STATEMENT OF NET POSITION--MODIFIED CASH BASIS**

DECEMBER 31, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and equivalents	\$ 2,977,668	\$ 11,386,458	\$ 14,364,126
Accounts receivable	-	389,818	389,818
Capital assets			
Land	1,970,144	294,170	2,264,314
Infrastructure	272,995	-	272,995
Building and improvements	11,297,045	800,746	12,097,791
Library collection	1,900,000	-	1,900,000
Vehicles	578,356	-	578,356
Furniture and equipment	1,257,980	19,085,620	20,343,600
Accumulated depreciation	(9,297,780)	(8,008,872)	(17,306,652)
TOTAL ASSETS	<u>10,956,408</u>	<u>23,947,940</u>	<u>34,904,348</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	106,347	106,347
Deferred outflows related to pensions	1,317,430	-	1,317,430
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,317,430</u>	<u>106,347</u>	<u>1,423,777</u>
LIABILITIES			
Land development escrows	292,596	-	292,596
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	260,000	815,000	1,075,000
Portion due or payable after one year			
Bonds payable	2,915,000	18,275,000	21,190,000
Bond premium	-	59,379	59,379
Bond discounts, net	(13,703)	(207,031)	(220,734)
Compensated absences	75,056	-	75,056
Net pension liability	5,710,623	-	5,710,623
Net OPEB obligation	4,744,889	-	4,744,889
TOTAL LIABILITIES	<u>13,984,461</u>	<u>18,942,348</u>	<u>32,926,809</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	92,984	-	92,984
Deferred inflows related to OPEB	194,658	-	194,658
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>287,642</u>	<u>-</u>	<u>287,642</u>
NET POSITION			
Net investment in capital assets	4,817,443	(5,272,792)	(455,349)
Restricted	1,018,690	-	1,018,690
Unrestricted	(7,834,398)	10,384,731	2,550,333
TOTAL NET POSITION	<u>\$ (1,998,265)</u>	<u>\$ 5,111,939</u>	<u>\$ 3,113,674</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP

STATEMENT OF ACTIVITIES--MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 940,715	\$ 31,288	\$ -	\$ -
Public safety	5,795,311	1,301,378	20,281	-
Public works	992,776	-	376,834	-
Culture and recreation	881,509	53,835	-	-
Depreciation, unallocated	406,863	-	-	-
Interest on long-term debt	42,457	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	9,059,631	1,386,501	397,115	-
BUSINESS-TYPE ACTIVITIES				
Solid waste	1,177,787	1,055,184	87,545	-
Sewer	3,448,980	2,844,414	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	4,626,767	3,899,598	87,545	-
TOTAL TOWNSHIP ACTIVITIES	\$ 13,686,398	\$ 5,286,099	\$ 484,660	\$ -

GENERAL REVENUES

Taxes

Real estate

Transfer

Intergovernmental revenue not restricted to specific programs

Licenses and permits

Fines and forfeitures

Investment income

Miscellaneous

Gain on disposal of capital asset

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-Type</u>	<u>Totals</u>
<u>Activities</u>	<u>Activities</u>	
\$ (909,427)	\$ -	\$ (909,427)
(4,473,652)	-	(4,473,652)
(615,942)	-	(615,942)
(827,674)	-	(827,674)
(406,863)	-	(406,863)
(42,457)	-	(42,457)
<u>(7,276,015)</u>	<u>-</u>	<u>(7,276,015)</u>
-	(35,058)	(35,058)
-	(604,566)	(604,566)
<u>-</u>	<u>(639,624)</u>	<u>(639,624)</u>
<u>(7,276,015)</u>	<u>(639,624)</u>	<u>(7,915,639)</u>
5,479,502	-	5,479,502
687,837	-	687,837
337,547	-	337,547
274,244	-	274,244
38,321	-	38,321
46,115	86,961	133,076
61,448	3,634,055	3,695,503
3,958	-	3,958
(276,811)	276,811	-
<u>6,652,161</u>	<u>3,997,827</u>	<u>10,649,988</u>
(623,854)	3,358,203	2,734,349
<u>(1,374,411)</u>	<u>1,753,736</u>	<u>379,325</u>
<u>\$ (1,998,265)</u>	<u>\$ 5,111,939</u>	<u>\$ 3,113,674</u>

EASTTOWN TOWNSHIP

BALANCE SHEET--MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Capital Projects Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ <u>1,938,649</u>	\$ <u>845,002</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Escrows	\$ -	\$ -
Land development escrows	<u>272,267</u>	<u>-</u>
TOTAL LIABILITIES	<u>272,267</u>	<u>-</u>
FUND BALANCES		
Restricted		
Capital projects	-	845,002
Streets and highways	-	-
Library	-	-
Parks and recreation	-	-
Unassigned	<u>1,666,382</u>	<u>-</u>
TOTAL FUND BALANCES	<u>1,666,382</u>	<u>845,002</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,938,649</u>	<u>\$ 845,002</u>

See accompanying notes to the basic financial statements.

<u>Highway Aid Fund</u>	<u>Library Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
\$ <u>122,342</u>	\$ <u>17,515</u>	\$ <u>54,160</u>	\$ <u>2,977,668</u>
\$ -	\$ -	\$ 20,329	\$ 20,329
<u>-</u>	<u>-</u>	<u>-</u>	<u>272,267</u>
<u>-</u>	<u>-</u>	<u>20,329</u>	<u>292,596</u>
-	-	-	845,002
122,342	-	-	122,342
-	17,515	-	17,515
-	-	33,831	33,831
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,666,382</u>
<u>122,342</u>	<u>17,515</u>	<u>33,831</u>	<u>2,685,072</u>
\$ <u>122,342</u>	\$ <u>17,515</u>	\$ <u>54,160</u>	\$ <u>2,977,668</u>

EASTTOWN TOWNSHIP

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES-- MODIFIED CASH BASIS TO NET POSITION OF GOVERNMENTAL ACTIVITIES--MODIFIED CASH BASIS YEAR ENDED DECEMBER 31, 2018

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 2,685,072
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	1,970,144
Infrastructure	272,995
Building and improvements	11,297,045
Library collection	1,900,000
Vehicles	578,356
Furniture and equipment	1,257,980
Accumulated depreciation	(9,297,780)
<p>Deferred inflows and outflows related to pension and OPEB activities are not financial resources and therefore are not reported in the governmental funds.</p>	
	1,029,788
<p>Bond discounts and bond premiums are not recorded as assets and liabilities, respectively, in the Governmental Funds; however, these items are capitalized and amortized in the government-wide financial statements.</p>	
	13,703
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Bonds payable	(3,175,000)
Compensated absences	(75,056)
Net pension liability	(5,710,623)
Net OPEB obligation	<u>(4,744,889)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,998,265)</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIPSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES--MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>
REVENUES		
Property taxes	\$ 4,484,035	\$ 912,680
Fees and fines	38,321	-
Licenses and permits	274,244	-
Intergovernmental	382,630	-
Charges for services	1,322,726	-
Investment earnings	30,265	11,255
Miscellaneous	59,042	1,281
TOTAL REVENUES	<u>6,591,263</u>	<u>925,216</u>
EXPENDITURES		
Current		
General government	832,152	53,976
Public safety	5,071,667	177,930
Public works	614,534	41,894
Culture and recreation	62,388	-
Debt service		
Principal	-	630,000
Interest and other charges	-	95,741
TOTAL EXPENDITURES	<u>6,580,741</u>	<u>999,541</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>10,522</u>	<u>(74,325)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(280,613)	-
Sale of general capital assets	-	6,250
TOTAL OTHER FINANCING SOURCES (USES)	<u>(280,613)</u>	<u>6,250</u>
NET CHANGE IN FUND BALANCES	(270,091)	(68,075)
FUND BALANCES AT BEGINNING OF YEAR	<u>1,936,473</u>	<u>913,077</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,666,382</u>	<u>\$ 845,002</u>

See accompanying notes to the basic financial statements.

