

**TOWNSHIP OF FRANCONIA**

**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**



TOWNSHIP OF FRANCONIA

December 31, 2016

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Township of Franconia  
Franconia Township, Pennsylvania

### ***Report on the Financial Statements***

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

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

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

### ***Auditors' Responsibility***

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

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

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

## *Opinions*

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

## *Other-Matters*

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, and the historical trend information on pages 55 through 58 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 information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Franconia's, Pennsylvania, basic financial statements. The combining and individual nonmajor fund statements and schedules are presented for additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Bee, Bergvall & Co.*

Bee, Bergvall and Company, P.C.  
Certified Public Accountants

Warrington, PA  
June 29, 2017

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

Our discussion and analysis of the Township of Franconia's financial performance provides an overview of the Township's financial activities for the year ended December 31, 2016. Please read it in conjunction with the Township's financial statements that begin on page 13.

**Financial Highlights**

- The assets of the Township exceeded its liabilities at the close of 2016 by \$14,104,307 as outlined in the Statement of Net Position. Of this amount, \$11,127,710 represents the Township's net investment in capital assets, while \$5,623,641 represents amounts which are restricted for open space, fire protection, highway, library, capital project, and park and recreation purposes. The Township's unrestricted net position deficit as of December 31, 2016 totaled \$2,647,044.
- The results of the Township's operations for the year ending December 31, 2016 as outlined in the Statement of Activities produced a positive change in net position of \$1,774,842.
- As of the close of the current calendar year, the Township's governmental funds reported a combined ending fund balance of \$4,930,134 as outlined in the Balance Sheet -Governmental Funds. Of this amount, \$5,623,641 represents amounts which are restricted as outlined above, while the General Fund unassigned fund balance deficit position as of December 31, 2016 totaled \$693,507.
- The net positive change in the governmental funds fund balance for the year ending December 31, 2016 as outlined in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund was \$1,685,614.
- The Township's Net Position as of December 31, 2015 on the Statement of Activities was restated from \$11,989,802 to \$12,329,465. \$419,841 of this increase related to a change in the accounting methodology for earned income tax from the modified accrual basis to the full accrual basis. As a result of a reevaluation of the employment status of those employees who primarily work for the Township's discretely presented component unit, the Township also reduced its Net Position as of December 31, 2015 by \$80,178 in order to recognize the full net pension liability for its non-uniform pension plan.

**USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB).

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

**Report Components**

This annual report consists of five parts as follows:

***Government-Wide Financial Statements:*** The statement of net position and the statement of activities (on pages 13-15) provide information about the activities of the Township government-wide (or “as a whole”) and present a longer-term view of the Township’s finances.

The government-wide financial statements include not only the Township of Franconia itself (known as the Primary Government), but also the legally separate entity which is financially accountable to the Township (known as the component unit). The component unit is the Franconia Sewer Authority. Information for the component unit is reported separately from the financial information presented for the Township itself.

***Fund Financial Statements:*** Fund financial statements focus separately on major Governmental Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township’s major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column titled “Other Governmental Funds”. Statements for the Township’s Fiduciary Funds follow the Governmental Funds and include net position, additions, deductions, and changes in net position. 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 statements because the Township cannot use these assets to finance its operations.

***Notes to the Financial Statements:*** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

***Required Supplementary Information:*** This management’s discussion and analysis (pages 5-12) and the schedules of changes in the net pension liability and related ratios and schedules of contributions for both the police and non-uniform pension plans (pages 55-58) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as “the basis financial statements”).

***Other Information:*** The combining and individual nonmajor fund statements and schedules (pages 59-62) present additional financial information which is not required by GASB to be presented, but is designed to provide the reader with additional data that supplements the basic financial statements.

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

**REPORTING THE TOWNSHIP AS A WHOLE**

**The Township's Reporting Entity Presentation**

This annual report includes all activities for which the Franconia Township Board of Supervisors is fiscally responsible. These activities, defined as the Township's reporting entity, are operated within separate entities that make up the primary government.

**The Government-Wide Statement of Net Position and the Statement of Activities**

Our financial analysis of the Township as a whole begins on page 13. The government-wide financial statements are presented on pages 13-15. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include all of the Township's assets and liabilities resulting from the use of the accrual basis of accounting.

These two statements report the Township's net position and changes in it. You can think of the Township's net position - the difference between assets/deferred outflows and liabilities/deferred inflows - as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Township's tax base and the condition of the Township's roads, to assess the overall health of the Township.

**A FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net Position**

The net position of both the Township and its discretely presented component unit as of December 31, 2016 and 2015, are presented below:

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

	Governmental Activities		Discretely Presented Component Units	
	2016	2015 (restated)	2016	2015 (restated)
Current and other assets	\$ 5,807,033	\$ 4,045,985	\$ 1,941,311	\$ 1,578,362
Other non current assets			216,531	246,644
Capital assets	18,730,424	18,919,233	31,660,508	32,337,845
Total Assets	24,537,457	22,965,218	33,818,350	34,162,851
 Deferred outflows	 455,211	 618,429	 471,896	 520,403
 Long term liabilities	 10,289,985	 10,314,646	 13,964,375	 14,413,839
Other liabilities	510,885	834,696	838,576	628,453
Total Liabilities	10,800,870	11,149,342	14,802,951	15,042,292
 Deferred inflows	 87,491	 104,840	 -	 -
 Net Position				
Net investment in capital assets	11,127,710	10,856,525	17,239,014	17,579,917
Restricted/Assigned	5,623,641	4,335,781	99,385	104,961
Unrestricted	(2,647,044)	(2,862,841)	2,148,896	1,956,084
Total Net Position	\$ 14,104,307	\$12,329,465	\$19,487,295	\$19,640,962

At the end of the current fiscal year, the Township is able to report a positive balance in the category of net position for the government as a whole. However, The Township continues to report a net position deficit in the unrestricted category. This figure did improve by \$250,035 as a result of 2016's operations and stood at \$2,647,044 as of December 31, 2016. Increases in the levels of net position restricted for open space, capital projects, and highway projects were the most significant contributors to the \$1,287,860 increase in the restricted net position category, while the Township's net position invested in capital assets, net of related debt increased primarily as a result of payments made on the Township's outstanding debt issues during 2016. The Township's overall cash position increased by \$1,764,460 during 2016, while total liabilities were reduced by \$348,472, primarily as a result of payments made on the Township's debt and a lower overall level of accounts payable and accrued expenses as of December 31, 2016.

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

**Changes in Net Position**

For the years ended December 31, 2016 and 2015, net position of both the Township and its discretely presented component unit changed as presented below:

	<u>Governmental</u> <u>Activities</u>		<u>Discretely Presented</u> <u>Component Units</u>	
	<u>2016</u>	<u>2015</u> (restated)	<u>2016</u>	<u>2015</u> (restated)
<b>REVENUES</b>				
Program Revenues:				
Charges for services	\$ 1,213,373	\$ 802,557	\$ 2,664,791	\$ 2,595,176
Operating grants and contributions	989,614	1,311,401	-	-
Capital grants and contributions	-	-	546,705	369,594
General Revenues:				
Property taxes	1,586,793	1,512,837	-	-
Transfer tax	343,270	-	-	-
Earned income tax	3,075,377	3,441,591	-	-
Other taxes	373,712	666,876	-	-
Investment income (loss)	12,059	8,087	6,802	10,832
Other	329,521	931,426	22,100	10,400
Total Revenues	<u>7,923,719</u>	<u>8,674,775</u>	<u>3,240,398</u>	<u>2,986,002</u>
<b>EXPENSES</b>				
Administration	861,085	1,735,157	-	-
Permits and licenses	176,195	136,319	-	-
Police and emergency service	2,382,046	2,549,314	-	-
Public works	1,615,757	1,430,115	-	-
Library	265,108	200,604	-	-
Parks and recreation	23,288	32,682	-	-
Depreciation	245,848	239,015	-	-
Debt service	235,829	300,645	-	-
Sewer	343,721	329,171	3,394,065	3,262,590
Total Expenses	<u>6,148,877</u>	<u>6,953,022</u>	<u>3,394,065</u>	<u>3,262,590</u>
Change in Net Position	1,774,842	1,721,753	(153,667)	(276,588)
Net Position - Beginning	<u>12,329,465</u>	<u>10,607,712</u>	<u>19,640,962</u>	<u>19,917,550</u>
Net Position - Ending	<u>\$ 14,104,307</u>	<u>\$12,329,465</u>	<u>\$19,487,295</u>	<u>\$19,640,962</u>

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

*Changes in Net Position (Continued)*

The figures in the "Governmental Activities" column for 2015 in the table shown above include the effects of the \$419,841 restatement of earnings applicable to a change made in the methodology applicable to the accounting for earned income tax. They also include a change in the presentation of professional fee charges and developer reimbursements applicable to ongoing development projects within the Township between 2015 and 2016.

Revenue from real estate taxes increased by \$73,956, with the bulk of this increase attributable to an increase in the Library Tax millage in 2016. Earned income, real estate transfer, and local services tax revenues increased in 2016 as local economic conditions continued to improve. Revenue from Act 209 assessment fees was up by \$189,264 in 2016 as a result of continued development of new residential properties during the year. Revenue from operating grants and contributions was down by \$321,787 in 2016 as the Township had received a one-time State Liquid Fuels turnback grant in the amount of \$694,010 in 2015 for the purpose of funding work to be done by the Township on a number of state roads. Changes made to the Township's personnel structure in 2015 and 2016 and lower levels of legal and engineering fees were the primary catalysts for the decrease in overall expenses in 2016 shown in the above table.

