

EAST GOSHEN TOWNSHIP

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2017



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

EAST GOSHEN TOWNSHIP
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2017

| | Page |
|--|-------------|
| Introductory Section | |
| Table of Contents | 1 |
| Financial Section | |
| Independent Auditors' Report | 3 |
| Management's Discussion and Analysis (Unaudited) | 5 |
| Basic Financial Statements | |
| <i>Government-Wide Financial Statements</i> | |
| Statement of Net Position | 16 |
| Statement of Activities | 17 |
| <i>Fund Financial Statements</i> | |
| <i>Governmental Funds</i> | |
| Balance Sheet | 18 |
| Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 20 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 21 |
| <i>Proprietary Funds</i> | |
| Statement of Net Position | 22 |
| Statement of Revenues, Expenses and Changes in Fund Net Position | 23 |
| Statement of Cash Flows | 24 |

EAST GOSHEN TOWNSHIP
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2017

| | Page |
|--|-------------|
| <i>Fiduciary Funds</i> | |
| Statement of Fiduciary Net Position | 25 |
| Statement of Changes in Fiduciary Net Position | 26 |
| Notes to the Basic Financial Statements | 27 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule (Budgetary Basis) | 56 |
| Note to the Budgetary Comparison Schedule | 58 |
| <i>Fire Pension Plan</i> | |
| Schedule of Changes in the Net Fire Pension Plan Liability and Related Ratios | 59 |
| Schedule of Fire Pension Plan Contributions | 60 |
| Schedule of Fire Pension Plan Investment Returns | 61 |
| <i>Non-Uniformed Employees' Pension Plan</i> | |
| Schedule of Changes in the Net Non-Uniformed Employees Pension Plan Liability and Related Ratios | 62 |
| Schedule of Non-Uniformed Employees' Pension Plan Contributions | 63 |
| Schedule of Non-Uniformed Employees' Pension Plan Investment Returns | 64 |
| Supplementary Information Section | |
| <i>Other Governmental Funds</i> | |
| Combining Balance Sheet | 65 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 66 |

FINANCIAL SECTION

Independent Auditors' Report

To the Board of Supervisors
East Goshen Township
West Chester, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Goshen Township as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise East Goshen Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Supervisors
East Goshen Township
West Chester, Pennsylvania

Opinions

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

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 15, budgetary comparison information on pages 56 through 58 and pension plan information on pages 59 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Goshen Township's basic financial statements. The Combining Balance Sheet and Combining Schedule of Revenues, Expenditures and Changes in Fund Balances are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

Maillie LLP

West Chester, Pennsylvania
June 19, 2018

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Our discussion and analysis of the East Goshen Township (Township) financial performance provides an overview of the Township's financial activities for the fiscal year ended *December 31, 2017*. We encourage readers to consider the information presented here in conjunction with the Township's financial statements, which begin with the statement of net position.

FINANCIAL HIGHLIGHTS

- The Governmental Accounting Standards Board (GASB) has required all state and local governments to implement a governmental financial reporting model known as GASB 34. The Township's audited financial statements for fiscal year 2017 are compliant with GASB 34.
- The net position of the Township at the close of the 2017 fiscal year was \$31,026,917. Because retroactive reporting of general infrastructure assets is not required for the Township as a Phase 3 government under GASB 34 requirements, capital assets include only general infrastructure assets acquired from 2004 forward.
- The total net position of the governmental activities (General, Bond Fund, Capital Reserve, Road Improvements and State Liquid Fuels (Highway Aid) Funds) is \$26,341,888. The comparable total as of December 31, 2016, was \$22,286,318.
- The net position of the business-type activities (Refuse, Sewer Revenue, Sewer Capital Reserve and Municipal Authority Funds) is \$4,685,029. The unrestricted net position for the business-type activities as of December 31, 2017, is \$3,754,491 while \$930,538 is invested in capital assets.
- The Township implemented a local real estate tax of 1.25 mills in fiscal year 2004. The local tax rate remained the same for 2005 through 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's fiscal year 2017 financial statements. The Township's fiscal year 2017 financial statements are comprised of five components: (1) independent auditors' report, (2) management's discussion and analysis, (3) government-wide financial statements, (4) fund financial statements and (5) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Independent Auditors' Report

The *Independent Auditors' Report* briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial statements.

Management's Discussion and Analysis (MD&A)

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

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Government-Wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Township's finances in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

The *Government-wide Financial Statements*, which can be found on pages 16 and 17 of this report, 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, public safety (police, fire and codes), highways and streets, economic development and culture and recreation. The *business-type activities* include the sewer, refuse and Municipal Authority operations.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 as *governmental activities* in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating the Township's near-term financing requirements.

Because the focus of Governmental Funds is more narrow than that of the Government-wide Financial Statements, it is useful to compare the information presented for *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 Township's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *Governmental Funds* and *governmental activities*.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The Township maintains four individual Governmental Funds. Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. The Township's five Governmental Funds are the General Fund, the Bond Fund, the Road Improvements Fund, the Capital Reserve Fund and the State Liquid Fuels (Highway Aid) Fund. The basic Governmental Funds financial statements can be found on pages 18 through 21 of this report.

Proprietary Funds - There are two different types of Proprietary Funds: Enterprise Funds and Internal Service Funds. The Township uses *Enterprise Funds* to report the same functions presented as *business-type activities* in the Government-wide Financial Statements. The Township uses Enterprise Funds to account for its Refuse Fund, Sewer Revenue Fund, Sewer Capital Reserve Fund and Municipal Authority Fund. The Township has no Internal Service Funds.

Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail. The Proprietary Funds financial statements provide separate information for the individual Enterprise Funds, all of which are considered to be major funds of the Township.

The Proprietary Funds financial statements can be found on pages 22 through 24 of this report.

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 of those funds are *not* available to support the Township's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds. The Township has five Fiduciary Funds: the Non-Uniformed Pension Fund, the Non-Uniformed Defined Contribution Pension Fund, the Fire Pension Fund, the Other Post-Employment Benefits Trust and the Police Pension Trust.

The Fiduciary Funds financial statements can be found on pages 25 and 26 of this report.

Notes to the 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 can be found on pages 27 through 55 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain *required supplementary information* for the Township. The Township's budget policy and budgetary comparison statement for the General Fund can be found under required supplementary information. The budgetary comparison statement for the General Fund demonstrates compliance of the budget.

Required supplementary information can be found on pages 56 through 64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the statement of net position (as shown below) may serve over time as a useful indicator of the Township's financial position. The Township's total net position was \$31,026,917 at the close of December 31, 2017. This represents an increase of \$720,753, or 2.4%, over the total net position of \$30,306,164 as of the close of fiscal year 2016.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The Township's investment in capital assets reflects the investment in land, building, machinery and equipment, etc., less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The debt outstanding is currently more than the reported investment in capital assets because retroactive reporting of general infrastructure assets is not required for the Township as a Phase 3 government under GASB 34 requirements. The Township has elected to include only general infrastructure assets acquired subsequent to December 31, 2003. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining Township net position, \$1,079,660 represents resources that are subject to external restrictions on how they may be used. This is the net position of the Road Improvements Fund and the State Liquid Fuels (Highway Aid) Fund.

The majority of the Township's net position, \$19,535,301 or 63.0%, is unrestricted and may be used to meet the Township's ongoing obligations to citizens and creditors and to fund future capital asset replacement needs.

Statement of Net Position

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Totals</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current and other assets | \$ 24,980,526 | \$ 4,091,170 | \$ 29,071,696 |
| Capital assets | <u>10,831,873</u> | <u>12,815,538</u> | <u>23,647,411</u> |
| TOTAL ASSETS | <u>35,812,399</u> | <u>16,906,708</u> | <u>52,719,107</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources, pension activity | <u>235,981</u> | <u>-</u> | <u>235,981</u> |
| LIABILITIES | | | |
| Other liabilities | 407,136 | 314,704 | 721,840 |
| Long-term liabilities | <u>9,020,750</u> | <u>11,906,975</u> | <u>20,927,725</u> |
| TOTAL LIABILITIES | <u>9,427,886</u> | <u>12,221,679</u> | <u>21,649,565</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources, pension activity | <u>278,606</u> | <u>-</u> | <u>278,606</u> |
| NET POSITION | | | |
| Net investment in capital assets | 9,481,418 | 930,538 | 10,411,956 |
| Restricted | 1,079,660 | - | 1,079,660 |
| Unrestricted | <u>15,780,810</u> | <u>3,754,491</u> | <u>19,535,301</u> |
| TOTAL NET POSITION | <u>\$ 26,341,888</u> | <u>\$ 4,685,029</u> | <u>\$ 31,026,917</u> |

The Township's Statement of Activities shows how the net position changed during the fiscal year 2017. The Statement of Activities can be found on page 17 of this report.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

As shown on the Statement of Activities, the Township's net position increase by \$720,753 from January 1, 2017; of this amount, \$4,055,570 came from governmental activities (General, Bond, Capital Reserve, Road Improvements and State Liquid Fuels (Highway Aid) Funds) and (\$3,334,817) came from business-type activities (Refuse, Sewer Revenue, Sewer Capital Reserve and Municipal Authority Funds).

Governmental Activities

To understand how the net position changed in the governmental activities, you must look at the "Statement of Revenues, Expenditures and Changes in Fund Balances" (page 20) along with the "Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities" (page 21).

Fund Financial Statements

On page 20, the Governmental Funds are broken down individually to show the "Net Change in Fund Balances" for each fund. The total of these individual changes is \$7,827,695, and it increases the fund balances from January 1, 2017 to December 31, 2017. The total fund balances at December 31, 2017, are \$22,514,969.

The reconciliation on page 21 explains how the Township arrived at the \$4,055,570 increase in net position of the governmental activities from the Governmental Funds given the increase in fund balances of \$7,827,695. Most of the change is due to the new borrowings in the amount of \$5,351,871 during 2017, which increase long-term liabilities in the Statement of Net Position.

The *General Fund* reflects an increase of \$358,032 in fund balance for the year. The fund balance at December 31, 2017, is \$7,970,766.

The *Bond Fund* reflects an increase of \$7,279,616 in fund balance for the year. The fund balance at December 31, 2017, is \$7,279,616.

The *Road Improvements Fund* reflects an increase in its fund balance of \$4,299.

The *Capital Reserve Fund* reflects an increase in its fund balance of \$185,548 for fiscal year 2017. Provisions are made to fund future capital asset replacement needs based on a detailed lapsing schedule which takes into consideration estimated useful lives of assets as well as inflationary cost increases.

The *State Liquid Fuel's* increase in fund balance was \$200 for the year 2017. The fund balance at December 31, 2017, for the *State Liquid Fuels (Highway Aid) Fund* is \$502.

The table below shows the percent of program revenues to expenditures for all the governmental activities.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Expenses - Governmental Funds

| | <u>2017</u> | <u>2016</u> | Increase (Decrease) |
|--|----------------------|----------------------|------------------------|
| General government | \$ 1,575,032 | \$ 1,397,591 | \$ 177,441 |
| Public safety | 4,937,151 | 4,733,371 | 203,780 |
| Health and welfare | 6,000 | 6,000 | - |
| Sanitation | 61,762 | 80,710 | (18,948) |
| Highways and streets | 2,097,603 | 2,325,119 | (227,516) |
| Culture and recreation | 662,877 | 647,408 | 15,469 |
| Conservation and development | 4,354 | 7,376 | (3,022) |
| Principal and interest on long-term debt | 864,773 | 772,460 | 92,313 |
| Capital outlay and miscellaneous | <u>1,465,767</u> | <u>1,083,366</u> | <u>382,401</u> |
| | <u>\$ 11,675,319</u> | <u>\$ 11,053,401</u> | <u>\$ 621,918</u> |

Expenses in Governmental Funds increased by \$621,918, or 5.6%, between the years 2016 and 2017, due to a greater number of large one-time expenses in 2017 than in 2016.

The Township's governmental revenues are generated from a variety of sources. Total revenues for Governmental Funds shown on the "Statement of Revenues, Expenditures and Changes in Fund Balances" (page 20) for fiscal year 2017 were \$11,329,442.