<u>Highway Aid Fund</u>	<u>Library Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 704,223	\$ 66,401	\$ 6,167,339
-	-	-	38,321
-	-	-	274,244
361,972	-	-	744,602
-	-	53,835	1,376,561
1,813	2,057	725	46,115
-	-	1,125	61,448
<u>363,785</u>	<u>706,280</u>	<u>122,086</u>	<u>8,708,630</u>
-	-	-	886,128
-	-	-	5,249,597
332,188	-	-	988,616
-	700,000	117,867	880,255
-	-	-	630,000
-	-	-	95,741
<u>332,188</u>	<u>700,000</u>	<u>117,867</u>	<u>8,730,337</u>
<u>31,597</u>	<u>6,280</u>	<u>4,219</u>	<u>(21,707)</u>
-	-	3,802	3,802
-	-	-	(280,613)
-	-	-	6,250
-	-	3,802	(270,561)
31,597	6,280	8,021	(292,268)
<u>90,745</u>	<u>11,235</u>	<u>25,810</u>	<u>2,977,340</u>
\$ <u><u>122,342</u></u>	\$ <u><u>17,515</u></u>	\$ <u><u>33,831</u></u>	\$ <u><u>2,685,072</u></u>

EASTTOWN TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-- MODIFIED CASH BASIS TO THE STATEMENT OF ACTIVITIES-- MODIFIED CASH BASIS YEAR ENDED DECEMBER 31, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (292,268)
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.	(326,933)
Bond discounts and bond premiums are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense.	53,284
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	630,000
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	(2,292)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures are measured by the amount of financial resources used.	(21,558)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:	
Pension plan expense	(338,888)
OPEB expense	(325,199)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(623,854)</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP

STATEMENT OF NET POSITION--MODIFIED CASH BASIS

PROPRIETARY FUNDS

DECEMBER 31, 2018

	Enterprise Funds				Total Proprietary Funds
	Solid Waste Fund	Sewer Revenue Fund	Sewer Operating Fund	Municipal Authority	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 421,696	\$ 3,540,009	\$ 25,316	\$ 7,399,437	\$ 11,386,458
Accounts receivable, net	103,584	286,234	-	-	389,818
Bond discounts, net	-	-	-	207,031	207,031
TOTAL CURRENT ASSETS	525,280	3,826,243	25,316	7,606,468	11,983,307
PROPERTY AND EQUIPMENT					
Land and improvements	-	-	-	294,170	294,170
Buildings	-	-	-	800,746	800,746
Equipment and furniture	-	-	191,922	18,893,698	19,085,620
Accumulated depreciation	-	-	(157,474)	(7,851,398)	(8,008,872)
TOTAL PROPERTY AND EQUIPMENT	-	-	34,448	12,137,216	12,171,664
TOTAL ASSETS	525,280	3,826,243	59,764	19,743,684	24,154,971
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on on refunding, net	-	-	-	106,347	106,347
LIABILITIES					
CURRENT LIABILITIES					
Bonds payable	-	-	-	815,000	815,000
LONG-TERM DEBT, less current portion					
	-	-	-	18,334,379	18,334,379
TOTAL LIABILITIES	-	-	-	19,149,379	19,149,379
NET POSITION					
Net investment in capital assets	-	-	34,448	(5,307,240)	(5,272,792)
Unrestricted	525,280	3,826,243	25,316	6,007,892	10,384,731
TOTAL NET POSITION	\$ 525,280	\$ 3,826,243	\$ 59,764	\$ 700,652	\$ 5,111,939

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION--MODIFIED CASH BASIS PROPRIETARY FUNDS YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds				Total Proprietary Funds
	Solid Waste Fund	Sewer Revenue Fund	Sewer Operating Fund	Municipal Authority	
OPERATING REVENUES					
Charges for services					
Sewer rents and fees	\$ -	\$ 2,759,134	\$ -	\$ 85,280	\$ 2,844,414
Sewer lease	-	(1,453,316)	-	1,453,316	-
Solid waste	1,055,184	-	-	-	1,055,184
Other income	-	-	212,144	3,421,911	3,634,055
TOTAL OPERATING REVENUES	1,055,184	1,305,818	212,144	4,960,507	7,533,653
OPERATING EXPENSES					
Public works, sanitation	1,177,787	1,390,345	528,104	851,010	3,947,246
OPERATING INCOME (LOSS)	(122,603)	(84,527)	(315,960)	4,109,497	3,586,407
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	87,545	-	-	-	87,545
Investment income	4,570	34,402	1,148	46,841	86,961
Interest expense	-	-	-	(679,521)	(679,521)
TOTAL NONOPERATING REVENUES (EXPENSES)	92,115	34,402	1,148	(632,680)	(505,015)
INCOME (LOSS) BEFORE INTERFUND TRANSFERS	(30,488)	(50,125)	(314,812)	3,476,817	3,081,392
INTERFUND TRANSFERS					
Transfers in	57,187	175,604	254,020	-	486,811
Transfers out	-	(210,000)	-	-	(210,000)
TOTAL INTERFUND TRANSFERS	57,187	(34,396)	254,020	-	276,811
CHANGE IN NET POSITION	26,699	(84,521)	(60,792)	3,476,817	3,358,203
NET POSITION AT BEGINNING OF YEAR, restated					
	498,581	3,910,764	120,556	(2,776,165)	1,753,736
NET POSITION AT END OF YEAR	\$ 525,280	\$ 3,826,243	\$ 59,764	\$ 700,652	\$ 5,111,939