**Governmental Activities**

To aid in understanding the statement of activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical statement of revenues, expenses, and changes in fund balance. You will notice that expenses are listed first, followed by program revenues and then general revenues. The result is a net (expense)/revenue presentation. This type of format highlights the relative financial burden of each of the functions on the Township's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fee and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund had an excess of revenues over expenditures in 2016 of \$690,034 and an excess of expenditures over revenues of \$136,088 for 2015. In 2016, an operating surplus of \$174,614 was anticipated; however, actual revenues and transfers exceeded budgeted revenues by \$410,180, while actual expenses and transfers were less than budgeted expenses by \$105,240. In 2015, an operating surplus of \$18,474 was anticipated; however, actual revenues exceeded budgeted revenues by \$2,605,745, and actual expenses and transfers were more than budgeted expenses and transfers by \$2,488,131.

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Township's investment in capital assets for its governmental activities as of December 31, 2016 totaled \$18,730,424 (net of accumulated depreciation), while its discretely presented component unit's investment in capital assets as of that date totaled \$31,660,508. Capital asset values are summarized in the following table:

	Balance <u>12/31/2016</u>	Balance <u>12/31/2015</u>
<u>Governmental Activities</u>		
Non-Depreciable Assets		
Land	\$ 8,660,301	\$ 8,660,301
Developmental rights	5,733,772	5,733,772
Other Capital Assets		
Building and Improvements	1,513,391	1,566,188
Equipment and Vehicles	340,393	405,430
Infrastructure	<u>2,482,567</u>	<u>2,553,542</u>
	<u>\$ 18,730,424</u>	<u>\$ 18,919,233</u>
 <u>Component units</u>		
Non-Depreciable Assets		
Land	\$ 652,012	\$ 652,012
Construction in progress	304,372	327,280
Other Capital Assets		
Sewer system and equipment	<u>30,704,124</u>	<u>31,358,553</u>
	<u>\$ 31,660,508</u>	<u>\$ 32,337,845</u>

Additional information on the Township's and component unit's assets can be found in Note III C on pages 38-39 of this report.

**Long-Term Liabilities**

At the end of the current fiscal year, the Township had outstanding long-term liabilities totaling \$10,289,985, while its discretely present component unit had outstanding long-term liabilities totaling \$14,421,494.

**TOWNSHIP OF FRANCONIA**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2016**

Long-term liabilities are summarized in the following table:

	Balance <u>12/31/2016</u>	Balance <u>12/31/2015</u>
<u>Governmental Activities</u>		
Bonds and notes payable	\$ 7,602,714	\$ 8,003,001
Capital leases	38,635	59,707
Compensated absences	24,419	56,424
Net pension liability	<u>2,624,217</u>	<u>2,667,766</u>
	<u>\$ 10,289,985</u>	<u>\$ 10,786,898</u>
<u>Component unit</u>		
Bonds and notes payable	<u>\$ 14,421,494</u>	<u>\$ 14,757,928</u>

Additional information on the Township's and component unit's liabilities can be found in Note III F on pages 41-43 of this report.

**ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES**

The Township of Franconia is an integral part of the Indian Valley, situated in northern Montgomery County, PA. The Township has one of the lowest real estate tax rates in the county, and based on FBI crime statistics, is consistently ranked as one of the safest communities in Pennsylvania.

Franconia Township is seeing a spurt of new residential development, including THP's Lincoln Wood's project, an 83 unit residential subdivision of single family homes which is currently under construction. WB Homes currently has its Highland Ridge project currently under construction, a 23 unit resident subdivision. Each of these projects will add increased permit fees, transfer taxes, earned income taxes and real estate taxes for the township.

New building permits, both residential and commercial, continue to increase. 2016 saw a 20% increase in building permit activity over 2015, with the trend expected to continue into 2017. Franconia Township has become a very desirable community to live in based upon its low tax rate, low crime rate, and excellent school system.

The Township's real estate tax rate is expected to remain stable for 2017 and beyond. The Township has done an outstanding job in the past year with managing internal staffing, while continuing to offer quality services to its residents. By keeping personnel costs low as compared to similar like-sized communities, Franconia Township should be able to continue to offer an extremely low tax rate for both businesses and residents alike.

TOWNSHIP OF FRANCONIA

STATEMENT OF NET POSITION

December 31, 2016

	<u>Primary Government</u>	<u>Discretely</u>
	<u>Governmental</u>	<u>Presented</u>
	<u>Activities</u>	<u>Component Unit</u>
		<u>Franconia</u>
		<u>Sewer Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,242,702	\$ 1,207,424
Receivables	1,172,537	851,033
Restricted cash and cash equivalents	391,794	99,385
Land	8,660,301	652,012
Other capital assets (net of accumulated depreciation)	10,070,123	31,008,496
Total Assets	24,537,457	33,818,350
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Unamortized deferred loss on refunding	-	471,896
Changes in pension assumptions	152,822	
Net difference between projected and actual earnings on pension plan investments	302,389	-
Total Deferred Outflows of Resources	455,211	471,896
<u>LIABILITIES</u>		
Accounts payable and other current liabilities	119,091	225,347
Accrued interest payable	-	156,110
Developer's escrows payable	391,794	
Non-current liabilities:		
Due within one year	499,885	457,119
Due after one year	7,165,883	13,964,375
Pension liability	2,624,217	-
Total Liabilities	10,800,870	14,802,951
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Differences between expected and actual experience on pension plan liability	87,491	-
Total deferred inflows	87,491	-
<u>NET POSITION</u>		
Net investment in capital assets	11,127,710	17,239,014
Restricted		
Fire	473	-
Street Light and fire hydrant	1,288	
Highways	1,077,894	-
Library	1,706	-
Open Space	3,803,500	-
Sewer	-	99,385
Recycling	67,819	-
Assigned		
Capital	670,961	-
Unrestricted	(2,647,044)	2,148,896
Total Net Position	\$ 14,104,307	\$ 19,487,295

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Total Primary Government	Governmental Activities			
		Total	Administrative	Permits & Licenses	Police and Emergency Services
<b>Expenses:</b>					
Program expenses	\$ 5,667,200	\$ 5,667,200	\$ 861,085	\$ 176,195	\$ 2,382,046
Depreciation	245,848	245,848	23,870	336	102,941
Interest expense	235,829	235,829	235,829	-	-
Total Expenses	<u>6,148,877</u>	<u>6,148,877</u>	<u>1,120,784</u>	<u>176,531</u>	<u>2,484,987</u>
<b>Program Revenues:</b>					
Charges for services	1,213,373	1,213,373	173,985	442,449	116,362
Operating grants and contributions	989,614	989,614	77,757	-	204,285
Capital grants and contributions	-	-	-	-	-
Total Program Revenues	<u>2,202,987</u>	<u>2,202,987</u>	<u>251,742</u>	<u>442,449</u>	<u>320,647</u>
Net (Expense) Revenue	(3,945,890)	(3,945,890)	(869,042)	265,918	(2,164,340)
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property	1,586,793	1,586,793			
Transfer tax	343,270	343,270			
Earned income tax	3,075,377	3,075,377			
Other taxes	373,712	373,712			
Investment earnings	12,059	12,059			
Loss on sale of capital assets	(7,602)	(7,602)			
Miscellaneous	337,123	337,123			
Total General Revenues	<u>5,720,732</u>	<u>5,720,732</u>			
Change in Net Position	1,774,842	1,774,842			
Net Position - Beginning , restated	<u>12,329,465</u>	<u>12,329,465</u>			
Net Position - Ending	<u>\$ 14,104,307</u>	<u>\$ 14,104,307</u>			

Governmental Activities				Discretely Presented Component Unit
Public Works	Library	Sewer	Park & Recreation	Franconia Township Sewer
\$ 1,615,757	\$ 265,108	\$ 343,721	\$ 23,288	\$ 2,139,334
104,261	-	-	14,440	798,422
-	-	-	-	456,309
<u>1,720,018</u>	<u>265,108</u>	<u>343,721</u>	<u>37,728</u>	<u>3,394,065</u>
449,442	-	31,135	-	2,664,791
707,572	-	-	-	-
-	-	-	-	546,705
<u>1,157,014</u>	<u>-</u>	<u>31,135</u>	<u>-</u>	<u>3,211,496</u>
(563,004)	(265,108)	(312,586)	(37,728)	(182,569)
				-
				-
				-
				-
				6,802
				-
				<u>22,100</u>
				<u>28,902</u>
				(153,667)
				<u>19,640,962</u>
				<u>\$ 19,487,295</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2016