The percent of these revenues by source was as follows:

| | <u>Revenues by Source</u> | <u>% of Total</u> |
|----------------------------|-------------------------------|-----------------------|
| Taxes | \$ 8,590,681 | 75.8% |
| Fees, licenses and permits | 483,662 | 4.3% |
| Fines and forfeits | 62,676 | 0.6% |
| Interest and rents | 317,542 | 2.8% |
| Intergovernmental | 1,342,120 | 11.9% |
| Charges for services | 458,518 | 4.1% |
| Miscellaneous | <u>74,243</u> | <u>0.7%</u> |
| | <u>\$ 11,329,442</u> | <u>100.0%</u> |

Business-Type Activities

As noted previously in this MD&A, the decrease in net position for business-type activities (Refuse, Sewer Revenue, Sewer Capital Reserve and Municipal Authority Funds) was \$3,334,817 (page 17).

The business-type activities referred to in the Government-wide Financial Statements (pages 16 and 17) are reported as Proprietary (or Enterprise) Funds in the Fund Financial Statements (pages 18 through 21).

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The *Sewer Revenue Fund's* share of the \$3,334,817 decrease in net position was a decrease of \$2,543,181 for 2017, as compared to an increase of \$332,972 for 2016.

Sewer Revenue Fund Statements of Revenues, Expenses and Changes in Net Position 2017 Comparison to 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-------------------|
| OPERATING REVENUES | \$ 2,442,172 | \$ 2,611,305 |
| OPERATING EXPENSES | <u>2,457,601</u> | <u>2,674,003</u> |
| OPERATING LOSS | (15,429) | (62,698) |
| NONOPERATING REVENUES, net | | |
| Interest income, less interest expenses plus settlement revenue | <u>(69,537)</u> | <u>(69,143)</u> |
| LOSS BEFORE INTERFUND TRANSFERS | (84,966) | (131,841) |
| INTERFUND TRANSFERS | <u>(2,458,215)</u> | <u>464,813</u> |
| CHANGE IN NET POSITION | <u>\$ (2,543,181)</u> | <u>\$ 332,972</u> |

Quarterly sewage usage charges billed to residential and commercial customers were changed from flat rate to metered billing rate in the second quarter of 2010. The rates changed in April 2016 from \$7.90/thousand gallons and \$30.07 fixed/quarter to \$8.38/thousand gallons and \$27.26 fixed/quarter.

The *Refuse Fund's* share of the increase in net position was a decrease of \$63,219 for 2017, due to the Township's stated goal of returning some of the excess fund balance in the Refuse Fund to ratepayers by maintaining a refuse rate that collects slightly less revenue than expenses. The Refuse Fund's net position decreased by \$49,532 in 2016.

Refuse Fund Statements of Revenues, Expenses and Changes in Net Position 2017 Comparison to 2016

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|--------------------|
| OPERATING REVENUES | \$ 980,711 | \$ 989,913 |
| OPERATING EXPENSES | <u>1,049,411</u> | <u>1,040,796</u> |
| OPERATING LOSS | (68,700) | (50,883) |
| NONOPERATING REVENUES, net | | |
| Interest income, less interest expenses | <u>5,481</u> | <u>1,351</u> |
| CHANGE IN NET POSITION | <u>\$ (63,219)</u> | <u>\$ (49,532)</u> |

The current refuse rate, unchanged since 2011, is \$69.88/quarter.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The *Municipal Authority* experienced a decrease in net position of \$818,553 for the year 2017. The Municipal Authority's net position increased by \$374,114 for the year 2016.

Municipal Authority Statements of Revenues, Expenses and Changes in Net Position 2017 Comparison to 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| OPERATING REVENUES | \$ 980,722 | \$ 881,005 |
| OPERATING EXPENSES | <u>1,378,328</u> | <u>131,428</u> |
| OPERATING INCOME (LOSS) | (397,606) | 749,577 |
| NONOPERATING REVENUES, net | | |
| Interest income, less interest expenses plus tapping fees | <u>20,053</u> | <u>53,537</u> |
| INCOME (LOSS) BEFORE INTERFUND TRANSFERS | (377,553) | 803,114 |
| INTERFUND TRANSFERS | <u>(441,000)</u> | <u>(429,000)</u> |
| CHANGE IN NET POSITION | <u>\$ (818,553)</u> | <u>\$ 374,114</u> |

The East Goshen Municipal Authority is a component unit of East Goshen Township, which was established in 1967 to finance construction of the Township's sewage collection and treatment facilities. The major function of the Authority is to provide financing for capital construction, expansion and upgrades to the Township's sewer plants and other facilities. The Township has the responsibility for daily operations of the sewer system through a leaseback arrangement with the Authority which expires in 2033.

The lease agreement requires that the Township pay rents to the Authority equal to the amount of the Authority's monthly debt service on long-term guaranteed notes payable to the Delaware Valley Regional Finance Authority. The Authority has agreed to rebate 28% of its debt service rental collections on its Series 1998 notes to the Township through 2018. The Township paid off these notes in 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues

During the year, General Fund revenues exceeded budgetary estimates by \$665,385.

Total tax revenues were over budget by \$791,074. Earned Income Tax was over budget by \$108,098 due to stronger than expected increase wage growth. Real Estate Transfer Tax was over budget by \$684,969 or about 130.5% due to the sale of a large assisted living center. Both Real Estate Tax and Local Services Tax finished the year very close to budgeted levels, at 0.1% over budget and 1.0% under budget respectively.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Fees, licenses and permits were over budget by \$8,472 or 1.8% due to growth in franchise fees from Verizon.

Fines and forfeits were over budget by \$17,800. The majority of this amount was collections from the County for fines collected from township residents for parole violations, as well as fines for vehicle violations.

Interest earnings and rents were \$43,758 over budget due to a rising interest rate environment.

Intergovernmental revenues were \$147,035 under budget due primarily to the state sending East Goshen's share of pension aid for the police officers directly to the Westtown-East Goshen Police Department this year, rather than passing it through the Township, as had been done in past years

Charges for services were under budget by \$86,441 due to the absence of significant commercial permit activity in 2017, as well as lower than expected revenues from the Township's 2017 Bi-Centennial Celebration, as costs and revenues were shared with West Goshen Township for this event.

Firefighter reimbursement was over budget by \$106,478 due to the Goshen Fire Company hiring four additional paid firefighters in the second half of the year, but this line item is a pass-through revenue.

Miscellaneous revenues were over budget by \$15,331, primarily due to insurance claims.

Transfers to the General Fund from other Township funds was under budget by \$84,052 reflecting lower-than-expected transfers from the sewer and refuse funds for administrative overhead expenses and Public Works labor costs. These line items were partially off-set by higher-than-expected transfers from the State Liquid Fuels Fund.

Expenses

General Fund expenses were under budget by \$218,420 for 2017.

General government expenditures (administration, finance, tax collection, legal and municipal building costs accounted for under general government) were under budget by \$71,172, due to the deferral of two capital projects in 2018.

Public safety (police, fire and codes expenses) ran \$8,258 over budget due to the Goshen Fire Company hiring four new paid firefighters in the second half of the year, which is a pass-through expense. This new expense was largely offset by the fact that the Commonwealth sent state pension aid for the Westtown-East Goshen Police pension plan directly to the Police Department in 2017, rather than to the Township to pass through to the Police Department, as is normally done.

Public works - sanitation was under budget by \$4,540.

Public works - highways and streets was under budget by \$160,934 or 6.9% for 2017, due to cost underruns for storm water maintenance and snow removal.

Culture and recreation was under budget by \$12,897, due to lower-than-expected costs for the Township's 2017 Bi-Centennial Celebration.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

Community development (conservation and development) costs were \$4,366 under budget due to limited Historical Commission activity in 2017.

Debt Service was over budget by \$18,183, due to the issuance of general obligation bonds in August 2017 to pay for improvements to the Township Park, the construction of the Paoli Pike Trail and the breaching of two Township-owned dams, as well as related land improvements.

Insurance premiums were under budget by \$12,795, due to the timing of new employees joining the Township's health insurance plan.

Employee benefits costs were over budget by \$36,843 due to higher than expected state pension aid, which is passed through to the pension fund.

Transfers expenses were under budget by \$15,000, as no transfer was made from the General Fund to the Events Fund in 2017, as sufficient funds were raised from private sources to support the Township's Bi-Centennial Celebration.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township's total capital assets for its governmental and business-type activities as of December 31, 2017, were \$23,647,411. This includes land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements and infrastructure. Infrastructure includes roads, bridges, storm water and sewer lines and traffic signals.

Long-Term Debt

At the end of the fiscal year, the Township had total long-term debt outstanding of \$20,927,725. This debt consists of five series of general obligation bonds and notes and three guaranteed notes, backed by the full faith and credit of the government. Details of the Township's debt holdings and related long-term debt service requirements can be found in Note F to these financial statements on pages 41 through 42.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

Goshen was part of the "Welsh Tract" that was granted by William Penn in 1684. In 1799, the Borough of West Chester was chartered and split off from Goshen Township. In 1817, East Goshen Township was incorporated when the Township of Goshen was further divided into two Townships--East and West Goshen. East Goshen Township encompasses an area of 10 square miles and services a community of 18,026 residents. The Township owns and maintains 62.50 miles of road and 434 acres of parkland and/or open space.

EAST GOSHEN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

The major function of the Township is to provide local government services to its residents as specified in the Second Class Township Code. A five-member Board of Supervisors, elected by the voters, governs the Township. The Board establishes the policies which determine services provided, the amount of taxes levied and regulation of public safety, land use control, land subdivision, road construction and road maintenance. The Township is a charter member of the Westtown-East Goshen Regional Police Department, and the Department provides police and detective services to Township residents.

Next Year's Budget

The 2018 budget was adopted with a deficit of \$395,066 to be paid from the unrestricted fund balance of the General Fund. Revenues projected in the 2018 budget are of a conservative nature based on the previous three years of actual collections. There are no increases in tax rates reflected in the 2018 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the funds it receives and disburses. If you have questions about this report or to request additional financial information, please contact the Director of Finance at 1580 Paoli Pike, West Chester, PA 19380.

EAST GOSHEN TOWNSHIP
STATEMENT OF NET POSITION
DECEMBER 31, 2017

| | Governmental Activities | Business-Type Activities | Totals |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 10,581,092 | \$ 1,497,358 | \$ 12,078,450 |
| Investments | 11,894,765 | 2,308,448 | 14,203,213 |
| Receivables, net | 1,689,909 | 281,434 | 1,971,343 |
| Prepaid expenses | 88,452 | 3,930 | 92,382 |
| Net pension asset | 726,308 | - | 726,308 |
| Capital assets not being depreciated | 1,178,336 | 305,111 | 1,483,447 |
| Capital assets being depreciated, net | 9,653,537 | 12,510,427 | 22,163,964 |
| TOTAL ASSETS | <u>35,812,399</u> | <u>16,906,708</u> | <u>52,719,107</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources, pension activity | <u>235,981</u> | - | <u>235,981</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 371,364 | 288,936 | 660,300 |
| Accrued interest | 35,772 | 25,768 | 61,540 |
| Long-term liabilities | | | |
| Portion due or payable within one year | | | |
| Bonds and notes payable | 684,000 | 469,000 | 1,153,000 |
| Portion due or payable after one year | | | |
| Compensated absences | 292,886 | - | 292,886 |
| Bonds and notes payable | 8,043,864 | 11,437,975 | 19,481,839 |
| TOTAL LIABILITIES | <u>9,427,886</u> | <u>12,221,679</u> | <u>21,649,565</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources, pension activity | <u>278,606</u> | - | <u>278,606</u> |
| NET POSITION | | | |
| Net investment in capital assets | 9,481,418 | 930,538 | 10,411,956 |
| Restricted for | | | |
| Road improvements | 1,079,158 | - | 1,079,158 |
| Other projects | 502 | - | 502 |
| Unrestricted | <u>15,780,810</u> | <u>3,754,491</u> | <u>19,535,301</u> |
| TOTAL NET POSITION | <u>\$ 26,341,888</u> | <u>\$ 4,685,029</u> | <u>\$ 31,026,917</u> |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| GOVERNMENTAL ACTIVITIES | | | | |
| General government | \$ 1,519,015 | \$ 32,304 | \$ - | \$ - |
| Public safety | 5,274,572 | 269,697 | 317,269 | - |
| Health and welfare | 6,000 | - | - | - |
| Public works | | | | |
| Sanitation | 83,768 | - | - | - |
| Highways and streets | 2,567,548 | 4,617 | 525,511 | - |
| Culture and recreation | 458,200 | 157,632 | 499,476 | - |
| Conservation and development | 4,852 | 26,658 | - | - |
| Interest on long-term debt | 260,151 | - | - | - |
| TOTAL GOVERNMENTAL ACTIVITIES | 10,174,106 | 490,908 | 1,342,256 | - |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Refuse | 1,049,411 | 964,141 | - | - |
| Sewer | 4,260,937 | 3,449,156 | - | - |
| TOTAL BUSINESS-TYPE ACTIVITIES | 5,310,348 | 4,413,297 | - | - |
| TOTAL TOWNSHIP ACTIVITIES | \$ 15,484,454 | \$ 4,904,205 | \$ 1,342,256 | \$ - |