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP
STATEMENT OF CASH FLOWS--MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds				Total Proprietary Funds
	Solid Waste Fund	Sewer Revenue Fund	Sewer Operating Fund	Municipal Authority	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 1,077,717	\$ -	\$ -	\$ -	\$ 1,077,717
Cash received from rental and tapping fees	-	1,388,451	-	1,538,596	2,927,047
Other receipts	-	-	212,144	3,421,911	3,634,055
Payments to suppliers	(1,177,787)	(1,390,345)	(510,879)	(188)	(3,079,199)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(100,070)</u>	<u>(1,894)</u>	<u>(298,735)</u>	<u>4,960,319</u>	<u>4,559,620</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	(210,000)	-	-	(210,000)
Transfers from other funds	57,187	175,604	254,020	-	486,811
Operating grants	87,545	-	-	-	87,545
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>144,732</u>	<u>(34,396)</u>	<u>254,020</u>	<u>-</u>	<u>364,356</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal payment on debt	-	-	-	(795,000)	(795,000)
Interest paid on capital debt	-	-	-	(658,316)	(658,316)
Acquisition, construction and improvements of capital assets	-	-	-	(114,204)	(114,204)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,567,520)</u>	<u>(1,567,520)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Earnings on investments	4,570	34,402	1,148	46,841	86,961
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,232	(1,888)	(43,567)	3,439,640	3,443,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
	<u>372,464</u>	<u>3,541,897</u>	<u>68,883</u>	<u>3,959,797</u>	<u>7,943,041</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR					
	<u>\$ 421,696</u>	<u>\$ 3,540,009</u>	<u>\$ 25,316</u>	<u>\$ 7,399,437</u>	<u>\$ 11,386,458</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (122,603)	\$ (84,527)	\$ (315,960)	\$ 4,109,497	\$ 3,586,407
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	-	-	17,225	850,822	868,047
Decrease in receivables	22,533	82,633	-	-	105,166
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (100,070)</u>	<u>\$ (1,894)</u>	<u>\$ (298,735)</u>	<u>\$ 4,960,319</u>	<u>\$ 4,559,620</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Uniformed Employees' Pension Fund</u>	<u>Non-Uniformed Employees' Pension Fund</u>
ASSETS		
Cash	\$ 108,264	\$ 53,128
Investments	<u>6,934,372</u>	<u>3,441,641</u>
TOTAL ASSETS	<u>\$ 7,042,636</u>	<u>\$ 3,494,769</u>
NET POSITION		
Held in trust for pension benefits and other purposes	<u>\$ 7,042,636</u>	<u>\$ 3,494,769</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIPSTATEMENT OF CHANGES IN FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Uniformed Employees' Pension Fund</u>	<u>Non-Uniformed Employees' Pension Fund</u>
ADDITIONS		
Contributions		
Employer and Commonwealth	\$ 753,205	\$ 105,764
Employee	<u>88,564</u>	<u>11,719</u>
TOTAL CONTRIBUTIONS	<u>841,769</u>	<u>117,483</u>
Investment earnings		
Gain on sales	186,270	90,008
Decrease in fair market value of assets	(746,605)	(370,855)
Interest and dividends	<u>170,598</u>	<u>92,156</u>
TOTAL INVESTMENT EARNINGS	<u>(389,737)</u>	<u>(188,691)</u>
Less investment expense	<u>(4,051)</u>	<u>-</u>
NET INVESTMENT EARNINGS	<u>(393,788)</u>	<u>(188,691)</u>
 TOTAL ADDITIONS	 <u>447,981</u>	 <u>(71,208)</u>
DEDUCTIONS		
Administrative	28,285	18,199
Payments to participants	<u>602,064</u>	<u>270,458</u>
TOTAL DEDUCTIONS	<u>630,349</u>	<u>288,657</u>
 CHANGE IN NET POSITION	 (182,368)	 (359,865)
 NET POSITION AT BEGINNING OF YEAR	 <u>7,225,004</u>	 <u>3,854,634</u>
 NET POSITION AT END OF YEAR	 <u>\$ 7,042,636</u>	 <u>\$ 3,494,769</u>

See accompanying notes to the basic financial statements.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Easttown Township (the "Township") is a Second-Class Township located in Chester County, Pennsylvania. The Township is governed by a five-member Board of Supervisors. Supervisors are elected at large for six-year terms in staggered elections. The Board of Supervisors is responsible for the administration, management and operation of the Township. The duties of the Board of Supervisors include the adoption of the annual operating budget, capital improvements, maintenance of roads, public safety and planned development.

Financial Reporting Entity

In determining the financial reporting entity, the Township complies with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No.14 and No. 34*. In reviewing the criteria for inclusion in the financial statements, the Township considered the following:

- The fire departments receive a contribution from the Township; however, the majority of revenues is generated through private fund-raisers under the direction of a separate independent board not appointed by the Township Supervisors. The departments are organized under a separate charter and, therefore, are not included in the financial statements because they are not considered component units.
- The Easttown Municipal Authority is a legally separate entity. The Authority Board is appointed by the Township Supervisors but acts independently of the Township; however, the Township can impose significant influence on the Authority. The Authority is a component unit and, as such, has been included in the financial statements as a blended component unit. The Township has guaranteed the debt of the Authority. The Authority issues separately audited financial reports. Copies of these reports may be obtained from the Township.

Budgets

Original and supplemental budgets are included under the heading of budget in the financial statements. Appropriations lapse at year-end.

Fund Accounting

The accounts of the Township are organized on a basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses. The various funds are grouped into the categories governmental and proprietary.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 principal activities accounted for in the General Fund are general government, public safety and recreation. Those activities are funded principally by property taxes, state shared taxes and grants from other governmental units.
- The *Capital Projects Fund* is used to account for financial resources used for the acquisition of major capital facilities or equipment.
- The *Highway Aid Fund* is used to account for the proceeds of specific revenue sources restricted to expenditures for the construction and maintenance of streets and highways.
- The *Library Fund* is used to account for all financial resources that are legally restricted to expenditures for the Library.
- The *Parks and Recreation Fund* is used to account for all financial resources that are legally restricted to expenditures for park and recreation activities.

The Township reports the following major Proprietary Funds:

- The *Solid Waste Fund*, *Sewer Revenue Fund* and *Sewer Operating Fund* are used to account for the refuse and 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 services to the general public on a continuing basis be financed or recovered through user charges.
- The *Municipal Authority* is a blended component unit of the Township. The Authority constructs and maintains the sewer system in the Township. The Authority leases the sewer system to the Township.

Government-Wide Financial Statements

The statement of net position--modified cash basis and the statement of activities--modified cash basis display information about the Township as a whole. These statements include the financial activity 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.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statements are prepared using the economic resources measurement focus and the modified cash 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recognized when cash is received and expenses are recorded when paid.

The government-wide statement of activities--modified cash basis 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.

Fund Financial Statements

Fund financial statements report detailed information about the Township. The focus of the Governmental and Proprietary Funds financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate 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 cash basis of accounting. Revenues are recognized when the cash is received and expenditures are recorded when spent, except for the recording of Sewer and Solid Waste Fund receivables and long-term debt in the Proprietary Funds and depreciation expense on capital assets in the fund statements for Proprietary Fund activities. 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) or current cash resources.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. The statement of revenues, expenses and changes in net position--modified cash basis presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the Township reports two Fiduciary Funds. The Pension Trust Funds account for the activities of the Uniformed Employees' Pension Plan and the Non-Uniformed Employees' Pension Plan, which accumulate resources for pension benefit payments to qualified employees. The assets reported in these funds can only be used for the trust beneficiaries.

Real Estate Tax Calendar

The Township imposes a property tax of 4.014 mills on the assessed valuations determined by the County of Chester. Property taxes are levied on March 1 of the calendar year. Property taxes are discounted 2% if remitted by May 1, are due July 1 and are penalized 10% if paid after July 1. Liens are filed for unpaid property taxes on January 15 of the following year.

Cash and Cash Equivalents

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

Investments

The Township has adopted GASB Statement No. 72, *Fair Market Value and Application*. This statement requires the Township to record investments in the Fiduciary Funds at fair value. The additional investments owned by the Township are also recorded at fair value.

Receivables

Accounts receivable are shown net of an allowance for uncollectibles. At December 31, 2018, all accounts receivable were deemed to be fully collectible; therefore, there is no accounts receivable allowance due.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000. 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>
Building and improvements	25-40
Library collection	10
Vehicles	5
Furniture and equipment	5-15

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 two items that qualify for reporting in this category. The deferred charge on refunding reported on the statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow 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, changes in assumptions and the net difference between projected and actual earnings on pension plan investments.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category. The deferred inflow 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. The deferred inflow related to OPEB is reported in the government-wide statement of net position and is the result of changes in assumptions.