	<u>General</u>	<u>Open Space</u>	<u>Capital Reserve</u>	<u>Highway Aid</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 394,956	\$ 2,376,398	\$ 315,961	\$ 851,412	\$ 303,975	\$ 4,242,702
Investments	-	-	-	-	-	-
Receivables	611,848	200,382	-	-	3,413	815,643
Restricted						
Cash and cash equivalents	391,794	-	-	-	-	391,794
Due from other funds	-	1,227,377	355,000	-	-	1,582,377
TOTAL ASSETS	<u>\$ 1,398,598</u>	<u>\$ 3,804,157</u>	<u>\$ 670,961</u>	<u>\$ 851,412</u>	<u>\$ 307,388</u>	<u>\$ 7,032,516</u>
 <u>LIABILITIES</u>						
Accounts payable and accrued wages	\$ 111,089	\$ 657	\$ -	\$ 5,547	\$ 1,798	\$ 119,091
Due to other funds	1,582,377	-	-	-	-	1,582,377
Developers' escrows	391,794	-	-	-	-	391,794
Total Liabilities	<u>2,085,260</u>	<u>657</u>	<u>-</u>	<u>5,547</u>	<u>1,798</u>	<u>2,093,262</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>						
Unavailable revenue - property taxes	6,845	-	-	-	2,275	9,120
Total Deferred Inflows of Resources	<u>6,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,275</u>	<u>9,120</u>
 <u>FUND BALANCES</u>						
Restricted for:						
Highway and streets	-	-	-	845,865	232,029	1,077,894
Street lights & fire hydrant	-	-	-	-	1,288	1,288
Fire	-	-	-	-	473	473
Open Space	-	3,803,500	-	-	-	3,803,500
Library	-	-	-	-	1,706	1,706
Recycling	-	-	-	-	67,819	67,819
Assigned for:						
Capital projects	-	-	670,961	-	-	670,961
Unassigned	(693,507)	-	-	-	-	(693,507)
Total Fund Balances	<u>(693,507)</u>	<u>3,803,500</u>	<u>670,961</u>	<u>845,865</u>	<u>303,315</u>	<u>4,930,134</u>
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>						
	<u>\$ 1,398,598</u>	<u>\$ 3,804,157</u>	<u>\$ 670,961</u>	<u>\$ 851,412</u>	<u>\$ 307,388</u>	<u>\$ 7,032,516</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

RECONCILIATION OF THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO THE STATEMENT OF GOVERNMENT-WIDE NET POSITION

December 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - total governmental funds		\$ 4,930,134
Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds.		
Cost of capital assets	\$ 22,426,946	
Accumulated depreciation	<u>(3,696,522)</u>	18,730,424
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		
Real estate tax receivable	9,120	
Earned income tax receivable	<u>356,894</u>	366,014
Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Change in pension assumptions	152,822	
Net difference between projected and actual earnings on pension plan investments	302,389	
Differences between expected and actual experience on pension plan liability	<u>(87,491)</u>	367,720
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	(7,602,714)	
Compensated absences	(24,419)	
Capital leases	(38,635)	
Pension liability	<u>(2,624,217)</u>	
		<u>(10,289,985)</u>
Total Net position of governmental activities		<u>\$ 14,104,307</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	General	Open Space	Capital Reserve	Highway Aid	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes:						
Property	\$ 1,185,440	\$ -	\$ -	\$ -	\$ 412,233	\$ 1,597,673
Transfer	343,270	-	-	-	-	343,270
Earned income	2,113,961	1,024,363	-	-	-	3,138,324
Local service	373,712	-	-	-	-	373,712
Fees, licenses and permits	257,809	-	-	-	-	257,809
Investment income and rent	50,639	5,137	159	3,452	836	60,223
Intergovernmental revenues	271,513	-	-	393,638	135,695	800,846
Fines and forfeitures	27,662	-	-	-	-	27,662
Program revenues	1,065,726	-	-	-	-	1,065,726
Other	32,250	88,700	-	-	218,953	339,903
<b>Total Revenues</b>	<u>5,721,982</u>	<u>1,118,200</u>	<u>159</u>	<u>397,090</u>	<u>767,717</u>	<u>8,005,148</u>
<b>Expenditures</b>						
Current:						
General government	790,335	12,689	-	-	14,454	817,478
Public safety	2,279,645	-	67,059	-	249,486	2,596,190
Sewer	343,721	-	-	-	-	343,721
Highways and roads	1,113,685	-	-	438,759	64,117	1,616,561
Library	-	-	-	-	265,108	265,108
Culture and recreation	19,043	-	-	-	4,245	23,288
Debt service:						
Principal	50,000	402,000	34,000	-	-	486,000
Interest	65,519	170,310	-	-	-	235,829
<b>Total Expenditures</b>	<u>4,661,948</u>	<u>584,999</u>	<u>101,059</u>	<u>438,759</u>	<u>597,410</u>	<u>6,384,175</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,060,034</u>	<u>533,201</u>	<u>(100,900)</u>	<u>(41,669)</u>	<u>170,307</u>	<u>1,620,973</u>
<b>Other Financing Sources (Uses)</b>						
Debt proceeds	-	-	64,641	-	-	64,641
Transfers in	-	-	350,000	-	20,000	370,000
Transfers out	(370,000)	-	-	-	-	(370,000)
<b>Total Other Financing Sources (Uses)</b>	<u>(370,000)</u>	<u>-</u>	<u>414,641</u>	<u>-</u>	<u>20,000</u>	<u>64,641</u>
Net Change in Fund Balances	690,034	533,201	313,741	(41,669)	190,307	1,685,614
Fund Balance - Beginning, restated	(1,383,541)	3,270,299	357,220	887,534	113,008	3,244,520
Fund Balance - Ending	<u>\$ (693,507)</u>	<u>\$ 3,803,500</u>	<u>\$ 670,961</u>	<u>\$ 845,865</u>	<u>\$ 303,315</u>	<u>\$ 4,930,134</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances--total governmental funds	\$	1,685,614	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	\$	64,641	
Depreciation expense		<u>(245,848)</u>	
			(181,207)
The effect of sales of capital assets is to decrease net position.			(7,602)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			(73,827)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Repayment of debt		486,000	
Issuance of new debt		<u>(64,641)</u>	
			421,359
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Compensated absences		32,005	
Pension expense		<u>(101,500)</u>	
			(69,495)
Change in net position of governmental activities	\$	<u><u>1,774,842</u></u>	

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2016

	GENERAL FUND			
	Budgeted Amounts		ACTUAL	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Property	\$ 1,165,456	\$ 1,165,456	\$ 1,185,440	\$ 19,984
Transfer	250,000	250,000	343,270	93,270
Earned income	2,105,000	2,105,000	2,113,961	8,961
Local service	362,000	362,000	373,712	11,712
Fees, licenses and permits	252,300	252,300	257,809	5,509
Investment income and rent	43,705	43,705	50,639	6,934
Intergovernmental revenues	204,367	204,367	271,513	67,146
Fines and forfeitures	27,600	27,600	27,662	62
Program revenues	900,874	900,874	1,065,726	164,852
Other	500	500	32,250	31,750
Total Revenues	5,311,802	5,311,802	5,721,982	410,180
Expenditures				
Current				
General government	989,041	989,041	790,335	(198,706)
Public safety	2,310,361	2,310,361	2,279,645	(30,716)
Sewer	330,702	330,702	343,721	13,019
Highways and roads	1,127,802	1,127,802	1,113,685	(14,117)
Culture and recreation	24,300	24,300	19,043	(5,257)
Debt service	184,982	184,982	115,519	(69,463)
Total Expenditures	4,967,188	4,967,188	4,661,948	(305,240)
Excess (Deficiency) of Revenues Over Expenditures	344,614	344,614	1,060,034	715,420
Other Financing Sources (Uses)				
Transfers out	(170,000)	(170,000)	(370,000)	200,000
Total Other Financing Sources (U	(170,000)	(170,000)	(370,000)	200,000
Net Change in Fund Balances	174,614	174,614	690,034	515,420
Fund Balance - Beginning, restated	(174,614)	(174,614)	(1,383,541)	
Fund Balance - Ending	\$ -	\$ -	\$ (693,507)	

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

HIGHWAY AID FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL STATEMENT OF NET POSITION

For the Year Ended December 31, 2016

	<u>Highway Aid Fund</u>			Variance with Final Budget Over (under)
	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest and rent	\$ 450	\$ 450	\$ 3,452	\$ 3,002
Intergovernmental revenues	<u>383,776</u>	<u>383,776</u>	<u>393,638</u>	<u>9,862</u>
Total Revenues	<u>384,226</u>	<u>384,226</u>	<u>397,090</u>	<u>12,864</u>
Expenditures				
Current:				
Highways and roads	<u>337,500</u>	<u>337,500</u>	<u>438,759</u>	<u>101,259</u>
Total Expenditures	<u>337,500</u>	<u>337,500</u>	<u>438,759</u>	<u>101,259</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>46,726</u>	<u>46,726</u>	<u>(41,669)</u>	<u>(88,395)</u>
Fund Balance - Beginning	<u>3,180</u>	<u>3,180</u>	<u>887,534</u>	
Fund Balance - Ending	<u>\$ 49,906</u>	<u>\$ 49,906</u>	<u>\$ 845,865</u>	

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

OPEN SPACE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL STATEMENT OF NET POSITION

For the Year Ended December 31, 2016

	<u>Open Space Fund</u>			Variance with Final Budget Over (under)
	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 950,000	\$ 950,000	\$ 1,024,363	\$ 74,363
Interest and rent	3,200	3,200	5,137	1,937
Other	-	-	88,700	88,700
Total Revenues	<u>953,200</u>	<u>953,200</u>	<u>1,118,200</u>	<u>165,000</u>
Expenditures				
Current:				
General government	15,000	15,000	12,689	(2,311)
Debt Service	<u>599,942</u>	<u>599,942</u>	<u>572,310</u>	<u>(27,632)</u>
Total Expenditures	<u>614,942</u>	<u>614,942</u>	<u>584,999</u>	<u>(29,943)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>338,258</u>	<u>338,258</u>	<u>533,201</u>	<u>194,943</u>
Fund Balance - Beginning, restated	<u>3,270,299</u>	<u>3,270,299</u>	<u>3,270,299</u>	
Fund Balance - Ending	<u>\$ 3,608,557</u>	<u>\$ 3,608,557</u>	<u>\$ 3,803,500</u>	