GENERAL REVENUES

- Property taxes, levied for general purposes
- Real estate transfer taxes
- Earned income tax
- Local services tax
- Franchise taxes
- Public realty tax
- Permits and fees
- Fines and forfeitures
- Unrestricted investment earnings
- Loss on disposal of capital assets
- Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION BEFORE TRANSFERS

TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

| <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> | |
| \$ (1,486,711) | \$ - | \$ (1,486,711) |
| (4,687,606) | - | (4,687,606) |
| (6,000) | - | (6,000) |
| (83,768) | - | (83,768) |
| (2,037,420) | - | (2,037,420) |
| 198,908 | - | 198,908 |
| 21,806 | - | 21,806 |
| (260,151) | - | (260,151) |
| <u>(8,340,942)</u> | <u>-</u> | <u>(8,340,942)</u> |
| - | (85,270) | (85,270) |
| <u>-</u> | <u>(811,781)</u> | <u>(811,781)</u> |
| - | (897,051) | (897,051) |
| <u>(8,340,942)</u> | <u>(897,051)</u> | <u>(9,237,993)</u> |
| 2,027,925 | - | 2,027,925 |
| 1,184,876 | - | 1,184,876 |
| 5,098,864 | - | 5,098,864 |
| 346,022 | - | 346,022 |
| 481,692 | - | 481,692 |
| 8,278 | - | 8,278 |
| 1,970 | - | 1,970 |
| 62,676 | - | 62,676 |
| 151,700 | 29,548 | 181,248 |
| (13,231) | (335) | (13,566) |
| 224,039 | 354,722 | 578,761 |
| <u>9,574,811</u> | <u>383,935</u> | <u>9,958,746</u> |
| 1,233,869 | (513,116) | 720,753 |
| <u>2,821,701</u> | <u>(2,821,701)</u> | <u>-</u> |
| 4,055,570 | (3,334,817) | 720,753 |
| <u>22,286,318</u> | <u>8,019,846</u> | <u>30,306,164</u> |
| <u>\$ 26,341,888</u> | <u>\$ 4,685,029</u> | <u>\$ 31,026,917</u> |

EAST GOSHEN TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | <u>General Fund</u> | <u>Bond Fund</u> | <u>Capital Reserve Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------|---------------------------------|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,506,993 | \$ 7,336,323 | \$ 658,581 | \$ 1,079,195 | \$ 10,581,092 |
| Investments | 6,528,850 | - | 5,365,450 | 465 | 11,894,765 |
| Taxes receivable, net | 1,444,266 | - | - | - | 1,444,266 |
| Other receivables | 32,667 | - | 212,976 | - | 245,643 |
| Prepaid expenses | 88,452 | - | - | - | 88,452 |
| | <u>88,452</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>88,452</u> |
| TOTAL ASSETS | \$ 9,601,228 | \$ 7,336,323 | \$ 6,237,007 | \$ 1,079,660 | \$ 24,254,218 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 189,298 | \$ 56,707 | \$ 52,080 | \$ - | \$ 298,085 |
| Accrued salaries and benefits | 73,279 | - | - | - | 73,279 |
| TOTAL LIABILITIES | 262,577 | 56,707 | 52,080 | - | 371,364 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenues | | | | | |
| Earned income taxes | 1,365,314 | - | - | - | 1,365,314 |
| Real estate taxes | 2,571 | - | - | - | 2,571 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,367,885 | - | - | - | 1,367,885 |
| FUND BALANCES | | | | | |
| Nonspendable, prepaid expenses | 88,452 | - | - | - | 88,452 |
| Restricted | | | | | |
| Road improvements | - | - | - | 1,079,158 | 1,079,158 |
| Special revenue | - | - | - | 502 | 502 |
| Assigned | | | | | |
| Capital projects | - | 7,279,616 | 6,184,927 | - | 13,464,543 |
| Operating reserve | 2,504,354 | - | - | - | 2,504,354 |
| Unassigned | 5,377,960 | - | - | - | 5,377,960 |
| TOTAL FUND BALANCES | 7,970,766 | 7,279,616 | 6,184,927 | 1,079,660 | 22,514,969 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 9,601,228 | \$ 7,336,323 | \$ 6,237,007 | \$ 1,079,660 | \$ 24,254,218 |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP

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

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 22,514,969

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:

| | |
|------------------------------------|-------------|
| Historical treasures | 24,267 |
| Construction in progress | 1,154,069 |
| Infrastructure | 2,668,985 |
| Vehicles | 2,366,353 |
| Buildings and improvements | 9,846,153 |
| Machinery, equipment and furniture | 2,486,603 |
| Accumulated depreciation | (7,714,557) |

Pension assets resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds.

726,308

Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.

(42,625)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | |
|--------------------------|-------------|
| Compensated absences | (292,886) |
| Bonds and notes payable | (8,686,778) |
| Accrued interest | (35,772) |
| Unamortized bond premium | (41,086) |

Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not recorded as receivables or are deferred in the funds.

1,367,885

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 26,341,888

See accompanying notes to the basic financial statements.

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

| | <u>General Fund</u> | <u>Bond Fund</u> | <u>Capital Reserve Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------|-----------------------------|---------------------------------|---------------------------------|
| REVENUES | | | | | |
| Taxes | | | | | |
| Real estate | \$ 2,028,636 | \$ - | \$ - | \$ - | \$ 2,028,636 |
| Real estate transfer | 1,184,876 | - | - | - | 1,184,876 |
| Local services tax | 346,022 | - | - | - | 346,022 |
| Earned income | 5,031,147 | - | - | - | 5,031,147 |
| Fees, licenses and permits | 483,662 | - | - | - | 483,662 |
| Fines and forfeits | 62,676 | - | - | - | 62,676 |
| Intergovernmental | 378,047 | - | 436,976 | 527,097 | 1,342,120 |
| Charges for services | 458,518 | - | - | - | 458,518 |
| Interest and rents | 229,647 | 28,727 | 48,310 | 10,858 | 317,542 |
| Miscellaneous | 64,243 | - | 10,000 | - | 74,243 |
| TOTAL REVENUES | <u>10,267,474</u> | <u>28,727</u> | <u>495,286</u> | <u>537,955</u> | <u>11,329,442</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 1,575,032 | - | - | - | 1,575,032 |
| Public safety | 4,937,151 | - | - | - | 4,937,151 |
| Health and welfare | 6,000 | - | - | - | 6,000 |
| Public works | | | | | |
| Sanitation | 61,762 | - | - | - | 61,762 |
| Highways and streets | 1,564,147 | - | - | 533,456 | 2,097,603 |
| Culture and recreation | 662,877 | - | - | - | 662,877 |
| Conservation and development | 4,354 | - | - | - | 4,354 |
| Debt service | | | | | |
| Principal | 650,000 | - | - | - | 650,000 |
| Interest and other charges | 138,686 | 76,087 | - | - | 214,773 |
| Capital outlay | - | 846,596 | 619,171 | - | 1,465,767 |
| TOTAL EXPENDITURES | <u>9,600,009</u> | <u>922,683</u> | <u>619,171</u> | <u>533,456</u> | <u>11,675,319</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>667,465</u> | <u>(893,956)</u> | <u>(123,885)</u> | <u>4,499</u> | <u>(345,877)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | 2,821,701 | 309,433 | - | 3,131,134 |
| Transfers out | (309,433) | - | - | - | (309,433) |
| Bond proceeds | - | 5,310,000 | - | - | 5,310,000 |
| Bond premium | - | 41,871 | - | - | 41,871 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(309,433)</u> | <u>8,173,572</u> | <u>309,433</u> | <u>-</u> | <u>8,173,572</u> |
| NET CHANGE IN FUND BALANCES | 358,032 | 7,279,616 | 185,548 | 4,499 | 7,827,695 |
| FUND BALANCES AT BEGINNING OF YEAR | <u>7,612,734</u> | <u>-</u> | <u>5,999,379</u> | <u>1,075,161</u> | <u>14,687,274</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 7,970,766</u> | <u>\$ 7,279,616</u> | <u>\$ 6,184,927</u> | <u>\$ 1,079,660</u> | <u>\$ 22,514,969</u> |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP

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

| | |
|--|---------------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 7,827,695 |
| Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. | 911,593 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins) is to decrease net position. | (13,231) |
| Net pension asset and related deferrals are reported in the statement of activities, however they do not require the use of current financial resources, and therefore, are not reported as expenditures in the Governmental Funds. | 19,812 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | |
| Real estate taxes | (711) |
| Earned income taxes | 67,717 |
| New borrowings increase Governmental Funds balances; however, this is an increase to liabilities in the statement of net position. | (5,351,871) |
| Bond premiums are reported in Governmental Funds as revenues; however, in the statement of activities, the revenues from bond premiums are allocated over the term lives of debt instruments as an offset to interest expense. | 785 |
| Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. | (35,772) |
| Repayment of note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. | 650,000 |
| Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds until paid. | <u>(20,447)</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 4,055,570</u> |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

| | Enterprise Funds | | | | Total Proprietary Funds |
|--|-------------------|-----------------------|-------------------------------|------------------------|-------------------------------|
| | Refuse Fund | Sewer Revenue Fund | Sewer Capital Reserve Fund | Municipal Authority | |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 100,615 | \$ 886,672 | \$ 367,743 | \$ 142,328 | \$ 1,497,358 |
| Investments | 513,513 | - | 1,794,935 | - | 2,308,448 |
| Receivables, net | 45,426 | 236,008 | - | - | 281,434 |
| Prepaid expenses | - | 3,930 | - | - | 3,930 |
| TOTAL CURRENT ASSETS | 659,554 | 1,126,610 | 2,162,678 | 142,328 | 4,091,170 |
| NONCURRENT ASSETS | | | | | |
| Due from other funds | - | - | - | 9,045,000 | 9,045,000 |
| Capital assets | | | | | |
| Construction in progress | - | 305,111 | - | - | 305,111 |
| Sewer treatment plant and improvements | - | 15,168,401 | - | - | 15,168,401 |
| Accumulated depreciation | - | (2,657,974) | - | - | (2,657,974) |
| TOTAL CAPITAL ASSETS, net of accumulated depreciation | - | 12,815,538 | - | - | 12,815,538 |
| TOTAL NONCURRENT ASSETS | - | 12,815,538 | - | 9,045,000 | 21,860,538 |
| TOTAL ASSETS | \$ 659,554 | \$ 13,942,148 | \$ 2,162,678 | \$ 9,187,328 | \$ 25,951,708 |
| LIABILITIES AND NET POSITION | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 10,564 | \$ 233,047 | \$ 2,750 | \$ 42,575 | \$ 288,936 |
| Accrued interest | - | 20,120 | - | 5,648 | 25,768 |
| Bonds and notes payable, current | - | 20,000 | - | 449,000 | 469,000 |
| TOTAL CURRENT LIABILITIES | 10,564 | 273,167 | 2,750 | 497,223 | 783,704 |
| NONCURRENT LIABILITIES | | | | | |
| Due to other funds | - | 9,045,000 | - | - | 9,045,000 |
| Bonds and notes payable | - | 2,841,975 | - | 8,596,000 | 11,437,975 |
| TOTAL NONCURRENT LIABILITIES | - | 11,886,975 | - | 8,596,000 | 20,482,975 |
| TOTAL LIABILITIES | 10,564 | 12,160,142 | 2,750 | 9,093,223 | 21,266,679 |
| NET POSITION | | | | | |
| Net investment in capital assets | - | 945,611 | - | - | 945,611 |
| Unrestricted | 648,990 | 836,395 | 2,159,928 | 94,105 | 3,739,418 |
| TOTAL NET POSITION | 648,990 | 1,782,006 | 2,159,928 | 94,105 | 4,685,029 |
| TOTAL LIABILITIES AND NET POSITION | \$ 659,554 | \$ 13,942,148 | \$ 2,162,678 | \$ 9,187,328 | \$ 25,951,708 |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