Net Position Flow Assumption

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

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*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- ***Restricted*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Committed** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal resolution of the Board of Supervisors and do not lapse at year-end.
- **Assigned** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The Board of Supervisors has not authorized any other body or official to assign fund balance.
- **Unassigned** - Amounts not contained in other classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 14). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

The Township's deposits with financial institutions at December 31, 2018, consisted of cash and cash equivalents totaling \$14,620,661.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of December 31, 2018, the Federal Depository Insurance Corporation insured \$911,099 of the Township's \$14,620,661 bank balances. The remaining bank balances of \$13,709,562 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania Legislature, which permits the institution to pool collateral for all governmental deposits and has the collateral held by a custodian in the institution's name.

Credit Risk - Pennsylvania statutes authorize the Township to invest its funds as defined in the Township Code. 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 specific conditions under which the Township may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value.

The law provides that the Township's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the Township to be prudent.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2018, the Township had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
Domestic equity	\$ 4,723,198	\$ 4,723,198
International equity	2,112,553	2,112,553
Fixed income	3,518,418	3,518,418
Annuity contract	<u>21,844</u>	<u>21,844</u>
	<u>\$ 10,376,013</u>	<u>\$ 10,376,013</u>

Concentration of Credit Risk - The Township places no limit on the amount that may be invested in any one issuer. At December 31, 2018, more than 5% of the Township's investments are in domestic equity, international equity and fixed income. These investments are 46%, 20% and 34%, respectively, of the Township's total investments.

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 market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2018:

Investments in mutual funds of \$10,376,013 are valued using quoted market prices (Level 1 inputs).

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE C - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,970,144	\$ -	\$ -	\$ 1,970,144
Capital assets being depreciated				
Infrastructure	272,995	-	-	272,995
Building and improvements	11,297,045	-	-	11,297,045
Library collection	1,900,000	-	-	1,900,000
Vehicles	552,820	79,930	(54,394)	578,356
Furniture and equipment	1,257,980	-	-	1,257,980
TOTAL CAPITAL ASSETS BEING DEPRECIATED	15,280,840	79,930	(54,394)	15,306,376
Accumulated depreciation				
Infrastructure	(50,482)	(6,825)	-	(57,307)
Building and improvements	(5,439,193)	(294,151)	-	(5,733,344)
Library collection	(1,900,000)	-	-	(1,900,000)
Vehicles	(380,581)	(85,281)	52,102	(413,760)
Furniture and equipment	(1,172,763)	(20,606)	-	(1,193,369)
TOTAL ACCUMULATED DEPRECIATION	(8,943,019)	(406,863)	52,102	(9,297,780)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	6,337,821	(326,933)	(2,292)	6,008,596
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	\$ 8,307,965	\$ (326,933)	\$ (2,292)	\$ 7,978,740
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 294,170	\$ -	\$ -	\$ 294,170
Capital assets being depreciated				
Building and improvements	800,746	-	-	800,746
Equipment	18,971,416	114,204	-	19,085,620
TOTAL CAPITAL ASSETS BEING DEPRECIATED	19,772,162	114,204	-	19,886,366
Accumulated depreciation				
Building and improvements	(389,018)	(48,150)	-	(437,168)
Equipment	(6,751,807)	(819,897)	-	(7,571,704)
TOTAL ACCUMULATED DEPRECIATION	(7,140,825)	(868,047)	-	(8,008,872)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	12,631,337	(753,843)	-	11,877,494
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	\$ 12,925,507	\$ (753,843)	\$ -	\$ 12,171,664

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE D - LONG-TERM DEBT

As of December 31, 2018, bonds payable consisted of the following individual issues:

GOVERNMENTAL ACTIVITIES

General Obligation Bonds, Series of 2012, dated June 21, 2012, due in installments through August 1, 2029, bearing interest at various rates ranging from 1.00% to 3.00%	\$ 3,175,000
TOTAL GOVERNMENTAL ACTIVITIES	<u>3,175,000</u>

BUSINESS-TYPE ACTIVITIES

Guaranteed Sewer Revenue Bonds, Series of 2011, due in annual installments through 2036, bearing interest at fixed rates of 1.25% to 4.20%	8,725,000
Guaranteed Sewer Revenue Bonds, Series of 2012, due in annual installments through 2032, bearing interest at fixed rates of 1.00% to 3.25%	5,140,000
Guaranteed Sewer Revenue Bonds, Series of 2013, due in annual installments through 2025, bearing interest at fixed rates of 2.00% to 3.00%	2,065,000
Guaranteed Sewer Revenue Bonds, Series of 2014, due in annual installments through 2027, bearing interest at fixed rates of 1.75% to 4.00%	<u>3,160,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>19,090,000</u>
	<u>\$ 22,265,000</u>

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the Township. General Obligation Bonds require the Township to include in its annual budget such amounts from general revenues for the payment (in each year bonds are outstanding) of interest and principal. The Township is in compliance with this requirement.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE D - LONG-TERM DEBT (Continued)

The annual aggregate maturities for the years subsequent to December 31, 2018, are as follows:

Year Ending December 31,	Principal	Interest	Total Debt Service
2019	\$ 1,075,000	\$ 750,114	\$ 1,825,114
2020	1,095,000	713,508	1,808,508
2021	1,120,000	689,148	1,809,148
2022	875,000	665,967	1,540,967
2023	1,445,000	640,768	2,085,768
2024 to 2028	5,785,000	2,724,662	8,509,662
2029 to 2033	6,765,000	1,733,970	8,498,970
2034 to 2036	4,105,000	572,825	4,677,825
	<u>\$ 22,265,000</u>	<u>\$ 8,490,962</u>	<u>\$ 30,755,962</u>

During the year ended December 31, 2018, long-term liability activity was as follows:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Amount Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Series of 2010	\$ 380,000	\$ -	\$ (380,000)	\$ -	\$ -
Series of 2012	3,425,000	-	(250,000)	3,175,000	260,000
	<u>3,805,000</u>	<u>-</u>	<u>(630,000)</u>	<u>3,175,000</u>	<u>260,000</u>
Bond premiums	54,568	-	(54,568)	-	-
Bond discounts	(14,987)	-	1,284	(13,703)	-
Compensated absences	53,498	21,558	-	75,056	-
Net pension liability	4,471,258	1,239,365	-	5,710,623	-
Net OPEB obligation	4,614,348	130,541	-	4,744,889	-
	<u>4,614,348</u>	<u>130,541</u>	<u>-</u>	<u>4,744,889</u>	<u>-</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 12,983,685</u>	<u>\$ 1,391,464</u>	<u>\$ (683,284)</u>	<u>\$ 13,691,865</u>	<u>\$ 260,000</u>
BUSINESS-TYPE ACTIVITIES					
Guaranteed Sewer Revenue Bonds					
Series of 2011	\$ 8,950,000	\$ -	\$ (225,000)	\$ 8,725,000	\$ 200,000
Series of 2012	5,165,000	-	(25,000)	5,140,000	25,000
Series of 2013	2,095,000	-	(30,000)	2,065,000	285,000
Series of 2014	3,675,000	-	(515,000)	3,160,000	305,000
	<u>19,885,000</u>	<u>-</u>	<u>(795,000)</u>	<u>19,090,000</u>	<u>815,000</u>
Bond premiums	65,977	-	(6,598)	59,379	-
Bond discounts	(221,480)	-	14,449	(207,031)	-
	<u>(221,480)</u>	<u>-</u>	<u>14,449</u>	<u>(207,031)</u>	<u>-</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 19,729,497</u>	<u>\$ -</u>	<u>\$ (787,149)</u>	<u>\$ 18,942,348</u>	<u>\$ 815,000</u>

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE D - LONG-TERM DEBT (Continued)

The Township leases from Easttown Municipal Authority sewerage facilities purchased in 1969 and facilities constructed with the proceeds from the Authority's bond issues. The facilities are leased through December 1, 2027, for annual payments which vary to meet debt service requirements of the Authority. The Township has also guaranteed the debt of the Authority.