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

December 31, 2016

<u>ASSETS</u>	<u>Pension Trust</u>
Current Assets	
Cash and cash equivalents	\$ 472,850
Investments, at fair value	
Common stock	186,945
Mutual funds-equities	2,956,040
Mutual funds-international equity	682,551
Certificates of deposits	465,000
Mutual funds-fixed income	400,516
US Agencies	1,042,119
Corporate Bonds	941,914
Receivable	<u>29,270</u>
 TOTAL ASSETS	 <u>\$ 7,177,205</u>
 <u>NET POSITION</u>	
Net Position Restricted for	
Pension and Other Employee Benefits	<u>\$ 7,177,205</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

For the Year Ended December 31, 2016

	<u>Pension Trust</u>
Additions	
Contributions	
Member contributions	\$ 49,647
Municipal contributions	204,293
State contributions	<u>170,611</u>
Total Contributions	<u>424,551</u>
Investment Income	
Net appreciation (depreciation) in fair value of investments	296,618
Interest and dividends	<u>232,167</u>
Total Investment Income	528,785
Less: investment expense	<u>(43,535)</u>
Net Investment Income	<u>485,250</u>
Total Additions	<u>909,801</u>
Deductions	
Administrative expense	7,000
Benefits	<u>218,186</u>
Total Deductions	<u>225,186</u>
Change in Net Position	684,615
Net Position Restricted for Pension and Other Employee Benefits:	
Beginning of Year	<u>6,492,590</u>
End of Year	<u>\$ 7,177,205</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies**

**A. *Reporting entity***

The Board of Supervisors (“the Board”) is the basic level of government which has financial accountability and control over all activities related to municipal functions in the Township. The Board receives funding from local, state and federal sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined by the Government Accounting Standards Board since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary accountability for fiscal matters.

The Township follows the criteria promulgated by GASB for purposes of determining the scope of its reporting entity. As required by GAAP, the basic financial statements of the reporting entity include those of the Township of Franconia (the “Primary Government”) and its component unit, the Franconia Sewer Authority (the “Authority”). The Authority is considered a component unit of the Township as its governing board is appointed by the Township, the Township guarantees much of its debt and its activities are considered significant in determining the reporting entity. The financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit. Accordingly, the component unit columns in the basic financial statements include the financial data of the Authority in a separate column to emphasize that it is legally separate from the Township.

**B. *Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. All fiduciary activities are reported only in the fiduciary fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services which report fees and other charges to users of the Township’s services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

***B. Government-wide and fund financial statements (continued)***

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's proprietary functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

*Fund Financial Statements*

Fund financial statements are provided for governmental funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate column in the fund financial statements.

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

The government-wide statements report using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements and any agency funds reported have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues, net of any uncollectible amounts, are recognized in the year for which they are levied while grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

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

Governmental fund financial statements reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Property taxes levied but collected beyond 60 days after year-end are recorded as deferred revenue to be recognized as revenue when the taxes are collected. 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. General capital asset acquisitions are reported as expenditures in governmental funds.

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

*Basis of Presentation - Fund Accounting and Measurement Focus*

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following is a description of the fund types used by the Township in the accompanying basic financial statements.

The government reports the following major governmental funds:

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

The *Open Space Fund* - The Open Space Fund is used to account for resources for the acquisition of open space, including development rights.

The *Capital Reserve Fund* is used to account for resources for the acquisition or construction of specific capital facilities by the Township.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

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

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

Trust and Agency Funds - are used to account for assets held by the Township in a trustee or agent capacity for individuals and/or other funds.

Pension Trust Fund - This fund is used to account for resources required to be held in trust for the members and beneficiaries of the Township's defined benefit pension plans - the Police Pension Fund and the Non-Uniform Pension Fund.

Major revenue sources susceptible to accrual include: property taxes, earned income taxes, interest earnings, special assessments, levies, intergovernmental revenues and charges for services. In general, other revenues are recognized when cash is received. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Township; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

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

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**Component Unit - Franconia Sewer Authority**

The Franconia Sewer Authority (“Authority”) was incorporated under the provisions of the Pennsylvania Municipality Authorities Act of 1945, as amended and supplemented, pursuant to a resolution passed by the Supervisors of the Board of Township Supervisors of the Township of Franconia, Pennsylvania.

***Basis of Accounting*** - The Authority follows the accounting and financial reporting standards in accordance with generally accepted accounting principles as applied to governmental units.

As a single function special purpose government, the Authority’s financial statements are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when they are earned and expenses are recognized when they are incurred.

***D. Assets, liabilities, and net position or equity***

***1. Deposits and investments***

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

With the exception of Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***1. Deposits and investments (continued)***

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 government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

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

Investments for the government are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

***2. Receivables and payables***

Outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and other activities are reported in the government-wide financial statements as "internal balances".

At December 31, 2016, all trade receivables were deemed to be fully collectible. The property tax receivable allowance is immaterial and therefore is not included in outstanding property taxes at December 31, 2016.

Property taxes are levied as of March 1 on property values assessed as of the same date. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through July 1; and a 10% penalty after July 1. Any unpaid taxes are attached as an enforceable lien on such property as of January 15 of the following year. The Township employs an elected tax collector to collect the property tax levied. Property taxes collected within sixty days subsequent to December 31, 2016 are recognized as revenue for the year ending December 31, 2016.

***3. Use of estimates***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***4. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental or business activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. These assets are valued prospectively. Property, plant, and equipment of the primary government, as well as its component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	25-50
Fixtures and equipment	10-25
Vehicles	7-10
Infrastructure	25-50

***5. Compensated absences***

The Township permits employees to accumulate a limited amount of earned but unused sick time. These benefits are payable to employees upon separation of service. All leave pay is accrued when incurred in the government-wide financial statements.

***6. Long-term obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net position. If bond premiums or discounts exist, they are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are expensed as incurred.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***6. Long-term obligations (continued)***

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

***7. Deferred outflows/inflows of resources***

In addition to assets, the statement of financial 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 three items that qualifies for reporting in this category.

- 1. Net difference between projected and actual earnings on pension plan investments* is reported in the government-wide statement of net position. A net difference results from the actual earnings in the plan either exceeding or falling short of projected earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 2. Changes in assumptions* are reported in the government-wide statement of net position. A difference results when assumptions are changed. This amount is deferred and recognized as an outflow of resources in the period that the amount becomes available.
- 3. Deferred charge on refunding* is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial 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 government has two types of items that qualify for reporting in this category.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

**7. *Deferred outflows/inflows of resources (continued)***

1. *Differences between expected and actual experience on pension plan liability* is reported in the government-wide statement. A difference results when actual economic or demographic factors differ from expected results. These amounts are deferred and recognized as an outflow of resources in the period that the amounts become available.
2. *Unavailable revenue – property taxes* is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**8. *Net Position***

In the government-wide financial statements, net position is classified in the following categories:

**Net investment in capital assets** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance of this category.

**Restricted net position** - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This category represents net position of the entity, not restricted for any project or other purpose.

**9. *Fund Balance***

Governmental funds report fund balance in classifications based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds consists of the following:

**Nonspendable Fund Balance** - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**I. Summary of Significant Accounting Policies (Continued)**

**D. *Assets, liabilities, and net position or equity (continued)***

**9. *Fund Balance (continued)***

**Restricted Fund Balance** - includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**Committed Fund Balance** - includes amounts that can only be used for the specific purposes determined by a formal action of the Township's highest level of decision-making authority, the Township Board of Supervisors. Commitments may be changed or lifted only by the Township taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

**Assigned Fund Balance** - includes amounts intended to be used by the Township for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Supervisors or by an official or body to which the Board of Supervisors delegates the authority. The Supervisors have not delegated that authority as of December 31, 2016.

**Unassigned Fund Balance** – this residual classification is used for all negative fund balances in Special Revenue, Capital Projects, and Debt Service funds; or any residual amounts in the General Fund.

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

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned. In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

**10. *Subsequent Events***

The Township has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**II. Stewardship, Compliance, and Accountability**

***A. Budgetary information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds of the Township. All annual appropriations lapse at fiscal year-end.

Prior to November, the Board approves a preliminary budget for the upcoming fiscal year, reflecting proposed expenditures and the means of financing them. During November, the Township holds budget hearings for the purpose of receiving oral and written comments from interested parties in regard to the proposed budget for the following year. The Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them. The board holds public hearings and a final budget must be prepared and adopted no later than December 31 through the passage of an ordinance.

Any budget revisions require the approval of Township Board of Supervisors. The Council authorized the use of unallocated fund balance in 2016. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year end lapse.

***B. Excess of expenditures over appropriations***

For the year ended December 31, 2016, expenditures exceeded appropriations in the sewer category of the general fund by \$13,019 and in the highway and roads category of the highway aid fund by \$101,529. These over expenditures were funded by greater than anticipated revenues and beginning fund balance.

**III. Detailed Notes on All Funds**

***A. Deposits and investments***

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government's policy is to require their banking institution to provide a letter stating that they follow the Commonwealth of Pennsylvania Act 72, where all funds in excess of federal depository insurance limits held by the bank are collateralized in public funds secured on a pooled basis.

As of year-end, the carrying amount of non restricted deposits for the governmental activities was \$4,242,702 and the bank balance was \$4,298,547. Of the bank balance, \$250,000 was covered by federal depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the government's name.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

**A. *Deposits and investments (continued)***

At year-end, the carrying amount of deposits for Franconia Sewer Authority, a discretely presented component unit was \$1,306,809 and the bank balance was \$1,435,755. Of the bank balance, \$500,000 was covered by depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The risks of default are eliminated due to the constraints imposed upon allowable investment instruments by the Township's investment policy and through state limitations as discussed in Note I, D, 1.