| | Enterprise Funds | | | | Total Proprietary Funds |
|--|-------------------|-----------------------|-------------------------------|------------------------|-------------------------------|
| | Refuse Fund | Sewer Revenue Fund | Sewer Capital Reserve Fund | Municipal Authority | |
| OPERATING REVENUES | | | | | |
| Charges for services | \$ 980,711 | \$ 3,422,894 | \$ - | \$ - | \$ 4,403,605 |
| Lease rentals, net | - | (980,722) | - | 980,722 | - |
| TOTAL OPERATING REVENUES | <u>980,711</u> | <u>2,442,172</u> | <u>-</u> | <u>980,722</u> | <u>4,403,605</u> |
| OPERATING EXPENSES | | | | | |
| Operations | 1,049,411 | 2,070,029 | - | 1,378,328 | 4,497,768 |
| Depreciation | - | 387,572 | - | - | 387,572 |
| TOTAL OPERATING EXPENSES | <u>1,049,411</u> | <u>2,457,601</u> | <u>-</u> | <u>1,378,328</u> | <u>4,885,340</u> |
| OPERATING LOSS | <u>(68,700)</u> | <u>(15,429)</u> | <u>-</u> | <u>(397,606)</u> | <u>(481,735)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Interest and investment revenue | 5,481 | 1,084 | 12,622 | 10,361 | 29,548 |
| Tapping fees | - | - | - | 9,692 | 9,692 |
| Interest expense | - | (30,347) | - | - | (30,347) |
| Bond issuance costs | - | (40,694) | - | - | (40,694) |
| Amortization of bond premium | - | 420 | - | - | 420 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>5,481</u> | <u>(69,537)</u> | <u>12,622</u> | <u>20,053</u> | <u>(31,381)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (63,219) | (84,966) | 12,622 | (377,553) | (513,116) |
| TRANSFERS IN | - | 759,302 | 210,816 | 185,000 | 1,155,118 |
| TRANSFERS OUT | - | (3,217,517) | (133,302) | (626,000) | (3,976,819) |
| CHANGE IN NET POSITION | (63,219) | (2,543,181) | 90,136 | (818,553) | (3,334,817) |
| NET POSITION AT BEGINNING OF YEAR | <u>712,209</u> | <u>4,325,187</u> | <u>2,069,792</u> | <u>912,658</u> | <u>8,019,846</u> |
| NET POSITION AT END OF YEAR | <u>\$ 648,990</u> | <u>\$ 1,782,006</u> | <u>\$ 2,159,928</u> | <u>\$ 94,105</u> | <u>\$ 4,685,029</u> |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

| | Enterprise Funds | | | | Total Proprietary Funds |
|---|-------------------|-----------------------|-------------------------------|------------------------|-------------------------------|
| | Refuse Fund | Sewer Revenue Fund | Sewer Capital Reserve Fund | Municipal Authority | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash received from customers | \$ 1,047,607 | \$ 3,673,569 | \$ - | \$ - | \$ 4,721,176 |
| Lease rental payments | - | (980,722) | - | 980,722 | - |
| Payments to suppliers | (1,055,867) | (2,059,769) | (11,322) | (1,338,300) | (4,465,258) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (8,260) | 633,078 | (11,322) | (357,578) | 255,918 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers from other funds | - | 759,302 | 210,816 | 185,000 | 1,155,118 |
| Transfers to other funds | - | (3,217,517) | (133,302) | (626,000) | (3,976,819) |
| Due to (from) other funds | - | (131,609) | - | 131,202 | (407) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | - | (2,589,824) | 77,514 | (309,798) | (2,822,108) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Tapping fees received | - | - | - | 9,692 | 9,692 |
| Principal payments on debt | - | - | - | (626,000) | (626,000) |
| Proceeds from issuance of bond | - | 2,861,975 | - | - | 2,861,975 |
| Payment of issuance costs | - | (40,694) | - | - | (40,694) |
| Interest paid | - | (30,347) | - | - | (30,347) |
| Loss on sale of asset | - | 334 | - | - | 334 |
| Amortization of bond premium | - | 420 | - | - | 420 |
| Acquisition, construction and improvements of capital assets | - | (501,530) | - | - | (501,530) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | - | 2,290,158 | - | (616,308) | 1,673,850 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received | 5,481 | 1,084 | 12,622 | 10,361 | 29,548 |
| Purchase of investments | (723) | - | (1,044,935) | - | (1,045,658) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 4,758 | 1,084 | (1,032,313) | 10,361 | (1,016,110) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,502) | 334,496 | (966,121) | (1,273,323) | (1,908,450) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 104,117 | 552,176 | 1,333,864 | 1,415,651 | 3,405,808 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ <u>100,615</u> | \$ <u>886,672</u> | \$ <u>367,743</u> | \$ <u>142,328</u> | \$ <u>1,497,358</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | |
| Operating loss | \$ (68,700) | \$ (15,429) | \$ - | \$ (397,606) | \$ (481,735) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities | | | | | |
| Depreciation | - | 387,572 | - | - | 387,572 |
| (Increase) decrease in | | | | | |
| Accounts receivable | 66,896 | 250,675 | - | - | 317,571 |
| Prepaid expenses | - | 373 | - | - | 373 |
| Increase (decrease) in | | | | | |
| Accounts payable | (6,456) | (10,233) | (11,322) | 40,028 | 12,017 |
| Accrued interest | - | 20,120 | - | - | 20,120 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ <u>(8,260)</u> | \$ <u>633,078</u> | \$ <u>(11,322)</u> | \$ <u>(357,578)</u> | \$ <u>255,918</u> |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

| | Pension Trust Funds | | | Private-Purpose Trust Funds | | Total Fiduciary Funds |
|---|-------------------------|--------------------------------------|---|--|---------------------------------|-----------------------------|
| | Fire Pension Fund | Non- Uniformed Pension Fund | Non- Uniformed Defined Contribution Pension Fund | Other Post- Employment Benefits Trust Fund | Police Pension Trust Fund | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 54,347 | \$ 106,159 | \$ 29,353 | \$ 53,158 | \$ 47,787 | \$ 290,804 |
| Receivables | | | | | | |
| Members' contributions | 615 | - | - | - | - | 615 |
| Prepaid pension payment | - | 1,142 | - | - | - | 1,142 |
| State aid | 2,764 | - | - | - | - | 2,764 |
| Investments | | | | | | |
| U.S. Government obligations | 38,674 | 57,569 | - | 62,229 | - | 158,472 |
| Corporate bonds | - | - | - | 47,719 | - | 47,719 |
| Municipal bonds | 162,846 | 104,815 | - | 130,879 | - | 398,540 |
| Bond funds | 194,967 | 650,973 | 289,905 | 178,606 | 353,863 | 1,668,314 |
| Equity funds | 1,059,692 | 2,170,483 | 491,289 | 1,060,923 | 944,259 | 5,726,646 |
| TOTAL ASSETS | \$ 1,513,905 | \$ 3,091,141 | \$ 810,547 | \$ 1,533,514 | \$ 1,345,909 | \$ 8,295,016 |
| LIABILITIES AND NET POSITION | | | | | | |
| LIABILITIES | | | | | | |
| Non-Uniformed Plan | \$ - | \$ - | \$ 2,764 | \$ - | \$ - | \$ 2,764 |
| NET POSITION | | | | | | |
| Held in trust for pension benefits | 1,513,905 | 3,091,141 | 807,783 | 1,533,514 | 1,345,909 | 8,292,252 |
| TOTAL LIABILITIES AND NET POSITION | \$ 1,513,905 | \$ 3,091,141 | \$ 810,547 | \$ 1,533,514 | \$ 1,345,909 | \$ 8,295,016 |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2017

| | Pension Trust Funds | | | Private-Purpose Trust Funds | | Total Fiduciary Funds |
|--|-------------------------|--------------------------------------|---|--|---------------------------------|-----------------------------|
| | Fire Pension Fund | Non- Uniformed Pension Fund | Non- Uniformed Defined Contribution Pension Fund | Other Post- Employment Benefits Trust Fund | Police Pension Trust Fund | |
| ADDITIONS | | | | | | |
| Contributions | | | | | | |
| Members | \$ 12,696 | \$ - | \$ - | \$ - | \$ - | \$ 12,696 |
| State | 72,764 | - | 106,707 | - | - | 179,471 |
| Employer | - | - | - | 165,437 | 355,272 | 520,709 |
| TOTAL CONTRIBUTIONS | 85,460 | - | 106,707 | 165,437 | 355,272 | 712,876 |
| Investment income | | | | | | |
| Net appreciation in fair value of investments | 170,597 | 381,248 | 80,354 | 176,621 | 152,557 | 961,377 |
| Interest and dividends | 34,136 | 66,071 | 15,849 | 33,555 | 26,469 | 176,080 |
| TOTAL INVESTMENT INCOME | 204,733 | 447,319 | 96,203 | 210,176 | 179,026 | 1,137,457 |
| Investment expense | (7,220) | (15,596) | (3,587) | (7,267) | (5,797) | (39,467) |
| INVESTMENT INCOME, net | 197,513 | 431,723 | 92,616 | 202,909 | 173,229 | 1,097,990 |
| TOTAL ADDITIONS | 282,973 | 431,723 | 199,323 | 368,346 | 528,501 | 1,810,866 |
| DEDUCTIONS | | | | | | |
| Pension payments | 17,807 | 18,829 | - | - | - | 36,636 |
| Administrative expenses | 7,500 | 8,850 | 5,551 | - | - | 21,901 |
| Lump sum distributions | - | - | 157 | - | - | 157 |
| TOTAL DEDUCTIONS | 25,307 | 27,679 | 5,708 | - | - | 58,694 |
| CHANGE IN NET POSITION | 257,666 | 404,044 | 193,615 | 368,346 | 528,501 | 1,752,172 |
| NET POSITION AT BEGINNING OF YEAR | 1,256,239 | 2,687,097 | 614,168 | 1,165,168 | 817,408 | 6,540,080 |
| NET POSITION AT END OF YEAR | \$ 1,513,905 | \$ 3,091,141 | \$ 807,783 | \$ 1,533,514 | \$ 1,345,909 | \$ 8,292,252 |

See accompanying notes to the basic financial statements.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the Township is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the Township's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the Township. In addition, component units can be other organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the Township's financial statements to be misleading.

The financial statements of the Township include the East Goshen Municipal Authority (the "Municipal Authority"), a body corporate and politic, incorporated under the Municipal Authorities Act of 1945, P. L. 382, as amended, pursuant to ordinances enacted by the Township, which is blended in these financial statements under the governing criteria of governmental accounting and financial reporting standards. A copy of the component unit's financial statements can be obtained at the Township's office located at 1580 Paoli Pike, West Chester, Pennsylvania.

The Municipal Authority is a "lease-back authority," the purpose of which is to borrow money to finance the construction or acquisition of needed facilities. These facilities are leased back to the Township, which operates them and is responsible for their proper management.

Fund Accounting

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

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The various funds of the Township are grouped into the categories governmental, proprietary and fiduciary.

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.

Capital Reserve Fund and *Bond Funds* are used to account for financial resources to be used for the acquisition or construction and maintenance of major capital assets (other than those financed by Proprietary Funds).

