

HORSHAM TOWNSHIP
MONTGOMERY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED DECEMBER 31, 2019

HORSHAM TOWNSHIP

FINANCIAL STATEMENTS

December 31, 2019

TABLE OF CONTENTS

| | |
|---|-------|
| Independent Auditors' Report | 2-4 |
| Management's Discussion and Analysis | 5-20 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 21 |
| Statement of Activities | 22-23 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 24-25 |
| Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position | 26 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 27-28 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 29 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund (Cash Basis) | 30 |
| Statement of Fiduciary Net Position - Fiduciary Funds | 31 |
| Statement of Changes in Fiduciary Net Position - Fiduciary Funds | 32 |
| Notes to Financial Statements | 33-68 |
| Required Supplemental Information: | |
| Schedule of Changes in the Net Pension Liability and Related Ratios - Police Pension Plan | 70 |
| Schedule of Contributions - Police Pension Plan | 71 |
| Schedule of Changes in the Net Pension Liability and Related Ratios - Non-Uniform Pension Plan | 72 |
| Schedule of Contributions - Non-Uniform Pension Plan | 73 |
| Schedule of Changes in the Net OPEB Liability and Related Ratios -OPEB Plan | 74 |

| | |
|--|-------|
| Combining and Individual Fund Statements and Schedules: | |
| Combining Balance Sheet - Nonmajor Governmental Funds | 76-77 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds | 78-79 |
| Combining Statement of Fiduciary Net Position - Fiduciary Funds | 80-81 |
| Combining Statement of Changes in Assets and Liabilities - Custodial Funds | 82 |



936 Easton Rd., PO Box 754, Warrington, PA 18976
70 W. Oakland Ave., Doylestown, PA 18901 | 130 Almshouse Rd. Suite 201A, Richboro, PA 18954
215-345-6272 | www.bbco-cpa.com

INDEPENDENT AUDITORS' REPORT

To the Township Council
Horsham Township

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Horsham Township, Pennsylvania, as of and for the year ended December 31, 2019, 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.

Basis for Adverse Opinion

The financial statements do not include financial data for the Township's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Township's primary government unless the Township also issues financial statements for the financial reporting entity that include the financial data for its component units. The Township has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units have not been presented. The amounts are not available so the effect of the omission cannot be determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the reporting entity of the Township of Horsham, Pennsylvania, as of December 31, 2018, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Horsham Township, Pennsylvania, as of December 31, 2019 and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund, and library operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 20, and the historical trend information on pages 71 through 75 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Horsham Township, Montgomery County, Pennsylvania, financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial 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. The 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 financial statements as a whole.

Bee, Bergvall & Co.

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

Warrington, PA
November 17, 2020

HORSHAM TOWNSHIP

MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

The management of Horsham Township offers readers of the Municipality’s financial statement a narrative overview and analysis of the financial activities of Horsham Township for the fiscal year ending December 31, 201819. Please read this analysis in conjunction with the Township’s financial statements which follow the MDA section.

Financial Highlights

Government-wide Financial Statements (Full Accrual)

TABLE 1:

Table 1 identifies the “Statement of Net Position.” The “Total Net Position” of an organization is derived by totaling assets and deferred outflows, and then subtracting liabilities and deferred inflows. In 2018 Horsham Township’s “Total Net Position” was \$70,670,139 and this decreased to \$68,933,738 in 2019. The change represented a reduction of \$1.7 million, or more than a 2% decline. The most significant impact on this number was the teardown and construction of a new municipal building that has been ongoing, and eventually completed in 2019. Its completion decreased cash and increased net investment in capital assets. Also, noteworthy in this table, is a decrease in long term liabilities due to changes in other post-retirement employment benefits (OPEB, see footnote F).

The statement of net position is impacted by at least three important components. The first of the three, restricted assets, is cash set aside for a particular or specific purpose. Restricted funding is available to meet ongoing local government obligations to citizens and/or creditors, but there are limits on how those funds can be expended. When possible, the municipality uses restricted funding in a manner that frees its use of discretionary assets. The State Aid Fund is noteworthy in this regard. In 2019, a primary source of restricted funding - the State Aid Fund - derived from the Commonwealth of Pennsylvania and restricted to road costs, became the vehicle for the payment of additional costs associated with milling and line painting. In 2019 these costs were budgeted to the State Aid Fund - paid from there instead of following a history of paying for those road services from the General Fund. The budgeting of restricted assets changes from year to year, and recently, from 2018 to 2019, decreased by approximately \$750,000.

A second component is “net investment in capital assets”. This category has been decreasing over the last several years due primarily to depreciation. In 2019, the number reversed prior year reductions and grew \$4.7 million – an important part of this being the completion of a multi-million dollar municipal building. This increase can be compared to two years ago when there was a decline - a decrease of approximately 6.9% over a six-year period, or slightly more than 1% per year on average. It should be noted, however, that data collected for these purposes is based on criteria, such as infrastructure life, that are estimates and may not be completely reflective of actual life expectancy. In any event, net investment in capital assets is expected to stabilize in 2020, and future years, as large capital projects such as the new Township building and road construction is completed.

HORSHAM TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

And, a third noteworthy component of net position is “deferred” outflows and inflows. Three years ago, the Township implemented two new accounting pronouncements, Government Accounting Standards Board (“GASB”) Statement No. 68, “Accounting and Financial Reporting for Pensions,” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.” The purpose of those statements was to improve the transparency, consistency, and comparability of the pension information reported by state and local governments. In 2018, GASB 75 was introduced, providing for enhanced OPEB accountability. In 2018, GASB changes were incorporated in the newer statements, and deferred outflows and inflows became two to three times prior year amounts. In 2019 deferred inflows were about the same – but, deferred outflows increased by 68% from the prior year.