At year-end balances were as follows:

	<u>Fair Value</u>	<u>Maturities in Years</u>		
		<u>&lt; 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>
Fiduciary Funds:				
Common stock	\$ 186,945	\$ 186,945	\$ -	\$ -
Mutual funds-equities	2,956,040	2,956,040	-	-
Mutual funds-international equity	682,551	682,551	-	-
Certificates of deposits	465,000	90,000	285,000	90,000
Mutual funds-fixed income	400,516	400,516	-	-
US Agencies	1,042,119	-	339,410	702,709
Corporate Bonds	941,914	24,777	615,507	301,630
	<u>\$ 6,675,085</u>	<u>\$ 4,340,829</u>	<u>\$ 1,239,917</u>	<u>\$ 1,094,339</u>

*Interest Rate Risk.* This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Township's policy regarding its fixed income investments generally limits the maximum maturity of a security to ten years. As of December 31, 2016, the Township did not have any investments maturing beyond the ten year period. See above maturities.

Discretely Presented Component Units: Franconia Sewer Authority has adopted an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

**A. *Deposits and investments (continued)***

*Credit Risk.* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described in Section 1, Note D. The government does not have a formal investment policy for credit risk. The investments in the external investment pool and the money market funds were rated AAAM by Standard & Poor's.

Discretely Presented Component Units: Franconia Sewer Authority follows state statute as it relates to certain credit ratings.

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. There were no investments greater than 5% in any one single issuer that would be considered a concentration of credit risk for the government.

Discretely Presented Component Units: There were no concentrations of credit risk for Franconia Sewer Authority.

*Fair Value Measurements.* The Township categorizes its fair value measurements within the 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 significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fiduciary Funds:				
Common stock	\$ 186,945	\$ 186,945	\$ -	\$ -
Mutual funds-equities	2,956,040	2,956,040	-	-
Mutual funds-international equity	682,551	682,551	-	-
Certificates of deposits	465,000	-	465,000	-
Mutual funds-fixed income	400,516	400,516	-	-
US Agencies	1,042,119	1,042,119	-	-
Corporate Bonds	941,914	941,914	-	-
	<u>\$ 6,675,085</u>	<u>\$ 6,210,085</u>	<u>\$ 465,000</u>	<u>\$ -</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

***B. Receivables and due from other governments***

Receivables as of year-end for the government's individual major funds, non-major funds, fiduciary funds and discreetly presented component unit are as follows:

	<u>General</u>	<u>Open Space</u>	<u>Nonmajor and Other Funds</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Receivables:						
Taxes	\$ 545,905	\$ 200,382	\$ 3,413	\$ -	\$ -	\$ 749,700
Accounts	65,943	-	-	-	712,974	778,917
Grant	-	-	-	-	-	-
Notes receivable	-	-	-	-	138,059	138,059
Interest	-	-	-	-	-	-
Contributions receivable	-	-	-	29,270	-	29,270
Total Receivables	<u>\$ 611,848</u>	<u>\$ 200,382</u>	<u>\$ 3,413</u>	<u>\$ 29,270</u>	<u>\$ 851,033</u>	<u>\$ 1,695,946</u>

***C. Capital assets***

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 8,660,301	\$ -	\$ -	\$ 8,660,301
Developmental Rights	5,733,772	-	-	5,733,772
Total capital assets, not being depreciated	<u>14,394,073</u>	<u>-</u>	<u>-</u>	<u>14,394,073</u>
Capital assets, being depreciated:				
Land improvements	104,481	-	-	104,481
Building and building improvements	2,291,580	-	-	2,291,580
Vehicles	1,428,380	-	72,345	1,356,035
Fixtures and equipment	1,283,599	64,641	-	1,348,240
Infrastructure	2,932,537	-	-	2,932,537
Total capital assets being depreciated	<u>8,040,577</u>	<u>64,641</u>	<u>72,345</u>	<u>8,032,873</u>
Less accumulated depreciation for:				
Land improvements	54,151	6,965	-	61,116
Building and building improvements	775,722	45,832	-	821,554
Vehicles	1,166,913	74,514	64,743	1,176,684
Fixtures and equipment	1,139,636	47,562	-	1,187,198
Infrastructure	378,995	70,975	-	449,970
Total accumulated depreciation	<u>3,515,417</u>	<u>245,848</u>	<u>64,743</u>	<u>3,696,522</u>
Total capital assets, being depreciated, net	<u>4,525,160</u>	<u>(181,207)</u>	<u>7,602</u>	<u>4,336,351</u>
Governmental-type activities capital assets, net	<u>\$ 18,919,233</u>	<u>\$ (181,207)</u>	<u>\$ 7,602</u>	<u>\$ 18,730,424</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

**C. *Capital asset (continued)***

Discretely Presented Component Units - Franconia Sewer Authority capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Discretely presented component units</b>				
<b><u>Franconia Sewer Authority</u></b>				
Capital assets, not being depreciated:				
Land	\$ 652,012	\$ -	\$ -	\$ 652,012
Construction in progress	<u>327,280</u>	<u>98,052</u>	<u>120,960</u>	<u>304,372</u>
Total capital assets not being depreciated	<u>979,292</u>	<u>98,052</u>	<u>120,960</u>	<u>956,384</u>
Capital assets, being depreciated:				
Sewer system infrastructure	38,733,743	122,840	22,854	38,833,729
Participation rights in other facilities	1,532,350	-	-	1,532,350
Fixtures and equipment	<u>156,162</u>	<u>21,153</u>	<u>-</u>	<u>177,315</u>
Total capital assets being depreciated	40,422,255	143,993	22,854	40,543,394
Accumulated depreciation	<u>9,063,702</u>	<u>798,422</u>	<u>22,854</u>	<u>9,839,270</u>
Total capital assets being depreciated	<u>31,358,553</u>	<u>(654,429)</u>	<u>-</u>	<u>30,704,124</u>
Component Units capital assets, net	<u>\$ 32,337,845</u>	<u>\$ (556,377)</u>	<u>\$ 120,960</u>	<u>\$ 31,660,508</u>

Depreciation expense was charged to functions/programs of the primary government and the discretely presented component unit as follows:

Governmental activities:	
Administrative	\$ 23,870
Permits & Licenses	336
Police and emergency services	102,941
Public works, including depreciation of general infrastructure except park systems	104,261
Park & Recreation, including depreciation related to park systems	<u>14,440</u>
Total depreciation expense - governmental activities	<u>\$ 245,848</u>
Component Unit	
Sewer	<u>\$ 798,422</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

***D. Interfund receivables, payables, and transfers***

The composition of interfund balances as of December 31, 2016 is as follows:

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 1,582,377	\$ -
Open Space	-	1,227,377
Capital Projects	-	355,000
Total	<u>\$ 1,582,377</u>	<u>\$ 1,582,377</u>

Interfund transfers:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 370,000
Non-major Governmental	20,000	-
Capital Projects	350,000	-
Total	<u>\$ 370,000</u>	<u>\$ 370,000</u>

Interfund balances are primarily the result of certain funds paying the expenses of another fund.

The interfund transfers are a result of financing capital projects and reimbursement of expenses paid through one fund but budgeted in another.

***E. Rentals***

The Township leases certain of its real property to various communications companies which use it to house antennae and related property. The leases generally have initial lease terms of five years, with options to renew, and contain various escalation clauses, some of which take effect annually, while others are effective at the option renewal dates.

Rent collected under these leases during 2016 was \$25,789.

The Township also rents a 2 unit farm house and farmland. These leases are renewably annually and rents collected were \$22,375 in 2016.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

***F. Long-term debt***

Capital Leases

The Township leases two items under capital leases, one of which expires in 2017, and one of which expires in 2019.

Year Ending December 31			
2017	\$ 20,957	Equipment and Vehicle	\$ 88,217
2018	13,358	Accumulated depreciation	<u>(60,383)</u>
2019	<u>6,679</u>		<u>\$ 27,834</u>
	40,994		
Amount representing interest	<u>(2,359)</u>		
	<u>\$ 38,635</u>		

Guaranteed Revenue Notes of 2007

The Township borrowed \$8,500,000 from Delaware Valley Regional Finance Authority, consisting of two Guaranteed Revenue Notes, Series A of 2007, for \$2,609,000 and Series B of 2007 for \$5,891,000 for the purpose of providing funds for and toward redeeming the GO Note Series 2012, purchases of developmental rights and open space, reimburse other funds for open space purchases and cover issuance costs.

The loan agreement allowed interest on the debt to be variable or fixed for certain periods of time. The Township elected fixed rates, as summarized below:

	Series A of 2007		Series B of 2007	
	Principal	Rate	Principal	Rate
Six- year fixed, reset June 25, 2013	\$ 871,000	3.883%	\$ 1,964,000	3.884%
Nine- year fixed, reset June 25, 2016	871,000	4.042%	1,964,000	4.042%
Twelve- year fixed, reset June 25, 2019	<u>867,000</u>	4.153%	<u>1,963,000</u>	4.152%
Original borrowing	<u>\$ 2,609,000</u>		<u>\$ 5,891,000</u>	

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed Notes on All Funds (Continued)**

***F. Long-term debt***

Guaranteed Revenue Notes of 2007 (continued)

In addition to interest, the Township pays monthly service charges totaling \$2,834 to the financial institution administering the notes. Wells Fargo is paid \$870 per month to administer the Series A note and \$1,964 to administer the Series B note. The service charges are expensed as incurred.

By referendum, the Township's earned income tax was increased one-quarter percent during 2002 for the purpose of funding the acquisition of open space. The earned income tax earmarked for open space is used, in part, to fund the debt service on borrowings made for open space purposes.