The Township reports the following Nonmajor Funds:

The *Road Improvements Fund* is used to account for financial resources to be used for the acquisition or construction and maintenance of major capital assets (other than those financed by Proprietary Funds).

The *State Liquid Fuels (Highway Aid) Fund*, as required by state law, accounts for revenue from the State Motor License Fund (gasoline tax distribution, etc.) and the approved expenditures of such monies for highway purposes.

The Township reports the following major Proprietary Funds:

The *Refuse Fund* and *Sewer Revenue Fund* are used to account for 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 goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The *Sewer Capital Reserve Fund* is used to account for financial resources to be used for the acquisition or construction and maintenance of major sewer capital assets.

The *Municipal Authority* is a blended component unit of the Township. It was established in 1967 to finance construction of the Township's sewage collection and treatment facilities. The major function of the Municipal Authority is to provide financing for capital construction, expansion and upgrades to the Township's sewer plants and other facilities. The Township has the responsibility for daily operations of the sewer system through a leaseback arrangement with the Authority which expires in 2018.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the Township reports the following Fiduciary Fund types:

The *Pension Trust Funds* account for the activities of the Fire and Non-Uniformed Pension Plans, which accumulate resources for pension benefit payments to qualified employees. The *OPEB Trust Fund* and *Police Pension Trust Fund* (private-purpose trust funds) account for monies set aside by the Township to be used to satisfy the Township's contractual obligation to contribute its pro-rata share of the Westtown East Goshen Regional Police Commission's OPEB and Pension obligations, respectively.

Basis of Presentation and Accounting

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds' financial statements but differs from the manner in which Governmental Funds' financial statements are prepared. Governmental Funds' financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Proprietary Funds distinguish operating revenues and expenses from 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 of 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with an original maturity of one year or less are considered cash equivalents.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g., roads, bridges, curbs, sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$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> |
|------------------------------------|--------------|
| Vehicles | 5-12 |
| Building and improvements | 10-50 |
| Machinery, equipment and furniture | 3-12 |
| Infrastructure | 10-50 |

Under GASB Statement No. 34, the Township is a Phase 3 government. Prospective reporting of general infrastructure assets is required upon implementation of GASB Statement No. 34, according to the GASB 34 Cod. Sec. 1400.125. Retroactive reporting of general infrastructure assets is required for Phase 1 and Phase 2 governments but not for Phase 3 governments. The Township has elected not to retroactively report general infrastructure assets at this time; therefore, capital assets only include general infrastructure assets acquired since the implementation of GASB Statement No. 34 in 2004.

Long-Term Obligations

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

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts during the period incurred. 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.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Compensated Absences

Employees, upon termination, will receive compensation for unused sick and vacation days accumulated. Eligible non-uniform employees receive 72 sick leave hours per year and are allowed to accumulate up to 480 hours. Firefighters receive 80 sick leave hours per year and are allowed to accumulate up to 480 hours. Eligible non-uniform employees may carry over a maximum of 80 vacation hours to the following year. Any unused vacation in excess of 80 hours is forfeited. Firefighters may carry over a maximum of 100 vacation hours to the following year. Any unused vacation in excess of 100 hours is forfeited.

Real Estate Tax Calendar and Reserve

The original tax duplicate is received by the Township and given to the tax collector for mailing by February 1. The discount period extends through April 30, followed by the flat period through June 30 and ends with the penalty period after July 1. The penalty is 10%. Any unpaid taxes at the end of the year are required to be liened by January 15 with the county.

Receivables and Payables

External transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

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

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Allowance for Uncollectible Accounts

The Township calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. As of December 31, 2017, the allowance for uncollectible sewer and refuse accounts receivable are \$50,031 and \$14,119, respectively.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

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

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

The Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

The Township has implemented Government Accounting Standards Board Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category. The deferred outflow of resources related to pensions is reported in the government-wide statement of net position and is the result of changes in plan assumptions.

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. Unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from real estate taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of differences between expected and actual experience of the pension plan and differences between projected and actual earnings on pension plan investments.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

The Township's deposits with financial institutions at December 31, 2017, consisted of checking and savings accounts as well as certificates of deposit with an original maturity ranging from three to 18 months.

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.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - The Township utilizes both insurance provided by the Federal Deposit Insurance Corporation (FDIC) and collateralization to guard against custodial credit risk. Under the Township's current procedures, deposits in excess of FDIC insurance are fully collateralized. The Township has adopted a deposit policy which, in accordance with state law, requires all its banking partners to pledge collateral held by an independent third-party institution, not in the Township's name, in the amount of at least 102% of the deposit value. As of December 31, 2017, \$1,250,000 of the Township's bank balance of \$13,356,378 was covered under FDIC insurance. Of the remaining \$12,106,378, \$4,680,250 was exposed to custodial credit risk, which is collateralized as described, and \$7,426,128 was invested in state investment pools which is uninsured and uncollateralized.

Credit Risk - Pennsylvania statutes authorize the Township to invest in U.S. Treasury bills, short-term obligations of the U.S. Government, obligations of the U.S. Government or Commonwealth of Pennsylvania or political subdivisions of the Commonwealth that are backed by the full faith and credit of the issuing government and shares of authorized investment companies provided that all of the company investments are authorized investments for a township.

In addition, the Township may invest in time deposits, savings accounts, or share accounts of institutions insured by the FDIC, FSLIC, or NCUSIF to the extent that such investments are insured and, where amounts exceed the insured maximums, that the depository pledge collateral as provided by Pennsylvania law.

The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets, net of its liabilities. The Township may also invest in shares of registered investment companies provided that investments of the company are authorized investments, as noted above.

Investments

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments with interest rate risk are selected so that the risk of interest decline below area savings accounts rates is minimal.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

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

| Investment Type | Amortized Cost | Fair Value | Investment Maturities | | |
|-----------------------------|----------------------|---------------------|-----------------------|-------------------|---------------------|
| | | | Less Than 1 Year | 1 to 5 Years | 6 to 10 Years |
| Certificates of deposit | \$ - | \$ - | \$ - | \$ - | \$ - |
| State investment pools | 14,203,213 | - | 14,203,213 | - | - |
| U.S. Government obligations | - | 158,472 | 23,133 | 135,339 | - |
| Bond funds | - | 1,668,314 | - | - | 1,668,314 |
| Equity funds | - | 5,726,646 | 5,726,646 | - | - |
| Corporate bonds | - | 47,719 | - | 31,766 | 15,953 |
| Municipal bonds | - | 398,540 | 20,280 | 235,862 | 142,399 |
| | <u>\$ 14,203,213</u> | <u>\$ 7,999,691</u> | <u>\$ 19,973,272</u> | <u>\$ 402,967</u> | <u>\$ 1,826,666</u> |

A portion of the Township's investments is in the PLGIT program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2017, is \$14,203,213. These assets maintain a stable net asset value of \$1 per share. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized costs in accordance with GASB Statement No. 79. There are no withdrawal restrictions on these investments.

Interest Rate Risk - The Township recognizes interest rate risk and extension risk with some of the obligations. The Township has stratified its portfolio so that the investments with extension risk are comprised of monies needed on a long-term basis. Investments with interest rate risk are selected so that the risk of interest decline below area savings accounts rates is minimal.

Fair Value Measurement - The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The Township's investments in U.S. government obligations, bond funds, equity funds, corporate bonds and municipal bonds are recurring fair value measurements. These investments are valued using quoted market prices (Level 1 inputs).

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

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

The credit risk of a debt instrument as measured by a Nationally Recognized Statistical Rating Organization (NRSRO) (Morningstar, Inc. for bond mutual funds or Moody's Investor Services for bonds and mortgages) is as follows:

| | Amortized Cost / Fair Value | Credit Quality |
|---|--------------------------------|-------------------|
| INVESTMENT TYPE | | |
| Bond mutual funds | \$ 114,080 | AAA |
| Municipal bonds | 68,351 | AAA |
| Bond mutual funds | 568,542 | AA |
| Municipal bonds | 133,409 | AA |
| Corporate bonds | 47,719 | A |
| Municipal bonds | 165,781 | A |
| Bond mutual funds | 453,223 | A |
| Municipal bonds | 15,750 | BAA |
| Bond mutual funds | 532,469 | Various |
| U.S. Government securities | 158,472 | Not Rated |
| Municipal bonds | 15,249 | Not Rated |
| Equity funds | 5,726,646 | Not Rated |
| Governmental funds | | |
| Statement investment funds (amortized cost) | <u>14,203,213</u> | Not Rated |
| | <u>\$ 22,202,904</u> | |

U.S. Government obligations are not considered to have credit risk and do not require disclosure of credit quality. Pooled investments within Nationwide Life Insurance Company are not rated by an NRSRO, such as Morningstar, Inc. or Moody's Investor Services. Nationwide Life Insurance Company is rated Aa for long-term insurance financial strength according to Moody's Investor Services.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the pension and OPEB plans will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The plans do not have a formal investment policy that addresses custodial credit risk.

Investments in external investment pools or in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Securities underlying reverse repurchase agreements are not exposed to custodial credit risk because they are held by the buyer-lender. The term securities, as used in this paragraph, includes securities underlying repurchase agreements and investment securities.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of a pension plan's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The plans do not have a formal investment policy that addresses concentration of credit risk; however, as of December 31, 2017, no investment in any one organization represented five percent (5%) or more of total investments.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The pension and OPEB plans do not have a formal investment policy that addresses foreign currency risk; however, the plans held no investments that were exposed to foreign currency risk as of December 31, 2017.

NOTE C - RECEIVABLES

Receivables in the government-wide financial statements are comprised of the following:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Totals</u> |
|--------------------------|------------------------------------|-------------------------------------|---------------------|
| RECEIVABLES | | | |
| Earned income tax | \$ 1,399,366 | \$ - | \$ 1,399,366 |
| Local services tax | 2,084 | - | 2,084 |
| Real estate taxes | 42,816 | - | 42,816 |
| Other receivables | 245,643 | - | 245,643 |
| Sewer and refuse charges | <u>-</u> | <u>281,434</u> | <u>281,434</u> |
| | <u>\$ 1,689,909</u> | <u>\$ 281,434</u> | <u>\$ 1,971,343</u> |

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances as of December 31, 2017, were as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------------|
| Municipal Authority | Sewer Revenue Fund | <u>\$ 9,045,000</u> |

Interfund transfers at December 31, 2017, are as follows:

| <u>Transfers Out</u> | <u>Transfers In</u> | | | | |
|-------------------------------|-------------------------------------|-----------------------------------|---|----------------------|--------------------------------|
| | <u>Capital Reserve Fund</u> | <u>Sewer Revenue Fund</u> | <u>Sewer Capital Reserve Fund</u> | <u>Bond Fund</u> | <u>Municipal Authority</u> |
| General Fund | \$ 309,433 | \$ - | \$ - | \$ - | \$ - |
| Municipal Authority | - | 626,000 | - | - | - |
| Sewer Capital Reserve Fund | - | 133,302 | - | - | - |
| Sewer Revenue Fund | <u>-</u> | <u>-</u> | <u>210,816</u> | <u>2,821,701</u> | <u>185,000</u> |
| | <u>\$ 309,433</u> | <u>\$ 759,302</u> | <u>\$ 210,816</u> | <u>\$ 2,821,701</u> | <u>\$ 185,000</u> |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE E - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | Balance January 1, 2017 | Additions | Deletions | Balance December 31, 2017 |
|--|-------------------------------|---------------------|---------------------|---------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Historical treasures | \$ 24,267 | \$ - | \$ - | \$ 24,267 |
| Construction in progress | 290,916 | 1,039,916 | (176,763) | 1,154,069 |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | 315,183 | 1,039,916 | (176,763) | 1,178,336 |
| Capital assets being depreciated | | | | |
| Infrastructure | 2,457,916 | 211,069 | - | 2,668,985 |
| Vehicles | 2,275,359 | 118,854 | (27,860) | 2,366,353 |
| Buildings and improvements | 9,567,524 | 286,641 | (8,012) | 9,846,153 |
| Machinery, equipment and furniture | 2,466,610 | 50,690 | (30,697) | 2,486,603 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED | 16,767,409 | 667,254 | (66,569) | 17,368,094 |
| Accumulated depreciation | | | | |
| Infrastructure | (478,884) | (61,993) | - | (540,877) |
| Vehicles | (1,564,808) | (217,153) | 27,860 | (1,754,101) |
| Buildings and improvements | (3,130,789) | (236,461) | 8,012 | (3,359,238) |
| Machinery, equipment and furniture | (1,974,600) | (103,207) | 17,466 | (2,060,341) |
| TOTAL ACCUMULATED DEPRECIATION | (7,149,081) | (618,814) | 53,338 | (7,714,557) |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | 9,618,328 | 48,440 | (13,231) | 9,653,537 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net | 9,933,511 | 1,088,356 | (189,994) | 10,831,873 |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Construction in progress | 285,549 | 19,562 | - | 305,111 |
| Capital assets being depreciated | | | | |
| Sewer treatment plant and improvements | 14,766,000 | 481,969 | (79,568) | 15,168,401 |
| Accumulated depreciation | (2,349,635) | (387,572) | 79,233 | (2,657,974) |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | 12,416,365 | 94,397 | (335) | 12,510,427 |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net | 12,701,914 | 113,959 | (335) | 12,815,538 |
| CAPITAL ASSETS, net | \$ 22,635,425 | \$ 1,202,315 | \$ (190,329) | \$ 23,647,411 |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE E - CAPITAL ASSETS (Continued)