NOTE E - DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Township employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

An employee participating in the plan may defer a maximum of 100% of normal compensation or \$15,500, whichever is less. Employees may invest at their discretion in different funds offered by the trustee, ICMA Retirement Corporation.

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

Summary of Significant Accounting Policies

Method Used to Value Investments - Police Pension Plan investments are carried at fair value as reported by the investment managers. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due as required by the Act. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, 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 full-time salaried members of the Easttown Township Police Department.

Management of the plan is vested in the Police Pension Plan Committee, which consists of three members--two members of the Board of Supervisors and the Township Manager. The Committee is responsible for managing, investing and monitoring the Township's Police Pension Plan.

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

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

Plan Membership - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	14
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>12</u>
	<u>26</u>

Benefits Provided - The plan is a single-employer Public Employee Retirement System (PERS) established by the Township to provide pension benefits for each person in the employ of the Township Police Department whose customary employment is not for fewer than five months per year.

Plan provisions are established by Township ordinance. The plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 52 and completion of 25 years of service. A member shall have the opportunity to vest his benefit if he terminates employment after 12 years of service. His benefit will be equal to his normal retirement benefit multiplied by a percentage of his actual years of service over years of service the member would have rendered if he had continued working to the normal retirement date. Upon the termination of a member not entitled to vested benefits, he shall receive a refund of his contributions plus interest credited at a rate of 4% per annum, if any. The normal retirement benefit is 50% of the member's monthly average salary. The monthly average salary is calculated as the average actual monthly salary of the employee over the final 36 months of active continuous employment. It shall include all Pennsylvania W-2 compensation but shall exclude lump sum payments for sick days and vacation paid for which no employee contributions were required. The surviving family of a police officer who is killed in the line of duty shall receive the benefits provided for and subject to the terms of Act 51 of 2009. In the event that a member who was not killed in service is receiving or eligible to receive his normal retirement benefit, his surviving spouse will receive, until death, 50% of the member's normal retirement benefit. If there is no surviving spouse or if the spouse dies, the member's child or children will receive the benefit until age 18, or age 23 if attending college.

A member who suffers a total and permanent disability while in the service as a police officer shall receive a pension equal to 70% of his monthly average salary up to their normal retirement date and 50% thereafter, reduced by any Worker's Compensation or other disability benefits to which the Township has contributed.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Members currently contribute 5% of their compensation to the fund. Contributions are subject to collective bargaining.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

DROP Benefit - A member who has attained Normal Retirement Age may submit an application to enter a DROP program for a period of up to five years. If approved, all payments made into the DROP will be payable at the member's request in a lump sum at the member's actual retirement. As of December 31, 2018, the balance in the DROP program is \$40,059, this balance is not included in the Total Pension Liability or the Plan Fiduciary Net Position.

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Police Pension Plan Committee. It is the policy of the Committee to pursue an investment strategy that 1) maintains a fully funded status with regard to accumulated health benefits obligations, 2) maximizes return within reasonable and prudent levels of risk in order to minimize municipal and employee contributions, 3) maintains flexibility in determining the future level of contributions and 4) provides the ability to pay all benefit and expense obligations when due. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Committee's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	2%
Domestic equity	42%
International equity	23%
Fixed income	<u>33%</u>
	<u>100%</u>

Concentrations - More than 5% of the Township's investments are in domestic equity mutual funds, international equity mutual funds and fixed income mutual funds. These investments are 47%, 21% and 32%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -5.40%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

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

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2018, were as follows:

Total pension liability	\$ 11,812,614
Plan fiduciary net position	<u>(7,042,636)</u>
NET PENSION LIABILITY	<u>\$ 4,769,978</u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u>59.62%</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	5% annual increase
Investment rate of return	7.5%

Mortality rates were based on the RP-2000 Combined Mortality Table with Blue Collar Adjustment with Scale AA projected to 2017.

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, 2018 (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>
Cash	3.30%
Domestic equity	7.70%
International equity	7.70%
Fixed income	5.50%

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that is 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 of Assumptions - In 2017 the mortality table was changed from the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2015 to the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2017.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
BALANCES AT DECEMBER 31, 2017	\$ 11,226,787	\$ 7,225,004	\$ 4,001,783
Changes for the year:			
Service cost	368,459	-	368,459
Interest cost	819,432	-	819,432
Changes for experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	753,205	(753,205)
Member	-	88,564	(88,564)
Net investment income	-	(389,737)	389,737
Benefit payments	(602,064)	(602,064)	-
Administrative expenses	-	(32,336)	32,336
NET CHANGES	<u>585,827</u>	<u>(182,368)</u>	<u>768,195</u>
BALANCES AT DECEMBER 31, 2018	<u>\$ 11,812,614</u>	<u>\$ 7,042,636</u>	<u>\$ 4,769,978</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Township, calculated using the discount rate of 7.5%, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	<u>(6.5%)</u>	<u>Rate (7.5%)</u>	<u>(8.5%)</u>
Net pension liability	\$ <u>6,131,385</u>	\$ <u>4,769,978</u>	\$ <u>3,619,961</u>

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2018, the Township recognized pension expense of \$1,020,368. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 229,050	\$ 78,444
Changes of assumptions	313,433	-
Net difference between projected and actual earnings on pension plan investments	<u>502,741</u>	<u>-</u>
TOTAL	<u>\$ 1,045,224</u>	<u>\$ 78,444</u>

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

<u>Year Ending December 31,</u>	
2019	\$ 81,086
2020	44,994
2021	37,783
2022	93,803

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

Summary of Significant Accounting Policies

Method Used to Value Investments - Non-Uniformed Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due as required by the Act. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Plan Description

Plan Administration - The Township administers the Non-Uniformed Employees' Pension Plan--a single-employer plan established by the Township to provide pension benefits for each person in the employ of the Township on the 90th day following the date of hire.

The plan was available to non-uniformed, non-bargaining employees hired prior to January 1, 2010, and non-uniformed bargaining employees hired prior to January 1, 2012. As of January 1, 2012, the defined benefit plan was closed to all new employees.

Management of the plan is vested in the Non-Uniformed Pension Plan Committee, which consists of three members--two members of the Board of Supervisors and the Township Manager. The Committee is responsible for managing, investing and monitoring the Township's Non-Uniformed Employees' Pension Plan.

Plan Membership - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	16
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>8</u>
	<u><u>27</u></u>

Benefits Provided - Plan provisions are established by Township ordinance. The plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 65 and completion of five years of service. A member is eligible for early retirement on the first of the month coincident with or next following age 62 and ten years of credited service. A member who has completed five or more years of credited service on his termination date shall be fully vested in part (a) of his accrued benefit, based on credited service and final average earnings at the date of termination, commencing at his normal retirement date. If a member has completed ten or more years of credited service at the date of termination, he may elect to receive his benefit on or after age 62. This benefit will be calculated in the same manner as the early retirement benefit. A member may elect a refund of his member contributions plus interest credited at a rate of 7% per annum but upon such election would waive his right to part (b) of his accrued benefit. Upon the termination of a member not entitled to vested benefits, he shall receive a refund of his member contributions plus interest credited at a rate of 7% per annum, if any.