General Obligation Note, Tax-Exempt Series of 2015

During 2015, the Township borrowed \$2,163,001 from Univest Bank. The General Obligation Note, Tax-Exempt Series of 2015, was issued for the purpose of refunding the GO Notes Series 2011 and financing capital projects.

The note will carry interest at an annual rate of 2.75% for the first seven years of the 17-year term, following which it will adjust every five years to a rate equal to 67% of the Purchaser's then current Prime Rate plus eighty-five basis points, subject to a maximum rate of 7.00% per annum.

Note Payable

In 2016, the Township entered into a note payable amounting to \$64,641 with Montgomery County for the purchase of police radios. The note is non-interest bearing and is to be repaid in 5 annual payment of \$12,928. The amount outstanding at December 31, 2016 is \$51,713.

Amounts outstanding at December 31, 2016 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1% to 3%	\$ <u>7,602,714</u>
Component Unit	1% to 3%	\$ <u>14,533,287</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**III. Detailed notes on all funds (Continued)**

***F. Long-term debt (continued)***

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending December 31	<u>Governmental Activities</u>			<u>Component Unit</u>	
	Sewer Revenue Notes Principal	Notes Interest	Notes Principal	Bonds Principal	Bonds Interest
2017	\$ 466,000	\$ 244,029	\$ 12,928	\$ 457,119	\$ 430,871
2018	571,667	227,300	12,928	457,119	417,931
2019	586,667	208,792	12,928	457,119	404,990
2020	600,667	189,888	12,929	457,119	392,050
2021	616,667	170,201	-	457,119	379,107
2022-2026	3,340,333	754,192	-	3,280,594	1,650,489
2027-2031	1,289,333	173,913	-	3,925,594	1,119,934
2032-2036	79,667	2,818	-	3,886,504	506,747
2037-2038	-	-	-	1,155,000	47,034
	<u>\$ 7,551,001</u>	<u>\$ 1,971,133</u>	<u>\$ 51,713</u>	<u>\$ 14,533,287</u>	<u>\$ 5,349,153</u>

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
<b>Governmental activities:</b>					
Bonds and notes payable	\$ 8,003,001	\$ -	\$ 452,000	\$ 7,551,001	\$ 466,000
Note payable	-	64,641	12,928	51,713	12,928
Capital leases	59,707	-	21,072	38,635	20,957
Compensated absences	56,424	-	32,005	24,419	-
Net pension liability	2,667,766	-	43,549	2,624,217	-
Governmental activity Long-term liabilities	<u>\$ 10,786,898</u>	<u>\$ 64,641</u>	<u>\$ 561,554</u>	<u>\$ 10,289,985</u>	<u>\$ 499,885</u>
<b>Component Unit</b>					
Bonds payable	\$ 14,877,376	\$ -	\$ 344,089	\$ 14,533,287	\$ 457,119
Less deferred amounts for discounts and premiums on issuance	(119,448)	-	(7,655)	(111,793)	-
	<u>\$ 14,757,928</u>	<u>\$ -</u>	<u>\$ 336,434</u>	<u>\$ 14,421,494</u>	<u>\$ 457,119</u>

Debt service for general obligation notes is funded primarily from taxes for governmental activities and charges for service in the business type activities. Any liabilities for compensated absences or net pension obligations are generally liquidated by the general fund for governmental activities and the component unit for business-type activities.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information**

***A. Risk management***

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

***B. Contingent liabilities***

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

In the normal course of business, there are various relatively minor claims and suits pending against the Township, none of which materially affect the financial position of the Township.

***C. Employee retirement systems and pension plans***

**Defined Benefit Pension Plan Description and Membership**

The Township sponsors two single employer defined benefit pension plans, the Police Pension Plan and the Non-Uniform Pension Plan. These plans are reported as a Pension Trust Fund in the accompanying financial statements. The plan does not issue a stand-alone report. The plans are administered by the Township. The most recent valuation was as of January 1, 2015. Details below are from the valuation.

*Police Pension Defined Benefit Pension Plan* - The plan is a contributory, single employer defined benefit plan that covers all full time uniformed police officers of the Township. An employee enters the plan on the date of hire.

*Non-Uniformed Employees' Defined Benefit Pension Plan* - The plan is a contributory, single employer defined benefit plan that covers all full-time permanent, non-uniformed employees of the Township who join the Plan on the first day of the month coincident with or following the completion of one year of service and attainment of age 21.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

*C. Employee retirement systems and pension plans (continued)*

Plan Description and Membership

The Pension Plans are governed by the Board of Supervisors who has established Pension Committees to serve as administrators and trustees of the pension fund. Management of the plan is vested in the Pension Board, which consists of five members appointed by resolution of the Township Board of Supervisors. The Pension Board is responsible for advising, reviewing, monitoring and making recommendations to the Board of Supervisors as to the administrative, operation and investment of the plan. The Township Board of Supervisors has delegated the authority to manage certain plan assets to Univest Bank and Trust Company.

The following table provides information concerning types of covered employees for the Townships' Plans as of December 31, 2016:

	<u>Police</u>	<u>Non-Uniform</u>
Inactive employees (or their beneficiaries) currently receiving benefits	6	11
Inactive employees entitled to benefits but not yet receiving them	1	8
Active employees	<u>8</u>	<u>17</u>
	<u>15</u>	<u>36</u>

Benefits Provided

*Police Pension Plan:* The plan provides retirement benefits as well as death and disability benefits under Pennsylvania Act 600. All benefits vest after 12 years of credited service. Officers are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last 36 months of employment. Married officers will receive joint and 50% survivor annuity. Normal retirement is age 52 with at least 25 years of service. Officers may also receive a service increment equal to \$100 per month for each year of service in excess of 25 years up to a maximum of \$500 per month.

If a member dies in service, a benefit will be paid per Act 30 equal to 100% of salary. Covered employees are required to contribute 3% of their regular compensation and 5% of overtime compensation to the plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***C. Employee retirement systems and pension plans (continued)***

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

The benefit provisions of the Township's Police Pension Plan are established by Township ordinances.

A Deferred Retirement Option Plan ("DROP") is available to the Township's police officers who have fulfilled the age and service requirements of the Police Pension Plan as described in the above paragraph. Under the DROP program a participant may elect to defer receipt of normal retirement benefits while continuing employment with the Township for a period of not more than 36 months. The monthly pension shall be calculated as of the date of participation in the program and shall be distributed in a lump sum at retirement.

*Non-Uniformed Pension Plan:* The Pension Plan provides retirement benefits as well as death benefits. All benefits vest at 10% per year, graded up to 100% after ten years of credited service. Employees who retire at or after age 65 are entitled to an annual retirement benefit, payable monthly, 1% of the average monthly compensation over the participant's last 5 highest consecutive years of service out of the last ten years of service. Married employees will receive joint and 50% survivor annuity. Early retirement benefits equal the vested accrued benefit and begin at age 55. The early retirement pension shall be the actuarial equivalent of a partial superannuation retirement benefit.

The benefit provisions of the Township's plan are established by Township ordinances.

**Measurement Focus and Basis of Accounting**

*Basis of Accounting:* Pension Plan financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Employer and member contributions are recognized as when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred.

The net appreciation/ (depreciation) in fair value of investments is recorded as an increase/(decrease) to investment income based on the valuation of investments. The entire expense of Plan administration is charged against the earnings of the Plan. Investment earnings are reduced for investment management fees, portfolio evaluation, custodial services, and actuarial services, as required by State statutes.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***C. Employee retirement systems and pension plans (continued)***

Measurement Focus and Basis of Accounting (continued)

*Method Used to Value Investments:* Pension Plan investments are reported at fair value. Fair value is based on quoted market values. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Contributions Required and Contributions Made

Employees of the Police Pension Plan and Non-Uniformed are required to make contributions, 5% of salary and 0% of salary, respectively. Contributions are determined on an annual basis. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method as required by Pennsylvania Act 205. The Pension Plan also uses a method defined by Act 205 to amortize the unfunded liability over a defined period.

The Township's annual required contribution is equal to its minimum municipal obligation ("MMO") as calculated in accordance with Pennsylvania law (Act 205 of 1984) less state aid and employee contributions deposited in the pension fund during the year. State law requires that state aid be used first to fund the plan, then employee contributions and finally general Township funds. The Township received state aid, which is recognized as revenue and expenses, in the amount of \$170,611 for the pensions for the year ended December 31, 2016.

Investments

*Investment Policy:* The pension Board, with the assistance of Univest Bank and Trust Company., shall select the appropriate asset weighting percentage to be allocated to each specific asset class. Each asset class shall consist of a combination of investment options that have been made available to obtain the absolute investment objective of the fund. Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in investment funds specializing in individual issues, issuers, countries, governments or industries.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***C. Employee retirement systems and pension plans (continued)***

Investments (continued)

*Rate of Return:* For the year ended December 31, 2016, the annual money-weighted rate of return on Plan investments, net of investment expense was 7.47% and 7.84% for Uniform and Non-Uniform Plan, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The components of the net pension liability of participating entities at December 31, 2016 were as follows:

	<u>Police</u>	<u>Non-Uniformed</u>
Total pension liability	\$ 7,370,992	\$ 2,428,251
Plan fiduciary net position	<u>(5,436,010)</u>	<u>(1,739,016)</u>
Net pension liability	<u>\$ 1,934,982</u>	<u>\$ 689,235</u>

Plan fiduciary net position as a percentage of the total pension liability	74%	72%
--	-----	-----

*Actuarial Assumptions:* The total pension liability in the January 1, 2015 actuarial valuation for Non-Uniform and the December 31, 2015 actuarial valuation for Police was determined using the following economic assumptions, applied to all periods included in the measurement:

	<u>Police</u>	<u>Non-Uniform</u>	
Inflation	3.0%	3.0%	
Salary Increases	4.0%	4.0%	(including inflation)
Investment Rate of Return	7.0%	7.0%	(net of pension plan investment expense, including inflation)

Mortality rates were based on the RP-2000 Table.