Depreciation for governmental activities was charged to direct expense of the programs as follows:

| | |
|------------------------------|-------------------|
| General government | \$ 87,030 |
| Public safety | 317,618 |
| Public works, sanitation | 6,655 |
| Public works, highway | 161,620 |
| Culture and recreation | 45,399 |
| Conservation and development | 492 |
| | <u>\$ 618,814</u> |

NOTE F - GENERAL LONG-TERM DEBT

The following is a summary of changes in long-term liability activity of the Township:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------------|----------------------|---------------------|-----------------------|----------------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds and notes | | | | | |
| Series A of 1999 | \$ 676,000 | \$ - | \$ (214,000) | \$ 462,000 | \$ 225,000 |
| Series A of 2000 | 108,000 | - | (19,000) | 89,000 | 20,000 |
| Series A of 2003 | 2,420,000 | - | (307,000) | 2,113,000 | 319,000 |
| Westtown Township | 822,778 | - | (110,000) | 712,778 | 115,000 |
| Series of 2017 | <u>-</u> | 5,310,000 | <u>-</u> | 5,310,000 | 5,000 |
| TOTAL BONDS AND NOTES | 4,026,778 | 5,310,000 | (650,000) | 8,686,778 | 684,000 |
| Unamortized bond premium | - | 41,871 | (785) | 41,086 | - |
| Compensated absences | 272,439 | 20,447 | - | 292,886 | - |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>4,299,217</u> | <u>5,372,318</u> | <u>(650,785)</u> | <u>9,020,750</u> | <u>684,000</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Bonds and notes | | | | | |
| Series of 1998 | 193,000 | - | (193,000) | - | - |
| Series of 2008 | 7,260,000 | - | (333,000) | 6,927,000 | 346,000 |
| Series of 2013 | 2,218,000 | - | (100,000) | 2,118,000 | 103,000 |
| Series of 2017 | <u>-</u> | 2,840,000 | <u>-</u> | 2,840,000 | 20,000 |
| TOTAL BONDS AND NOTES | 9,671,000 | 2,840,000 | (626,000) | 11,885,000 | 469,000 |
| Unamortized bond premium | - | 22,395 | (420) | 21,975 | - |
| TOTAL BUSINESS- TYPE ACTIVITIES | <u>9,671,000</u> | <u>2,862,395</u> | <u>(626,420)</u> | <u>11,906,975</u> | <u>469,000</u> |
| TOTAL LONG-TERM LIABILITIES | <u>\$ 13,970,217</u> | <u>\$ 8,234,713</u> | <u>\$ (1,277,205)</u> | <u>\$ 20,927,725</u> | <u>\$ 1,153,000</u> |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE F - GENERAL LONG-TERM DEBT (Continued)

Bonds and notes payable consisted of:

| | |
|---|----------------------|
| General Obligation Note, Series A of 1999, payable to the Delaware Valley Regional Finance Authority (DVRFA); in 2003, the note was converted from a variable rate to a fixed rate of 3.66% with maturity scheduled for 2019; interest is payable monthly, principal is payable annually and is subject to a swap agreement | \$ 462,000 |
| Guaranteed Revenue Note, Series A of 2000, payable to the DVRFA; in 2003, the note was converted from a variable rate to a fixed rate of 3.76% with maturity scheduled for 2021; interest is payable monthly, principal is payable annually and is subject to a swap agreement | 89,000 |
| General Obligation Note, Series A of 2003, payable to the DVRFA; in 2003, the note was converted from a variable rate to a fixed rate of 3.91% with maturity scheduled for 2023; interest is payable monthly, principal is payable annually and is subject to a swap agreement | 2,113,000 |
| East Goshen Township's portion of the General Obligation Bonds of Westtown Township, Series of 2012; the bonds mature in 2023 with interest rates ranging up to 2.30% (see Note H for further details on the agreement with Westtown Township) | 712,778 |
| General Obligation Bonds, Series of 2017, due in annual principal installments ranging from \$20,000 to \$190,000 through October 1, 2037, interest rate is variable from 1.00% to 4.00%. | 2,840,000 |
| General Obligation Bonds, Series of 2017, due in annual principal installments ranging from \$5,000 to \$450,000 through October 1, 2037, interest rate is variable from 1.00% to 4.00%. | 5,310,000 |
| The Municipal Authority issued a Guaranteed Note, Series of 2008, to the DVRFA; in 2008, the note was converted from a variable rate to a fixed rate of 3.96% with maturity scheduled for 2032; interest is payable monthly, principal is payable annually and is subject to a swap agreement | 6,927,000 |
| The Municipal Authority issued a Guaranteed Note, Series of 2013, to the DVRFA; in 2013, the note was converted from a variable rate to a fixed rate of 3.049% with maturity scheduled for 2033; interest is payable monthly, principal is payable annually and is subject to a swap agreement | 2,118,000 |
| | <u>\$ 20,571,778</u> |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE F - GENERAL LONG-TERM DEBT (Continued)

Funds to repay outstanding bonds and notes will be provided from future taxes, other general revenues and charges for services. Total interest expense paid during the year ended December 31, 2017, was \$530,664. Interest costs incurred for the year ended December 31, 2017, were \$140,955 in the General Fund. This includes \$165,713 recorded as a direct expenditure and \$24,758 directly netted with an equal reimbursement per an agreement with an unrelated third party. Total interest capitalized and charged to the Sewer Revenue Fund was \$364,951 in 2017.

Debt Service Requirements

A summary of long-term debt service requirements to maturity, including principal and interest, other than compensated absences is as follows:

| <u>Year Ending</u> <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---|----------------------|---------------------|----------------------|
| 2018 | \$ 1,153,000 | \$ 677,241 | \$ 1,830,241 |
| 2019 | 1,293,000 | 635,519 | 1,928,519 |
| 2020 | 1,092,000 | 589,494 | 1,681,494 |
| 2021 | 1,130,000 | 549,963 | 1,679,963 |
| 2022 | 1,144,000 | 508,683 | 1,652,683 |
| 2023 to 2027 | 5,453,778 | 1,975,581 | 7,429,359 |
| 2028 to 2032 | 6,135,000 | 1,080,346 | 7,215,346 |
| 2033 to 2037 | <u>3,171,000</u> | <u>237,576</u> | <u>3,408,576</u> |
| | <u>\$ 20,571,778</u> | <u>\$ 6,254,403</u> | <u>\$ 26,826,181</u> |

In July 2017, the Township issued General Obligation Bonds, Series of 2017, in the amount of \$8,150,000 for the purpose of funding capital improvements of the Township and to pay for the costs of issuing the bonds. \$5,310,000 of the bonds will be repaid by the General Fund and \$2,840,000 of the bonds will be repaid by the Sewer Revenue Fund.

Swap Agreements

The Township financed all outstanding notes through the DVRFA. The DVRFA has, in turn, entered into interest rate swap agreements with various counterparties to provide fixed interest rates to borrowers. These agreements may be terminated under the following circumstances: (1) The DVRFA and the counterparty mutually consent to termination; (2) the borrower defaults on its loan; or (3) the DVRFA or the counterparty default or their financial conditions deteriorate to make a default imminent. Upon termination, the DVRFA would receive or make a payment depending on the market value of the related interest rate swap. If the DVRFA were obligated to make such a payment and sufficient funds were not available, the DVRFA could assess each borrower its allocable share of the termination payment.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE F - GENERAL LONG-TERM DEBT (Continued)

At December 31, 2017, the market value of the Township's interest rate swap agreements for fixed rate loans was (\$1,176,468) and \$1,792,141 for the DVRFA bonds. As of December 31, 2017, the DVRFA would have received a payment of nearly \$134 million if all the swap agreements were terminated. None of these amounts are reflected in the Township's statements of net position or activities at December 31, 2017.

NOTE G - EMPLOYEE RETIREMENT PLANS

Fire Pension Plan

Summary of Significant Accounting Policies

Basis of Accounting - The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Plan Membership - As of December 31, 2017, membership consisted of:

| | |
|--|-----------|
| Inactive plan members currently receiving benefits | 2 |
| Inactive plan members entitled to but not yet receiving benefits | 1 |
| Active plan members | <u>12</u> |
| | <u>15</u> |

Plan Description - The plan is a single-employer defined benefit plan that covers the East Goshen Fire Company full-time paid employees. The plan provides retirement, death and disability benefits to plan members and their beneficiaries. Benefits and contribution provisions are established by Pennsylvania law. All benefits are vested after five years of credited service.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Benefits Provided - The following is a summary of the plan benefit provisions:

Eligibility Requirements

Normal retirement - Later of age 55 or 5 years of service, whichever occurs later
Early retirement - Age 52
Vesting - Full vesting after five years of service

Retirement Benefit

1.25% of final 60 month average salary multiplied by years and completed months of service. Offset by 0% social security; length of service increment - none

Survivor Benefit

50% of participants' vested pension amount

Disability Benefit Service and Non-Service Related

50% of final average salary, starting 90 days after the disability occurred

Post Retirement Adjustments

None

Members Contributions

Amount or rate - 2.25% of compensation
Interest rate credited to member contributions - 2%

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

The plan is funded by the Township through Act 205 Pension Funds from the Commonwealth. If deemed necessary, the Township must contribute any additional funding to the plan. Member contributions are currently required at a rate of 2.25% of compensation. In accordance with Act 205, the Township was not required to contribute to the plan for the year 2017.

EAST GOSHEN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Financial Reporting - The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Township's office located at 1580 Paoli Pike, West Chester, Pennsylvania.

Investment Policy Summary - The plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Board of Township Supervisors. The objective of the investment strategy is to reduce risk while maximizing returns through the prudent diversification of the portfolio in order to maintain a fully funded status and meet the benefit and expense obligations when due. The plan's formal investment policy statement which is revised periodically provides more comprehensive details on investment strategy and authorized investments.

The plan's investment policy establishes the following target allocation across asset classes:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Equities | 70.00% | 5.78% |
| Fixed income | 27.00% | 1.35% |
| Cash | 3.00% | -0.31% |
| | <u>100.00%</u> | |

The long-term expected rate of return on the plan's investments was determined as stated in the plan's investment policy statement in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of a plan's investment in a single issue. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The plan does have a formal investment policy that addresses concentration of credit risk. As of December 31, 2017, no investment in any one organization represented five percent (5%) or more of the plan's fiduciary net position.