The normal retirement benefit is the accrued benefit based on credited service, final average earnings and member contributions at the normal retirement date. The accrued benefit is the sum of part (a) and part (b). Part (a) is 1.5% of the member's final average earnings multiplied by credited service. Part (b) is the amount of monthly income for life that is the actuarial equivalent of the sum of the member's contributions.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

The early retirement benefit is the accrued benefit under part (a) based on credited service and final average earnings at the date of determination, reduced by 5/9ths of 1% for each month that benefit commencement date precedes the normal retirement date plus part (b). Credited service is calculated as the years and completed calendar months of continuous service as a non-uniformed employee of the Township. Final average earnings are calculated as 1/60 of the member's aggregate earnings (basic earnings and overtime) from employment by the Township during the final 60 months as an employee.

Upon the death of an active member who had met age and service requirements for a pension benefit, the surviving spouse, if any, is entitled to receive a benefit calculated as if the member had retired on the date of his death and elected a joint and 100% survivor option. Upon the death of any other non-retired member, a refund of his member contributions plus interest credited at the rate of 7% per annum will be paid to the member's designated beneficiary.

A member who received a total and permanent disability after ten years of credited service will receive a pension of \$150 per month (beginning six months after the onset of disability) during his period of disability or until the normal retirement date, whichever is earlier.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Employees are required to contribute 2% of their aggregate earnings to the fund. Contributions are subject to collective bargaining.

Investments

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

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

The following was the Committee's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	2%
Domestic equity	39%
International equity	21%
Fixed income	38%
	<u>100%</u>

Concentrations - More than 5% of the Township's investments are in domestic equity mutual funds, international equity mutual funds and fixed income mutual funds. These investments are 43%, 19% and 38%, respectively, of the plan's total investments.

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -5.17%. 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, 2018, were as follows:

Total pension liability	\$ 4,435,414
Plan fiduciary net position	<u>(3,494,769)</u>
NET PENSION LIABILITY	<u>\$ 940,645</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>78.79%</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	5% annual increase
Investment rate of return	7.5%

Mortality rates were based on the RP-2000 Combined Mortality Table with Scale AA projected to 2017.

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

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

Due to the size of the plan, no experience studies were used to determine plan assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018 (see the pension plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	3.30%
Domestic equity	7.70%
International equity	7.70%
Fixed income	5.50%

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that is 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 of Assumptions – In 2017 the mortality table was changed from the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2015 to the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2017.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
	<u> </u>	<u> </u>	<u> </u>
BALANCES AT DECEMBER 31, 2017	\$ 4,324,109	\$ 3,854,634	\$ 469,475
Changes for the year:			
Service cost	67,597	-	67,597
Interest cost	314,166	-	314,166
Changes for experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	105,764	(105,764)
Member	-	11,718	(11,718)
Net investment income	-	(188,690)	188,690
Benefit payments	(270,458)	(270,458)	-
Administrative expenses	-	(18,199)	18,199
NET CHANGES	<u>111,305</u>	<u>(359,865)</u>	<u>471,170</u>
BALANCES AT DECEMBER 31, 2018	<u>\$ 4,435,414</u>	<u>\$ 3,494,769</u>	<u>\$ 940,645</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Township, calculated using the discount rate of 7.5%, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	<u> </u>	<u> </u>	<u> </u>
Net pension liability	\$ 1,308,564	\$ 940,645	\$ 620,231

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2018, the Township recognized pension expense of \$177,489. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 14,540
Changes of assumptions	2,059	-
Net difference between projected and actual earnings on pension plan investments	<u>270,147</u>	<u>-</u>
TOTAL	<u>\$ 272,206</u>	<u>\$ 14,540</u>

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

<u>Year Ending December 31,</u>	
2019	\$ 81,086
2020	44,994
2021	37,783
2022	93,803

NOTE H - DEFINED CONTRIBUTION PLAN

The Township has established a defined contribution pension plan to provide pension benefits for nonunion employees hired after January 10, 2010. Under the plan, an individual receives his own account to which all contributions are made. The employee determines how his account is invested. The accounts are administered by ICMA-RC, and the funds held in the plan are invested in VantageTrust, a trust established by public employers for the collective investment of funds held under their retirement plans.

Under the plan, the employer contributes 10% of total employee earnings, with no participant contribution. Covered employees are fully vested in employer contributions after five years of service.

This plan was established effective January 1, 2010, with immediate entry into the plan for eligible employees. As of December 31, 2018, employees have enrolled into the plan, and for the year ended December 31, 2018 the Township has made contributions of \$84,918 to the plan.

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Township provides health benefits and sick leave benefits to eligible retired police officers and spouses, as well as eligible non-uniformed employees, through a single-employer defined benefit plan. The objective of the plan is to provide members with health benefits through age 65 and pay members for any unused sick leave as of the time of retirement. The plan is accounted for as a trust fund.

Measurement Date

At December 31, 2018, the Township reported Total OPEB liability measured as of January 1, 2018, and the total OPEB liability was determined by performing update procedures and rolling forward the January 1, 2018 actuarial valuation to December 31, 2018.

Plan Membership - At December 31, 2018, plan membership consisted of the following:

Active participants	22
Vested former participants	-
Retired participants	<u>15</u>
	<u><u>37</u></u>

Eligibility for Benefits

Uniformed - An officer will be eligible for coverage upon normal retirement after attainment of age 52 with at least 25 years of service. In addition, an officer will be eligible upon occurring a total and permanent disability or upon death of an active officer, the spouse will receive coverage for six months. Benefits will be provided until individual's eligibility for Medicare.

Non-Uniform Union - An employee will be eligible for coverage upon normal retirement after attainment of age 62 to 64 with at least 25 years of service. In addition, an employee will be eligible upon occurring a total and permanent disability. Benefits will be provided until individual's attainment of age 65.

Benefits Provided

Uniformed - Medical and Prescription drug benefits available to all retirees, as well as spouses of full-time officers hired prior to January 1, 2016. Dental and vision benefits are also provided for all retirees, as well as spouses of full-time officers. Life insurance is provided for retired officers in the amount of \$10,000 or \$20,000 depending upon retirement date.

Non-Uniform Union - Medical and Prescription drug benefits provided to retirees. Up to \$2,500 of annual out of pocket expenses are reimbursed through an HRA. Dental benefits are also provided for retirees.

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Funding Policy and Funding Status

The Township is required to pay an actuarially determined amount to support benefits for each member. The costs of administering the plan are paid by the Township.

Assumptions

The following assumptions and actuarial methods and calculations were used:

Interest Rate – 3.16%, based on S&P Municipal Bond 20 Year High Grade Rate Index at January 1, 2018.

Salary – An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, annual salary increases are assumed to be 3.5% for both Uniformed and Non-Uniformed Union employees.

Health Care Cost Trend Rate – 8.0% in 2018 and decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023. Trend rates are based on plan experience, historical trends and industry norms.

Withdrawal – Sample rates are shown below.

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	4.929%	7.443%
35	2.372%	3.408%
45	0.666%	1.314%
55	0.000%	0.000%

Mortality – *Uniformed* - RP-2000 Combined Healthy Blue Collar Table, projected to 2018 with scale AA, loaded 10%

Non-Uniformed Union - RP-2000 Combined Healthy Blue Collar Table, projected to 2018 with scale AA.