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The net pension liability was measured as of December 31, 2016 and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2015. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

*C. Employee retirement systems and pension plans (continued)*

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

<u>Asset Class</u>	Long-term Expected Rate of Return
Domestic Equity	
Large Cap	8.25%
Medium Cap	8.75%
Small Cap	9.00%
International Equity	8.75%
Fixed Income	5.00%
Real Estate	8.75%
Cash	2.10%
<u>Asset Class</u>	Target Allocation
Equity	55%
Fixed Income	45%
Cash	<u>0%</u>
	<u>100%</u>

*Discount Rate:* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

**C. *Employee retirement systems and pension plans (continued)***

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
<b><u>Police Pension Plan</u></b>			
Balance at December 31, 2015	\$ 6,891,471	\$ 4,918,908	\$ 1,972,563
Changes for the year:			
Service cost	156,211	-	156,211
Interest	487,588	-	487,588
Change of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Change of assumptions	-	-	-
Contributions - employer	-	274,048	(274,048)
Contributions - employee	-	47,470	(47,470)
Net investment income	-	363,362	(363,362)
Benefit payments, including refunds of employee contributions	(164,278)	(164,278)	-
Administrative expense	-	(3,500)	3,500
Other changes	-	-	-
Net Changes	<u>479,521</u>	<u>517,102</u>	<u>(37,581)</u>
Balance at December 31, 2016	<u>\$ 7,370,992</u>	<u>\$ 5,436,010</u>	<u>\$ 1,934,982</u>

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
<b><u>Non-Uniformed Pension Plan</u></b>			
Balance at December 31, 2015	\$ 2,268,885	\$ 1,573,682	\$ 695,203
Changes for the year:			
Service cost	52,653	-	52,653
Interest	160,621	-	160,621
Change of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Change of assumptions	-	-	-
Contributions - employer	-	100,856	(100,856)
Contributions - employee	-	-	-
Net investment income	-	121,886	(121,886)
Benefit payments, including refunds of employee contributions	(53,908)	(53,908)	-
Administrative expense	-	(3,500)	3,500
Other changes	-	-	-
Net Changes	<u>159,366</u>	<u>165,334</u>	<u>(5,968)</u>
Balance at December 31, 2016	<u>\$ 2,428,251</u>	<u>\$ 1,739,016</u>	<u>\$ 689,235</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***C. Employee retirement systems and pension plans (continued)***

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of participating entities calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1%	Current	1%
	Decrease	Discount	Increase
	<u>(6.5%)</u>	<u>Rate (7.5%)</u>	<u>(8.5%)</u>
Net pension liability			
Police	\$ 2,920,349	\$ 1,934,982	\$ 1,114,714
Non-Uniformed	991,350	689,235	431,603

*Deferred Outflows and Inflows of Resources:* For the year ended December 31, 2016, the Township recognized pension expense of \$329,817 for the Police Pension Plan and \$146,587 for the Non-Uniformed Pension. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
<u>Police Pension</u>		
Differences between expected and actual experience	\$ -	\$ 83,258
Change in assumptions	66,946	-
Net difference between projected and actual earnings on pension plan investments	<u>231,216</u>	<u>-</u>
Total	<u>\$ 298,162</u>	<u>\$ 83,258</u>
 <u>Non-Uniformed Pension</u>		
Differences between expected and actual experience	\$ -	\$ 4,233
Change in assumptions	85,876	-
Net difference between projected and actual earnings on pension plan investments	<u>71,173</u>	<u>-</u>
Total	<u>\$ 157,049</u>	<u>\$ 4,233</u>

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***C. Employee retirement systems and pension 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

Year Ended <u>December 31:</u>	<u>Police</u>	<u>Non-Uniformed</u>
2017	\$ 74,897	\$ 39,726
2018	74,897	39,726
2019	74,896	39,726
2020	(7,094)	12,811
2021	(2,692)	15,204
Thereafter	-	5,623
Total	<u>\$ 214,904</u>	<u>\$ 152,816</u>

**Deferred Retirement Option Program**

As of December 31, 2016, one eligible plan member is participating in the DROP program. The member is considered retired for pension purposes and the monthly benefit is being credited to a separate ledger account, which had a balance of \$94,714 at December 31, 2016. Upon a participant's termination of employment, the participant's accumulated balance will be paid in a manner as prescribed by the plan document.

***D. Escrow cash deposits and investments***

The Township acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Township and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Township. At December 31, 2016, \$391,794 represents the balance of these monies held in escrow.

***E. Transactions with Component Unit***

The Franconia Township Sewer Authority lease employees from the Township as well as rents space and uses the Township administrative services. For the year ended December 31, 2016, the Authority paid the Township \$449,442 for the aforementioned support.

TOWNSHIP OF FRANCONIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**IV. Other Information (Continued)**

***F. Prior Period Adjustment***

The following adjustment was made to the previously issued financial statements to properly record Earned Income Tax on the modified accrual basis:

	Modified Accrual	
	General Fund	Open Space Fund
	<u>Balance</u>	<u>Balance</u>
As reported	\$ (1,204,269)	\$ 3,091,027
Correction of EIT	<u>(179,272)</u>	<u>179,272</u>
Restated	<u>\$ (1,383,541)</u>	<u>\$ 3,270,299</u>

The following adjustment was made to the previously issued financial statements to properly record the entire pension liability and full accrual EIT on the Township's Statement of Net Position:

	<u>Township Net Position</u>	<u>Net Position</u>
As reported 12/31/15	\$ 11,989,802	\$ 19,560,784
Correction of pension Activity	(80,178)	80,178
Full accrual of EIT	<u>419,841</u>	<u>-</u>
Restated	<u>\$ 12,329,465</u>	<u>\$ 19,640,962</u>

***G. New Accounting Pronouncements***

GASB Statement No. 72 – Fair Value Measurement and Application. This Statement is effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. The implementation of this Statement had no effect on the balances of the investment in the financial statements, however, expanded disclosure can be found in Note III.A.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement is effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The external investment pool described in these financial statements elected to continue reporting its investments at amortized cost. The implementation of this Statement had no effect on the balances of the investment in the financial statements.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF FRANCONIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED**  
**RATIOS - POLICE PENSION PLAN**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 156,211	\$ 150,203	\$ 148,888
Interest	487,588	456,208	401,584
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(118,020)	-
Changes of assumptions	-	94,898	-
Benefit payments, including refunds of employee contributions	<u>(164,278)</u>	<u>(163,990)</u>	<u>(215,243)</u>
Net change in total pension liability	479,521	419,299	335,229
Total pension liability - beginning	<u>6,891,471</u>	<u>6,472,172</u>	<u>6,136,943</u>
Total pension liability - ending (a)	<u>\$ 7,370,992</u>	<u>\$ 6,891,471</u>	<u>\$ 6,472,172</u>
 <b>Plan fiduciary net position</b>			
Contributions - employer	\$ 274,048	\$ 308,256	\$ 433,998
Contributions - employee	47,470	49,944	40,035
Net investment income	363,362	(72,603)	209,555
Benefit payments, including refunds of employee contributions	(164,278)	(163,990)	(215,243)
Administrative expense	(3,500)	(4,200)	(3,700)
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	517,102	117,407	464,645
 <b>Plan fiduciary net position - beginning</b>	<u>4,918,908</u>	<u>4,801,501</u>	<u>4,336,856</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 5,436,010</u>	<u>\$ 4,918,908</u>	<u>\$ 4,801,501</u>
 <b>Township's net pension liability - ending (a)-(b)</b>	<u>\$ 1,934,982</u>	<u>\$ 1,972,563</u>	<u>\$ 1,670,671</u>
 Plan fiduciary net position as a percentage of the total pension liability	73.7%	71.4%	74.2%
 Covered-employee payroll	\$ 969,700	\$ 1,427,390	\$ 1,393,628
 Net pension liability as a percentage of covered payroll	199.5%	138.2%	119.9%
 Annual money-weighted return, net of investment expenses	7.47%	0.87%	5.57%

**Notes to Schedule:**

Change in benefit terms: None since 1/1/2015

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

TOWNSHIP OF FRANCONIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED  
RATIOS – NON-UNIFORM PENSION PLAN

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 52,653	\$ 50,628	\$ 56,862
Interest	160,621	150,224	124,341
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(5,809)	-
Changes of assumptions	-	117,860	-
Benefit payments, including refunds of employee contributions	<u>(53,908)</u>	<u>(54,806)</u>	<u>(52,973)</u>
Net change in total pension liability	159,366	258,097	128,230
Total pension liability - beginning	<u>2,268,885</u>	<u>2,010,788</u>	<u>1,882,558</u>
Total pension liability - ending (a)	<u>\$ 2,428,251</u>	<u>\$ 2,268,885</u>	<u>\$ 2,010,788</u>
 <b>Plan fiduciary net position</b>			
Contributions - employer	\$ 100,856	\$ 109,504	\$ 113,577
Contributions - employee	-	-	-
Net investment income	121,886	(26,283)	65,805
Benefit payments, including refunds of employee contributions	(53,908)	(54,806)	(52,973)
Administrative expense	(3,500)	(3,850)	(4,300)
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	165,334	24,565	122,109
 <b>Plan fiduciary net position - beginning</b>	<u>1,573,682</u>	<u>1,549,117</u>	<u>1,427,008</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 1,739,016</u>	<u>\$ 1,573,682</u>	<u>\$ 1,549,117</u>
 <b>Township's net pension liability - ending (a)-(b)</b>	<u>\$ 689,235</u>	<u>\$ 695,203</u>	<u>\$ 461,671</u>
 Plan fiduciary net position as a percentage of the total pension liability	71.6%	69.4%	77.0%
 Covered-employee payroll	\$ 1,149,770	\$ 1,313,266	\$ 1,186,612
 Net pension liability as a percentage of covered payroll	59.9%	52.9%	38.9%
 Annual money-weighted return, net of investment expenses	7.84%	-1.72%	5.35%