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 15.67%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Net Pension Liability (Asset) of the Township

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

| | |
|--|---------------------|
| Total pension liability | \$ 1,379,092 |
| Plan fiduciary net position | <u>1,513,905</u> |
| NET PENSION ASSET | <u>\$ (134,813)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>109.8%</u> |

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

| | |
|---------------------------|-------|
| Inflation | 2.25% |
| Salary increases | 5.00% |
| Investment rate of return | 7.00% |

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

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Based upon the plan's current target investment allocation and the associated long-term expected investment returns for its asset classes, the plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Changes in the Net Pension Liability (Asset)

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (asset) (a) - (b) |
|---|--------------------------------------|--|--|
| BALANCE AT DECEMBER 31, 2016 | \$ 1,270,460 | \$ 1,256,239 | \$ 14,221 |
| Changes for the year | | | |
| Service cost | 54,854 | - | 54,854 |
| Interest | 90,803 | - | 90,803 |
| Differences between expected and actual experience | (22,361) | - | (22,361) |
| Changes of assumptions | 3,143 | - | 3,143 |
| Contributions | | | |
| Employer | - | - | - |
| State aid | - | 72,764 | (72,764) |
| Member | - | 12,697 | (12,697) |
| Net investment income | - | 197,512 | (197,512) |
| Benefit payments | (17,807) | (17,807) | - |
| Administrative expense | - | (7,500) | 7,500 |
| BALANCE AT DECEMBER 31, 2017 | <u>\$ 1,379,092</u> | <u>\$ 1,513,905</u> | <u>\$ (134,813)</u> |

Net Pension Liability (Asset) Sensitivity - The following is a sensitivity analysis of the net pension liability (asset) to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.00% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|-------------------------------|--------------------------|------------------------------------|--------------------------|
| Net pension (asset) liability | <u>\$ 61,265</u> | <u>\$ (134,813)</u> | <u>\$ (298,398)</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2017, the municipality recognized a pension expense of \$44,305. At December 31, 2017, the municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 78,285 |
| Changes in assumptions | 18,247 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 42,747 |
| | <u>\$ 18,247</u> | <u>\$ 121,032</u> |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

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

| <u>Year Ending</u> <u>December 31,</u> | |
|---|------------|
| 2018 | \$ (7,386) |
| 2019 | (7,386) |
| 2020 | (27,393) |
| 2021 | (28,802) |
| 2022 | (7,055) |
| Thereafter | (24,763) |

Non-Uniformed Employees' Pension Plan

Summary of Significant Accounting Policies

Basis of Accounting - The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Plan Description and Contribution Information - Membership of the plan consisted of the following at December 31, 2017, the date of the last actuarial valuation:

| | |
|--|------------------|
| Inactive plan members currently receiving benefits | 4 |
| Inactive plan members entitled to but not yet receiving benefits | 28 |
| Active plan members | <u>0</u> |
| TOTAL MEMBERSHIP | <u><u>32</u></u> |

Benefits Provided - The following is a summary of the plan benefit provisions:

Eligibility Requirements

Normal retirement - Age 65 and 10 years of service

Early retirement - Age 55 with 10 or more years of service

Vesting - As of January 1, 2011, all members are 100% vested; plan is now frozen

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Retirement Benefit

1.25% times final average earnings times years and fractions of years. Final average is based on highest five calendar years out of the last ten calendar years.

Unmarried - life income; Married - life income, 50% to surviving spouse offset by 0% social security.

Survivor Benefit

Benefit to surviving spouse is automatic after participant is eligible for early retirement. Benefit is equal to 50% of the pension which would have been paid to the participant if he had retired.

Disability Benefit Service and Non-Service Related

10 years of service and receiving social security disability benefits. No reduction if benefit starts before age 65; same benefit as B.

Post Retirement Adjustments

None

Members Contributions

Amount or rate - None

Interest rate credited to member contributions - None

Plan Description - The plan is a single-employer defined benefit plan that covers all full-time non-uniform employees. The plan provides retirement benefits to plan members and their beneficiaries. Benefits and contribution provisions are established by Pennsylvania law. All benefits are vested after five years of credited service.

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

The plan is funded by the Township through Act 205 Pension Funds from the Commonwealth. If deemed necessary, the Township must contribute any additional funding to the plan. Members do not contribute to the plan. In accordance with Act 205, the Township was required to contribute to the plan for the year 2017.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Financial Reporting - The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Township's office located at 1580 Paoli Pike, West Chester, Pennsylvania.

Investment Policy Summary - The plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Board of Township Supervisors. The objective of the investment strategy is to reduce risk while maximizing returns through the prudent diversification of the portfolio in order to maintain a fully funded status and meet the benefit and expense obligations when due. The plan's formal investment policy statement which is revised periodically provides more comprehensive details on investment strategy and authorized investments.

The plan's investment policy establishes the following target allocation across asset classes:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Equities | 70.00% | 5.78% |
| Fixed income | 27.00% | 1.35% |
| Cash | <u>3.00%</u> | -0.31% |
| | <u>100.00%</u> | |

The long-term expected rate of return on the plan's investments was determined as stated in the plan's investment policy statement in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of a plan's investment in a single issue. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The plan does have a formal investment policy that addresses concentration of credit risk. As of December 31, 2017, no investment in any one organization represented five percent (5%) or more of the plan's fiduciary net position.

Rate of Return - For the year ended December 31, 2017, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 16.16%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EAST GOSHEN TOWNSHIP
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Net Pension Liability (Asset) of the Township

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

| | |
|--|---------------------|
| Total pension liability | \$ 2,499,646 |
| Plan fiduciary net position | <u>3,091,141</u> |
| NET PENSION ASSET | <u>\$ (591,495)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>123.7%</u> |

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

| | |
|---------------------------|-------|
| Inflation | 2.25% |
| Salary increases | 0.00% |
| Investment rate of return | 7.00% |

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

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Based upon the plan's current target investment allocation and the associated long-term expected investment returns for its asset classes, the plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Changes in Net Pension Liability (Asset)

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (asset) (a) - (b) |
|---|--------------------------------------|--|--|
| | <u> </u> | <u> </u> | <u> </u> |
| BALANCE AT DECEMBER 31, 2016 | \$ 2,369,542 | \$ 2,687,097 | \$ (317,555) |
| Changes for the year | | | |
| Service cost | - | - | - |
| Interest | 164,144 | - | 164,144 |
| Differences between expected and actual experience | (22,325) | - | (22,325) |
| Changes of assumptions | 7,114 | - | 7,114 |
| Contributions | | | |
| Employer | - | - | - |
| State aid | - | - | - |
| Member | - | - | - |
| Net investment income | - | 431,723 | (431,723) |
| Benefit payments | (18,829) | (18,829) | - |
| Administrative expense | - | (8,850) | 8,850 |
| | <u> </u> | <u> </u> | <u> </u> |
| BALANCE AT DECEMBER 31, 2017 | \$ <u>2,499,646</u> | \$ <u>3,091,141</u> | \$ <u>(591,495)</u> |

Net Pension Liability (Asset) Sensitivity - The following is a sensitivity analysis of the net pension liability (asset) to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.0% as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate.

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|-------------------------------|--------------------------|------------------------------------|--------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Net pension (asset) liability | \$ <u>(275,380)</u> | \$ <u>(591,495)</u> | \$ <u>(854,245)</u> |

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE G - EMPLOYEE RETIREMENT PLANS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2017, the Township recognized pension expense of \$8,647. At December 31, 2017, 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> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 39,385 |
| Changes in assumptions | 217,734 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>-</u> | <u>118,189</u> |
| | <u>\$ 217,734</u> | <u>\$ 157,574</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> | |
|-------------------------------------|-----------|
| 2018 | \$ 22,781 |
| 2019 | 22,780 |
| 2020 | (19,404) |
| 2021 | (17,110) |
| 2022 | 31,809 |
| Thereafter | 19,304 |

Non-Uniformed Employees Defined Contribution Pension Plan

The Township offers its non-uniformed employees and non-uniformed employees of the Westtown East Goshen Regional Police Department a deferred compensation plan created in accordance with Internal Revenue Code Section 457. For the plan year 2017, the Township contributed an allocation equal to 5.0% of the eligible participant's compensation on behalf of the participating non-uniformed employees. Participants may not contribute to this plan, and the plan does not accept rollovers or direct transfers. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Additions to an employee's account in this plan and to his or her accounts in any other defined contribution plans maintained by the Township in any year are limited to the lesser of \$40,000 or 100% of the employee's compensation. Control over plan investments is held by a committee appointed by the Board of Supervisors.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - JOINT AGREEMENTS

Police

The Township, along with Westtown Township, established the Westtown East Goshen Regional Police Commission (the Commission), a separate legal entity, whose function is to provide comprehensive, quality police protection for the participating municipalities. The Commission consists of three voting members: one Supervisor from Westtown Township, one Supervisor from East Goshen Township and one citizen-at-large. Each Township pays the Commission its proportionate share of the Commission's annual budget allocation. For 2017, the Township's share of these costs was \$3,451,899.

The Township entered into an Intergovernmental Subsidy Agreement with Westtown Township to jointly cooperate in the development and construction of the regional police building. The Township has agreed to pay to Westtown Township an amount equal to approximately 46% of the debt service on Westtown Township's General Obligation Bonds, Series of 2004, which was used to construct the police building. The Township received an equity interest in the building equal to its contribution of approximately 46% of the costs. The Township's interest in the building is included in capital assets and its share of the debt is likewise included in long-term debt on the statement of net position.

In 2012, Westtown Township's General Obligation Bonds, Series of 2004, were refunded through the issuance of Westtown Township's General Obligation Bonds, Series of 2012. The Intergovernmental Subsidy Agreement with Westtown Township remains in effect. The Township's principal obligation for the new note was \$1,360,000, an increase from the beginning balance on the Township's books of \$55,000. As of December 31, 2017, the Township's unpaid principal obligation was \$712,778.

The Township has established a Police Pension Trust Fund and Other Post-Employment Benefits Trust Fund. The Township was not required to establish the trusts, however, they did so to set aside funds to meet future obligations. The respective plans are not in the name of the Township and the individuals enrolled in each retirement plan are not employees of the Township, therefore the Township is not required to record a net pension liability and net OPEB obligation.

A separate audit report is available by contacting the Westtown East Goshen Regional Police Commission at 1041 Wilmington Pike, West Chester, PA 19382.

NOTE I - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Township to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

EAST GOSHEN TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE J - CONTINGENCIES

The Township is party to litigation involving various matters that have arisen in the normal course of business. Management believes the outcome of these matters will not have a material effect on the Township's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

EAST GOSHEN TOWNSHIP
BUDGETARY COMPARISON SCHEDULE (Budgetary Basis)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|---------------------|---------------------|-------------------|---|
| | Original | Final | | |
| RESOURCES (INFLOWS) | | | | |
| Taxes | | | | |
| Real estate | \$ 2,027,128 | \$ 2,027,128 | \$ 2,028,636 | \$ 1,508 |
| Real estate transfer | 525,000 | 525,000 | 1,209,969 | 684,969 |
| Local services tax | 348,000 | 348,000 | 344,499 | (3,501) |
| Earned income | 4,916,400 | 4,916,400 | 5,024,498 | 108,098 |
| Fees, licenses and permits | 475,190 | 475,190 | 483,662 | 8,472 |
| Fines and forfeits | 44,876 | 44,876 | 62,676 | 17,800 |
| Intergovernmental | 492,415 | 492,415 | 345,380 | (147,035) |
| Charges for services | 544,990 | 544,990 | 458,549 | (86,441) |
| Interest and rents | 185,889 | 185,889 | 229,647 | 43,758 |
| Paid firefighter reimbursement | 1,210,506 | 1,210,506 | 1,316,984 | 106,478 |
| Spray irrigation loan revenue | 24,758 | 24,758 | 24,758 | - |
| Miscellaneous | 98,104 | 98,104 | 113,435 | 15,331 |
| Transfers | 984,448 | 984,448 | 900,396 | (84,052) |
| AMOUNT AVAILABLE FOR APPROPRIATION | | | | |
| | <u>11,877,704</u> | <u>11,877,704</u> | <u>12,543,089</u> | <u>665,385</u> |
| CHANGES TO APPROPRIATIONS (OUTFLOWS) | | | | |
| Current | | | | |
| General government | 1,474,752 | 1,474,752 | 1,403,580 | 71,172 |
| Public safety | 6,184,131 | 6,184,131 | 6,192,389 | (8,258) |
| Health and welfare | 6,000 | 6,000 | 6,000 | - |
| Public works | | | | |
| Sanitation | 120,814 | 120,814 | 116,274 | 4,540 |
| Highways and streets | 2,320,485 | 2,320,485 | 2,159,551 | 160,934 |
| Culture and recreation | 679,049 | 679,049 | 666,152 | 12,897 |
| Conservation and development | 8,649 | 8,649 | 4,283 | 4,366 |
| Debt service | | | | |
| Principal | 649,999 | 649,999 | 650,000 | (1) |
| Interest and other charges | 147,532 | 147,532 | 165,714 | (18,182) |
| Insurance premiums | 358,690 | 358,690 | 345,895 | 12,795 |
| Employee benefits | 411,342 | 411,342 | 448,185 | (36,843) |
| Transfers | 15,000 | 15,000 | - | 15,000 |
| TOTAL CHANGES TO APPROPRIATIONS (OUTFLOWS) | | | | |
| | <u>12,376,443</u> | <u>12,376,443</u> | <u>12,158,023</u> | <u>218,420</u> |
| EXCESS OF RESOURCES (INFLOWS) OVER CHANGES TO APPROPRIATIONS (OUTFLOWS) | | | | |
| | <u>\$ (498,739)</u> | <u>\$ (498,739)</u> | <u>\$ 385,066</u> | <u>\$ 883,805</u> |

See accompanying note to the budgetary comparison schedule.