Disability – Participants are assumed to become disabled in accordance with annual rates varying by age. Sample rates are shown below.

<u>Age</u>	<u>Rate</u>
25	0.171%
35	0.301%
45	0.661%
55	1.878%
64	3.019%

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Retirement – Uniformed - Assumed 100% retirement after reaching age 52 with at least 25 years of service.

Non-Uniformed Union - Assumed 100% retirement after reaching age 62 with at least 25 years of service.

Percent of Eligible Retirees Electing Coverage in Plan – 100% of future retirees are assumed to elect coverage at retirement.

Percent Married of Retirement – 90% of future retirees are assumed to be married and have a spouse covered by the plan at retirement.

Spouse Age – Wives are assumed to be three years younger than their husbands.

Actuarial Cost Method – Entry Age Normal – Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Changes in Assumptions – In the 2018 actuarial valuation, the discount rate changed from 4.30% to 3.16%. The actuarial cost method was changed from projected unit credit to entry age normal as a level-percent of-payroll.

Changes in the Total OPEB Liability

	Total OPEB Liability
	<u> </u>
Balance at January 1, 2018	\$ 4,614,348
Changes for the year	
Service cost	278,424
Interest cost	149,126
Changes in assumptions	(228,282)
Benefit payments	<u>(68,727)</u>
Net changes	<u>130,541</u>
Balance at December 31, 2018	\$ <u><u>4,744,889</u></u>

EASTTOWN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease <u>2.16%</u>	Current Discount Rate <u>3.16%</u>	1% Increase <u>4.16%</u>
Total OPEB liability	\$ <u>5,284,840</u>	\$ <u>4,744,889</u>	\$ <u>4,262,631</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% <u>Decrease</u>	Current <u>Rates</u>	1% <u>Increase</u>
Total OPEB liability	\$ <u>4,174,981</u>	\$ <u>4,744,889</u>	\$ <u>5,412,648</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the Township recognized OPEB expense of \$393,926. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources <u> </u>	Deferred Inflows of Resources <u> </u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	194,658
Contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>194,658</u>

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,		
2019	\$	(33,624)
2020		(33,624)
2021		(33,624)
2022		(33,624)
2023		(33,624)
Thereafter		(26,538)

NOTE J - PRIOR PERIOD RESTATEMENT

The Township implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefit (OPEB) plans. GASB Statement No. 75 states that the Township must record the total liability of their single employer other postemployment benefit plan.

For the government-wide governmental activities, the Township has treated the beginning of year OPEB liability of \$4,614,348 as having been recognized in the period incurred. As part of the implementation, the previously recognized obligation for OPEB under GASB 45 in the amount of \$2,254,152 will be reversed. The Township has adjusted beginning net position for the governmental activities from \$985,785 to \$(1,374,411).

NOTE K - OTHER INCOME

In December 2018, the Valley Creek Trunk Sewer system was sold. The Easttown Municipal Authority received \$3,421,911 for its respective share of the sewer system.

EASTTOWN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE L - SUBSEQUENT EVENT

In January 2019, the Easttown Municipal Authority used the proceeds from the sale of the Valley Creek Trunk Sewer line to refund the Guaranteed Sewer Revenue Bonds, Series of 2011.

REQUIRED SUPPLEMENTARY INFORMATION

EASTTOWN TOWNSHIP
BUDGETARY COMPARISON SCHEDULE--
MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 4,365,000	\$ 4,365,000	\$ 4,484,035	\$ 119,035
Fees and fines	22,000	22,000	38,321	16,321
Licenses and permits	286,000	286,000	274,244	(11,756)
Intergovernmental	366,583	366,583	382,630	16,047
Charges for services	891,500	891,500	1,322,726	431,226
Investment earnings	5,200	5,200	30,265	25,065
Miscellaneous	10,000	10,000	59,042	49,042
TOTAL REVENUES	<u>5,946,283</u>	<u>5,946,283</u>	<u>6,591,263</u>	<u>644,980</u>
EXPENDITURES				
Current				
General government	726,125	726,125	832,152	(106,027)
Public safety	4,707,418	4,707,418	5,071,667	(364,249)
Public works	462,950	462,950	614,534	(151,584)
Culture and recreation	-	-	62,388	(62,388)
TOTAL EXPENDITURES	<u>5,896,493</u>	<u>5,896,493</u>	<u>6,580,741</u>	<u>(684,248)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	49,790	49,790	10,522	(39,268)
OTHER FINANCING USES				
Interfund transfers	-	-	(280,613)	(280,613)
NET CHANGE IN FUND BALANCE	<u>\$ 49,790</u>	<u>\$ 49,790</u>	<u>\$ (270,091)</u>	<u>\$ (319,881)</u>

See accompanying note to the budgetary comparison schedule--modified cash basis.

EASTTOWN TOWNSHIP

NOTE TO THE BUDGETARY COMPARISON SCHEDULE--

MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2018

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on the modified cash basis of accounting for all Township funds, which is not consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in Governmental Funds. Encumbrances (e.g., purchase orders) outstanding at year-end lapse.

Excess of Expenditures Over Appropriations

General government expenditure over budget reflects an increase in employee payroll and benefits, as well as higher than expected legal services expenses and general government buildings and plant expenses. Public safety expenditures over budget reflect an increase in police department payroll and benefits. Public works expenditures over budget reflect an increase in equipment rental and repair expense related to snow and ice maintenance.

EASTTOWN TOWNSHIP
SCHEDULES OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY					
Service cost	\$ 368,459	\$ 350,913	\$ 335,872	\$ 272,611	\$ 259,630
Interest	819,432	778,516	748,503	607,886	584,193
Differences between expected and actual experience	-	(121,192)	-	718,994	-
Changes of assumptions	-	50,068	-	882,149	-
Benefit payments	<u>(602,064)</u>	<u>(565,703)</u>	<u>(660,450)</u>	<u>(553,044)</u>	<u>(502,949)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	585,827	492,602	423,925	1,928,596	340,874
Total pension liability, beginning	<u>11,226,787</u>	<u>10,734,185</u>	<u>10,310,260</u>	<u>8,381,664</u>	<u>8,040,790</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 11,812,614</u>	<u>\$ 11,226,787</u>	<u>\$ 10,734,185</u>	<u>\$ 10,310,260</u>	<u>\$ 8,381,664</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 753,205	\$ 552,344	\$ 545,803	\$ 386,662	\$ 377,990
Member	88,564	85,000	82,276	79,289	77,149
Net investment income	(389,737)	1,007,020	375,274	41,516	55,190
Benefit payments, including refunds of member contributions	<u>(602,064)</u>	<u>(565,703)</u>	<u>(660,450)</u>	<u>(553,044)</u>	<u>(502,949)</u>
Administrative expense	<u>(32,336)</u>	<u>(29,394)</u>	<u>(27,111)</u>	<u>(25,100)</u>	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(182,368)	1,049,267	315,792	(70,677)	7,380
Plan fiduciary net position, beginning	<u>7,225,004</u>	<u>6,175,737</u>	<u>5,859,945</u>	<u>5,930,622</u>	<u>5,923,242</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 7,042,636</u>	<u>\$ 7,225,004</u>	<u>\$ 6,175,737</u>	<u>\$ 5,859,945</u>	<u>\$ 5,930,622</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 4,769,978</u>	<u>\$ 4,001,783</u>	<u>\$ 4,558,448</u>	<u>\$ 4,450,315</u>	<u>\$ 2,451,042</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>59.62%</u>	<u>64.36%</u>	<u>57.53%</u>	<u>56.84%</u>	<u>70.76%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,636,217</u>	<u>\$ 1,702,992</u>	<u>\$ 1,612,325</u>	<u>\$ 1,640,045</u>	<u>\$ 1,440,417</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>291.52%</u>	<u>234.99%</u>	<u>282.73%</u>	<u>271.35%</u>	<u>170.16%</u>

NOTES TO SCHEDULES

Changes of Assumptions: In 2017 actuarial valuation the mortality table was changed from the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2015 to the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2017. In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Combined Mortality Table with Blue Collar Adjustment with Scale AA projected to 2015. In prior years, those assumptions were based on the Unisex 1984 Mortality Tables.