**Notes to Schedule:**

Change in benefit terms: None since 1/1/2015

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

TOWNSHIP OF FRANCONIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - POLICE PENSION PLAN

<u>Fiscal</u> <u>Year Ended</u> <u>December 31,</u>	<u>Actuarially</u> <u>Determined</u> <u>Contribution</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Covered</u> <u>Payroll</u>	<u>Contribution as</u> <u>a Percentage</u> <u>of Covered</u> <u>Payroll</u>
2014	433,998	433,998	-	1,393,628	31.14%
2015	308,256	308,256	-	1,427,390	21.60%
2016	274,048	274,048	-	969,700	28.26%

**Notes to Schedule:**

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

Methods and assumptions used to determine contribution rates:

Valuation date	1/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	8 years
Asset valuation method	Smoothing
Inflation	3%
Projected salary increases	4%
Investment rate of return	7%, net of pension plan investment expense, including inflation
Retirement age	Normal Retirement Age
Mortality	Based on the RP-2000 IRS PPA@2013 Non-Annuitant/Annuitant Tables for Males and Females Mortality Table

Change in benefit terms: None since 1/1/2015

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

TOWNSHIP OF FRANCONIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - NON UNIFORM PENSION PLAN

<u>Fiscal</u> <u>Year Ended</u> <u>December 31,</u>	<u>Actuarially</u> <u>Determined</u> <u>Contribution</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Covered</u> <u>Payroll</u>	<u>Contribution as</u> <u>a Percentage</u> <u>of Covered</u> <u>Payroll</u>
2014	113,577	113,577	-	1,186,612	9.57%
2015	109,504	109,504	-	1,313,266	8.34%
2016	100,856	100,856	-	1,149,770	8.77%

**Notes to Schedule:**

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

Methods and assumptions used to determine contribution rates:

Valuation date	1/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	11 years
Asset valuation method	Smoothing
Inflation	3%
Projected salary increases	4%
Investment rate of return	7%, net of pension plan investment expense, including inflation
Retirement age	Normal Retirement Age
Mortality	Based on the RP-2000 IRS PPA@2013 Non-Annuitant/Annuitant Tables for Males and Females Mortality Table

Change in benefit terms: None since 1/1/2015

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

TOWNSHIP OF FRANCONIA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	<u>Special Revenue Funds</u>					Total Nonmajor Governmental Funds
	<u>Street Light &amp; Fire Hydrant</u>	<u>Fire Tax</u>	<u>Impact Fees</u>	<u>Library</u>	<u>Recycle</u>	
<u>ASSETS</u>						
Current Assets						
Cash and cash equivalents	\$ 1,161	\$ 157	\$ 232,629	\$ 1,011	\$ 69,017	\$ 303,975
Receivables	127	1,027	-	2,259	-	3,413
Total Current Assets	<u>1,288</u>	<u>1,184</u>	<u>232,629</u>	<u>3,270</u>	<u>69,017</u>	<u>307,388</u>
Total Assets	<u>\$ 1,288</u>	<u>\$ 1,184</u>	<u>\$ 232,629</u>	<u>\$ 3,270</u>	<u>\$ 69,017</u>	<u>\$ 307,388</u>
<u>LIABILITIES</u>						
Current Liabilities						
Accounts payable and accrued wages	\$ -	\$ -	\$ 600	\$ -	\$ 1,198	\$ 1,798
Total Liabilities	<u>-</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>1,198</u>	<u>1,798</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Unavailable revenue - property taxes	-	711	-	1,564	-	2,275
Total Deferred Inflows of Resources	<u>-</u>	<u>711</u>	<u>-</u>	<u>1,564</u>	<u>-</u>	<u>2,275</u>
<u>FUND BALANCES:</u>						
Restricted for:						
Highway and streets	-	-	232,029	-	-	232,029
Fire	-	473	-	-	-	473
Street light and fire hydrant	1,288	-	-	-	-	1,288
Library	-	-	-	1,706	-	1,706
Recycling	-	-	-	-	67,819	67,819
Total Fund Balances	<u>1,288</u>	<u>473</u>	<u>232,029</u>	<u>1,706</u>	<u>67,819</u>	<u>303,315</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,288</u>	<u>\$ 1,184</u>	<u>\$ 232,629</u>	<u>\$ 3,270</u>	<u>\$ 69,017</u>	<u>\$ 307,388</u>

TOWNSHIP OF FRANCONIA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Street Light & Fire Hydrant	Fire Tax	Impact Fees	Library	Recycle	
Revenues						
Property taxes	\$ 24,837	\$ 121,158	\$ -	\$ 266,238	\$ -	\$ 412,233
Investment income and rent	21	193	238	242	142	836
Intergovernmental revenues	-	104,560	-	-	31,135	135,695
Other	-	-	218,953	-	-	218,953
Total Revenues	<u>24,858</u>	<u>225,911</u>	<u>219,191</u>	<u>266,480</u>	<u>31,277</u>	<u>767,717</u>
Expenditures						
Current						
General government	-	-	-	-	14,454	14,454
Public safety	23,426	226,060	-	-	-	249,486
Highways and roads	23,324	-	40,793	-	-	64,117
Library	-	-	-	265,108	-	265,108
Culture and recreation	-	-	-	-	4,245	4,245
Total Expenditures	<u>46,750</u>	<u>226,060</u>	<u>40,793</u>	<u>265,108</u>	<u>18,699</u>	<u>597,410</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(21,892)</u>	<u>(149)</u>	<u>178,398</u>	<u>1,372</u>	<u>12,578</u>	<u>170,307</u>
Other Financing Sources (Uses)						
Transfers in	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total Other Financing Sources (Uses)	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Net Change in Fund Balances	(1,892)	(149)	178,398	1,372	12,578	190,307
Fund Balance - Beginning	<u>3,180</u>	<u>622</u>	<u>53,631</u>	<u>334</u>	<u>55,241</u>	<u>113,008</u>
Fund Balance - Ending	<u>\$ 1,288</u>	<u>\$ 473</u>	<u>\$ 232,029</u>	<u>\$ 1,706</u>	<u>\$ 67,819</u>	<u>\$ 303,315</u>

TOWNSHIP OF FRANCONIA  
COMBINING STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2016

	Pension and Other Employee Benefit Trust Funds		
	Police Pension	Municipal Pension	Total
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	\$ 352,559	\$ 120,291	\$ 472,850
Investments, at fair value			
Common stock	140,039	46,906	186,945
Mutual funds-equities	2,228,898	727,142	2,956,040
Mutual funds-international equity	514,655	167,896	682,551
Certificates of deposits	345,000	120,000	465,000
Mutual funds-fixed income	258,053	142,463	400,516
US Agencies	838,201	203,918	1,042,119
Corporate Bonds	735,139	206,775	941,914
Receivable	25,644	3,626	29,270
Total Current Assets	5,438,188	1,739,017	7,177,205
 TOTAL ASSETS	 \$ 5,438,188	 \$ 1,739,017	 \$ 7,177,205
 <u>NET POSITION</u>			
Net Position Restricted for Pension and Retirement Health Benefits	\$ 5,438,188	\$ 1,739,017	\$ 7,177,205

TOWNSHIP OF FRANCONIA  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Pension and Other Employee Benefit Trust Funds</u>		
	<u>Police Pension</u>	<u>Municipal Pension</u>	<u>Total</u>
Additions			
Contributions			
Member contributions	\$ 49,647	\$ -	\$ 49,647
Municipal contributions	177,806	26,487	204,293
State contributions	<u>96,242</u>	<u>74,369</u>	<u>170,611</u>
Total Contributions	<u>323,695</u>	<u>100,856</u>	<u>424,551</u>
Investment Income			
Net appreciation (depreciation) in fair value of investments	220,560	76,058	296,618
Interest and dividends	<u>176,409</u>	<u>55,758</u>	<u>232,167</u>
Total Investment Income	396,969	131,816	528,785
Less: investment expense	<u>33,606</u>	<u>9,929</u>	<u>43,535</u>
Net Investment Income	<u>363,363</u>	<u>121,887</u>	<u>485,250</u>
Total Additions	<u>687,058</u>	<u>222,743</u>	<u>909,801</u>
Deductions			
Administrative expense	3,500	3,500	7,000
Benefits	<u>164,278</u>	<u>53,908</u>	<u>218,186</u>
Total Deductions	<u>167,778</u>	<u>57,408</u>	<u>225,186</u>
Net Increase	519,280	165,335	684,615
Net Position Restricted for Pension and Other Employee Benefits:			
Beginning of Year	<u>4,918,908</u>	<u>1,573,682</u>	<u>6,492,590</u>
End of Year	<u>\$ 5,438,188</u>	<u>\$ 1,739,017</u>	<u>\$ 7,177,205</u>