EAST GOSHEN TOWNSHIP

NOTE TO THE BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2017

NOTE A - BUDGETARY INFORMATION

The Township's process for establishing its annual operating budget involves submission of the budget by the Township Manager to the Board of Supervisors for its approval and adoption. The Township Manager, Finance Director and the Budget Review Committee are responsible for the preparation of the annual budget.

The budgetary process consists of the evaluation and review of appropriation requests of the operating directors of the various Township departments. Revenue estimates are made throughout the process to determine the amount of Township property taxes and other revenue required to balance the budget.

The Board of Supervisors is required to introduce the budget for the following year by 20 days prior to the end of the fiscal year, after which it is advertised and reviewed at public hearings held by the Board of Supervisors of the Township. After the close of the public hearings, the Board of Supervisors approves and adopts the budget on or before December 31, the close of the Township's fiscal year.

The Township Supervisors may authorize supplemental appropriations for any lawful purpose via resolution. In addition, the Supervisors are permitted to transfer funds from one Township account to another; however, such transfers are not permitted during the first three months of the fiscal year. Appropriations lapse at the close of the fiscal year to the extent they have not been expended. It is the Township's policy to maintain budgetary control at the fund level.

The Township prepares budgets for Governmental Funds on the cash basis of accounting, which is a comprehensive basis other than accounting principles generally accepted in the United States of America.

EAST GOSHEN TOWNSHIP
SCHEDULE OF CHANGES IN THE NET FIRE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | | | |
| Service cost | \$ 54,854 | \$ 52,558 | \$ 50,055 | \$ 49,337 |
| Interest | 90,803 | 83,697 | 75,948 | 72,308 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | (22,361) | - | (79,060) | - |
| Changes of assumptions | 3,143 | - | 20,953 | - |
| Benefit payments, including refunds of member contributions | <u>(17,807)</u> | <u>(17,807)</u> | <u>(17,807)</u> | <u>(6,727)</u> |
| NET CHANGE IN TOTAL PENSION LIABILITY | 108,632 | 118,448 | 50,089 | 114,918 |
| Total pension liability, beginning | <u>1,270,460</u> | <u>1,152,012</u> | <u>1,101,923</u> | <u>987,004</u> |
| TOTAL PENSION LIABILITY, ENDING (a) | <u>\$ 1,379,092</u> | <u>\$ 1,270,460</u> | <u>\$ 1,152,012</u> | <u>\$ 1,101,922</u> |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions | | | | |
| State aid | \$ 72,764 | \$ 79,410 | \$ 63,013 | \$ 64,957 |
| Member | 12,697 | 11,281 | 10,858 | 10,984 |
| Net investment income | 197,512 | 72,041 | (23,145) | 37,095 |
| Benefit payments, including refunds of member contributions | (17,807) | (17,807) | (17,807) | (6,727) |
| Administrative expense | <u>(7,500)</u> | <u>(4,300)</u> | <u>(6,600)</u> | <u>(2,975)</u> |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 257,666 | 140,625 | 26,319 | 103,334 |
| Plan fiduciary net position, beginning | <u>1,256,239</u> | <u>1,115,614</u> | <u>1,089,295</u> | <u>985,961</u> |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | <u>\$ 1,513,905</u> | <u>\$ 1,256,239</u> | <u>\$ 1,115,614</u> | <u>\$ 1,089,295</u> |
| NET PENSION LIABILITY (ASSET), ENDING (a)-(b) | <u>\$ (134,813)</u> | <u>\$ 14,221</u> | <u>\$ 36,398</u> | <u>\$ 12,627</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>109.8%</u> | <u>98.9%</u> | <u>96.8%</u> | <u>98.9%</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 700,000</u> | <u>\$ 570,000</u> | <u>\$ 555,812</u> | <u>\$ 587,288</u> |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>-19.3%</u> | <u>2.5%</u> | <u>6.5%</u> | <u>2.2%</u> |

EAST GOSHEN TOWNSHIP
SCHEDULE OF FIRE PENSION PLAN CONTRIBUTIONS
LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|-------------------|-------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ 59,720 | \$ 48,617 | \$ 53,364 | \$ 55,591 |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>72,764</u> | <u>79,410</u> | <u>63,013</u> | <u>64,957</u> |
| CONTRIBUTION EXCESS | <u>\$ (13,044)</u> | <u>\$ (30,793)</u> | <u>\$ (9,649)</u> | <u>\$ (9,366)</u> |
| COVERED-EMPLOYEE PAYROLL | <u>\$ 700,000</u> | <u>\$ 570,000</u> | <u>\$ 555,812</u> | <u>\$ 587,288</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>10.39%</u> | <u>13.93%</u> | <u>11.34%</u> | <u>11.06%</u> |

NOTES TO SCHEDULE

Valuation date: January 1, 2017

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry age |
| Amortization method | Level dollar |
| Remaining amortization period | N/A |
| Asset valuation method | Market value |
| Inflation | 2.25% |
| Salary increases | 5.00% |
| Investment rate of return | 7.00% (Net of pension plan investment expense including inflation) |
| Retirement age | 55 |
| Mortality | Mortality rates were based on the Blue Collar RP-2000 Mortality Table projected to 2017 using Scale AA. |

EAST GOSHEN TOWNSHIP
SCHEDULE OF FIRE PENSION PLAN
INVESTMENT RETURNS
LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------|--------------|---------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>15.67%</u> | <u>6.46%</u> | <u>-2.16%</u> | <u>2.50%</u> |

EAST GOSHEN TOWNSHIP
SCHEDULE OF CHANGES IN NET NON-UNIFORMED EMPLOYEES
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | | | |
| Interest | \$ 164,144 | \$ 155,548 | \$ 151,866 | \$ 146,061 |
| Differences between expected and actual experience | (22,325) | - | (30,794) | - |
| Changes of assumptions | 7,114 | - | 323,943 | - |
| Benefit payments, including refunds of member contributions | (18,829) | (16,253) | (182,254) | (8,664) |
| NET CHANGE IN TOTAL PENSION LIABILITY | 130,104 | 139,295 | 262,761 | 137,397 |
| Total pension liability, beginning | 2,369,542 | 2,230,247 | 1,967,486 | 1,830,090 |
| TOTAL PENSION LIABILITY, ENDING (a) | \$ 2,499,646 | \$ 2,369,542 | \$ 2,230,247 | \$ 1,967,487 |
| PLAN FIDUCIARY NET POSITION | | | | |
| Net investment income | \$ 431,723 | \$ 187,198 | \$ (25,974) | \$ 106,960 |
| Benefit payments, including refunds of member contributions | (18,829) | (16,253) | (182,254) | (8,664) |
| Administrative expense | (8,850) | (4,850) | (7,975) | (3,575) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 404,044 | 166,095 | (216,203) | 94,721 |
| Plan fiduciary net position, beginning | 2,687,097 | 2,521,002 | 2,737,205 | 2,642,484 |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | \$ 3,091,141 | \$ 2,687,097 | \$ 2,521,002 | \$ 2,737,205 |
| NET PENSION ASSET, ENDING (a)-(b) | \$ (591,495) | \$ (317,555) | \$ (290,755) | \$ (769,718) |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | 123.7% | 113.4% | 113.0% | 139.1% |
| COVERED-EMPLOYEE PAYROLL | \$ N/A | \$ N/A | \$ N/A | \$ N/A |
| NET PENSION LIABILITY AS A PERCENTAGE OF EMPLOYEE PAYROLL | N/A | N/A | N/A | N/A |

EAST GOSHEN TOWNSHIP
SCHEDULE OF NON-UNIFORMED EMPLOYEES
PENSION PLAN CONTRIBUTIONS
LAST FOUR FISCAL YEARS

Schedule of Township Contributions

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| ACTUARIALLY DETERMINED CONTRIBUTION | \$ - | \$ - | \$ - | \$ - |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | \$ - | \$ - | \$ - | \$ - |
| CONTRIBUTION DEFICIENCY (EXCESS) | \$ - | \$ - | \$ - | \$ - |
| COVERED-EMPLOYEE PAYROLL | \$ - | \$ - | \$ - | \$ - |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

NOTES TO SCHEDULE

Valuation date: January 1, 2017

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Level dollar |
| Remaining amortization period | N/A |
| Asset valuation method | Market value |
| Inflation | 2.25% |
| Salary increases | 0.00% |
| Investment rate of return | 7.00% (Net of pension plan investment expense including inflation) |
| Retirement age | 65 |
| Mortality | Mortality rates were based on the RP-2000 Mortality Table projected to 2017 using Scale AA |

EAST GOSHEN TOWNSHIP
SCHEDULE OF NON-UNIFORMED EMPLOYEES
PENSION PLAN INVESTMENT RETURNS
LAST FOUR FISCAL YEARS

PENSION INVESTMENT RETURNS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------|--------------|----------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>16.16%</u> | <u>7.92%</u> | <u>(0.97%)</u> | <u>4.59%</u> |

SUPPLEMENTARY INFORMATION

EAST GOSHEN TOWNSHIP
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | State Liquid Fuels Highway Aid Fund | Road Improvements Fund | Total Other Governmental Funds |
|---------------------------|--|------------------------------|--------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 37 | \$ 1,079,158 | \$ 1,079,195 |
| Investments | 465 | - | 465 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | \$ <u>502</u> | \$ <u>1,079,158</u> | \$ <u>1,079,660</u> |
| FUND BALANCES | | | |
| Restricted for | | | |
| Road improvements | \$ - | \$ 1,079,158 | \$ 1,079,158 |
| Special Revenue | 502 | - | 502 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL FUND BALANCES | 502 | 1,079,158 | 1,079,660 |
| | <u> </u> | <u> </u> | <u> </u> |
| Unreserved | \$ <u>502</u> | \$ <u>1,079,158</u> | \$ <u>1,079,660</u> |

EAST GOSHEN TOWNSHIP

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

| | State Liquid Fuels Highway Aid Fund | Road Improvements Fund | Total Other Governmental Funds |
|------------------------------------|--|------------------------------|--------------------------------------|
| REVENUES | | | |
| Intergovernmental | \$ 525,511 | \$ 1,586 | \$ 527,097 |
| Investment earnings | 5,562 | 5,296 | 10,858 |
| TOTAL REVENUES | <u>531,073</u> | <u>6,882</u> | <u>537,955</u> |
| EXPENDITURES | | | |
| Current | | | |
| Highways and streets | \$ 530,873 | \$ 2,583 | \$ 533,456 |
| TOTAL EXPENDITURES | <u>530,873</u> | <u>2,583</u> | <u>533,456</u> |
| NET CHANGE IN FUND BALANCES | 200 | 4,299 | 4,499 |
| FUND BALANCES AT BEGINNING OF YEAR | <u>302</u> | <u>1,074,859</u> | <u>1,075,161</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 502</u> | <u>\$ 1,079,158</u> | <u>\$ 1,079,660</u> |