2018 Total Pension Liability and Plan Fiduciary Net Position do not include DROP balances

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP
SCHEDULES OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 753,205	\$ 552,344	\$ 545,803	\$ 386,662	\$ 377,990
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>753,205</u>	<u>552,344</u>	<u>545,803</u>	<u>386,662</u>	<u>377,990</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,636,217</u>	<u>\$ 1,702,992</u>	<u>\$ 1,612,325</u>	<u>\$ 1,640,045</u>	<u>\$ 1,440,417</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>46.03%</u>	<u>32.43%</u>	<u>33.85%</u>	<u>23.58%</u>	<u>26.24%</u>

NOTES TO SCHEDULES

Valuation date: January 1, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	12 years
Asset valuation method	Market value
Inflation	3%
Salary increases	5% annual increase
Investment rate of return	7.5%
Retirement age	Active members are assumed to retire at age 52 and completion of 25 years of service, or at attained age plus one year, if later
Mortality	Assumed life expectancies are based on the Unisex Pension 1984 Mortality Tables
Other information	It is assumed that 90% of the police force is married. Husbands are assumed to be three years older than wives.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP
SCHEDULES OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-5.40%</u>	<u>16.76%</u>	<u>6.61%</u>	<u>0.70%</u>	<u>4.49%</u>

NOTE TO SCHEDULES

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP
SCHEDULES OF CHANGES IN THE NET NON-
UNIFORMED EMPLOYEES' PENSION PLAN
LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY					
Service cost	\$ 67,597	\$ 64,379	\$ 75,679	\$ 106,125	\$ 101,072
Interest	314,166	307,870	305,339	275,433	269,564
Differences between expected and actual experience	-	(70,466)	-	123,242	-
Changes of assumptions	-	9,981	-	189,694	-
Benefit payments	<u>(270,458)</u>	<u>(306,134)</u>	<u>(267,440)</u>	<u>(324,073)</u>	<u>(260,705)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	111,305	5,630	113,578	370,421	109,931
Total pension liability, beginning	<u>4,324,109</u>	<u>4,318,479</u>	<u>4,204,901</u>	<u>3,834,480</u>	<u>3,724,549</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 4,435,414</u>	<u>\$ 4,324,109</u>	<u>\$ 4,318,479</u>	<u>\$ 4,204,901</u>	<u>\$ 3,834,480</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 105,764	\$ 95,406	\$ 94,864	\$ 95,929	\$ 116,851
Member	11,718	10,684	11,880	11,498	14,373
Net investment income	(188,690)	535,005	217,340	24,008	20,594
Benefit payments, including refunds of member contributions	(270,458)	(306,134)	(267,440)	(324,073)	(260,705)
Administrative expense	<u>(18,199)</u>	<u>(17,325)</u>	<u>(16,217)</u>	<u>(15,405)</u>	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(359,865)	317,636	40,427	(208,043)	(108,887)
Plan fiduciary net position, beginning	<u>3,854,634</u>	<u>3,536,998</u>	<u>3,496,571</u>	<u>3,704,614</u>	<u>3,813,501</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 3,494,769</u>	<u>\$ 3,854,634</u>	<u>\$ 3,536,998</u>	<u>\$ 3,496,571</u>	<u>\$ 3,704,614</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 940,645</u>	<u>\$ 469,475</u>	<u>\$ 781,481</u>	<u>\$ 708,330</u>	<u>\$ 129,866</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>78.79%</u>	<u>89.14%</u>	<u>81.90%</u>	<u>83.15%</u>	<u>96.61%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 561,044</u>	<u>\$ 537,915</u>	<u>\$ 614,752</u>	<u>\$ 630,057</u>	<u>\$ 587,679</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>167.66%</u>	<u>87.28%</u>	<u>127.12%</u>	<u>112.42%</u>	<u>22.10%</u>

NOTES TO SCHEDULES

Changes of Assumptions: In 2017 actuarial valuation the mortality table was changed from the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2015 to the RP-2000 Combined Mortality Table with Blue Collar Adjustment projected with Scale AA to 2017. In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Combined Mortality Table with Scale AA projected to 2015. In prior years, those assumptions were based on the 1983 Group Annuity Mortality Tables.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP
SCHEDULES OF NON-UNIFORMED EMPLOYEES'
PENSION PLAN CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 105,764	\$ 95,406	\$ 94,864	\$ 95,929	\$ 116,851
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>105,764</u>	<u>95,406</u>	<u>94,864</u>	<u>95,929</u>	<u>116,851</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 561,044</u>	<u>\$ 537,915</u>	<u>\$ 614,752</u>	<u>\$ 630,057</u>	<u>\$ 587,679</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>18.85%</u>	<u>17.74%</u>	<u>15.43%</u>	<u>15.23%</u>	<u>19.88%</u>

NOTES TO SCHEDULES

Valuation date: January 1, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	25 years
Asset valuation method	Market value
Inflation	Moderate inflation based on long-term historical average rates is a component of the actuarial assumptions
Salary increases	5% annual increase
Investment rate of return	7.5%
Retirement age	Active members are assumed to retire at age 65 and completion of five years of service, or at attained age plus one year, if later
Mortality	Assumed life expectancies are based on the 1983 Group Annuity Mortality Tables
Other information	It is assumed that 90% of employees is married. Husbands are assumed to be three years older than wives.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP
SCHEDULES OF NON-UNIFORMED EMPLOYEES'
PENSION PLAN INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-5.17%</u>	<u>15.75%</u>	<u>6.47%</u>	<u>0.70%</u>	<u>4.47%</u>

NOTE TO SCHEDULES

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

EASTTOWN TOWNSHIP

**SCHEDULE OF CHANGES IN THE TOTAL OTHER POSTEMPLOYMENT BENEFIT PLAN
LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR**

	<u>2018</u>
TOTAL OPEB LIABILITY	
Service cost	\$ 278,424
Interest	149,126
Changes of assumptions	(228,282)
Benefit payments	<u>(68,727)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	130,541
TOTAL OPEB LIABILITY, BEGINNING	<u>4,614,348</u>
TOTAL OPEB LIABILITY, ENDING	<u>\$ 4,744,889</u>
COVERED PAYROLL	<u>\$ 1,951,248</u>
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>243.17%</u>

NOTES TO SCHEDULE

No assets are accumulated in a trust to pay benefits related to this plan

Changes in assumptions: In the 2018 actuarial valuation, the discount rate changed from 4.30% to 3.16% and the actuarial cost method was changed from projected unit credit to entry age normal as a level-percent-of-payroll.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.