TABLE 2:

In 2019 the “Net Position - Ending” approximated \$69 million – a decrease of \$1.7 million from the prior year. More specifically, revenues increased for 2019, but so did expenditures. Table 2 enables the reader to see a breakdown of revenue into nine categories and expenditures into five categories. Looking closer at revenue, its largest source, overwhelmingly, continues to be the “local and enabling act tax.” The local and enabling tax has two sources - an earned income tax and the local services tax. The earned income tax is the much larger of the two. It is based on wages and, at a fixed rate with consistent circumstances, can be expected to increase year after year. Of course, a unique exception to this is the 2020 pandemic. How that event will impact 2020 amounts will be discussed in upcoming budget discussions.

The second and lesser component of the local and enabling act tax is the Local Services Tax (a \$52 per year employment tax with those earning in excess of a \$12,000 wage base), varies with employment numbers, but should also generally be consistent from year to year. Together, these two categories, comprising the heading of “local and tax enabling act tax” are about 54% of all revenue. Other than inflationary increases and macroeconomic growth, there is little the municipality can do to make this amount significantly grow year after year.

The second largest source of revenue is property taxes. Property taxes are a little greater than 13% of total revenue. While overall property values - the municipality’s total assessment - have increased, the property tax rate (millage) has remained relatively flat for many years. Consequently, property tax revenue is level, at about two and a half million, every year. This should change in the near future with the 2019 Fire Tax increase and the land developments that are being proposed and implemented. However, it should be noted that even large percentage increases in the millage rates, because property taxes are only about 13% of all revenue, will only have a minimal impact on revenue generation.

The third largest revenue source is “charges for services.” Every year the municipality reviews what it charges for services and updates its fee structure. In its review the municipality does a peer comparison with other nearby local governments and attempts to determine charges that are somewhere in the middle of the pack - not charging too high or too low for services. Costs are summarized by placing them into the format of an annual resolution that is approved by the Board of Supervisors. This revenue source increased by 35% from the prior year and is spurred by new inspection programs that are expected to bring in significant amounts in upcoming years.

HORSHAM TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

The fourth largest revenue source is “operating grants and contributions”. This category and all revenue categories to follow singularly represent less than 10% of all revenue. Operating grants and contributions have been at \$1.7 million for 2017, \$1.9 million for 2018, and to over \$2 million in 2019. There have been added efforts at obtaining discretionary grants and so this number can be expected to continue its increase over the next few years. It should be noted, however, that many grants are based on fixed formulas that are annual and beyond municipal control. Reasons for receiving grants and contributions are related to pensions, recycling, fire control, etc. While the municipality can always apply for operating grants and contributions this source of revenue is often project specific and likely offset, or partially offset, by an increase in expenditures.

The fifth largest revenue source continues to be the “transfer tax.” When a property is sold 1% of the selling price, less commissions, is returned to the municipality as a real estate transfer tax. The tax comprises less than 5% of all revenue. The amount can fluctuate as it is based on real estate, corporate specific, and other macroeconomic conditions normally beyond the direct control of the municipality. Sales of single properties, valued greatly, can have a very large impact on this revenue source and partially explain why from 2017 to 2018 there was an approximate 25% decline in the real estate transfer tax and a stabilization from 2018 to 2019.

The sixth largest source of revenue became “investment income” in 2019. The category became a more important revenue source as Township funds were tied into very competitive longer-term rates, cash balances or cash forward remained significant, and shorter-term interest rates were more generous than in 2020. This momentum is not expected to be sustained. Longer term trends are certificate of deposits that mature with vastly inferior available rates, pressures leading to a reduction on cash balances and cash forward amounts resulting in lower interest payments, and vastly reduced interest rates paid on short term amounts.

The seventh largest revenue source is “franchise fees” and these are collected and paid by Comcast and Verizon for cable services provided to local residents. The amount of franchise fees paid is based on the amount of the household cable bill and can fluctuate based on selected cable services. However, with the introduction of new technologies households are evaluating other sources of communications to meet their needs. Some of these options do not add to local franchise fees. Consequently, for the first time in recent history, beginning in 2016, there was a plateau and eventual reduction in franchise fees. From 2016 to 2017 franchise fees decreased from \$643,775 to \$619,758, from 2017 to 2018 franchise fees further decreased to \$584,813, and from 2018 to 2019 reduced another \$10,000 resting at \$574,000. Further reductions should also be expected over a future longer term. Currently, franchise fees are only about 3% of all revenue.

The final categories of revenue sources are “other” and “capital grants and contributions.” Combined, these two categories represent only about 1% of all revenues and decreased by about half from the prior year. It follows that these two categories will be insignificant for the foreseeable future.

Concluding a look at revenue, and switching to expenditures, there are five expenditure identified categories in Table 2. These five broad categories are as follows: police and emergency services (40%), administrative (26%), public works (18%), library and parks (11%), and licenses and permits (5%). All of these categories increased from the prior year and explanations for the increases include inflationary pressures, staff status, normal adjustments provided by the current year budget, etc. Overall expenditures increased from 2018 to 2019 by \$5 million and expenditures exceeded revenue in 2019 by an approximate \$1.7 million.

HORSHAM TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Fund Financial Statements (Modified Accrual)

On December 31, 2019, Horsham Township's governmental funds had a total fund balance that decreased from more than \$24 million to \$18 million (page 26). The amount represented a reversal of a trend, due significantly to building construction, in recent years, of increased balances. Generally, the surpluses are primarily saved in a particular, specified fund. When assets are restricted this would include the Liquid Fuels Fund or Escrow Fund; and, when unrestricted, this would include the General Fund.

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Cash Basis)

The financial statements are prepared in conformity with the Generally Accepted Accounting Principles (GAAP) with the exception of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, which is prepared on a cash basis as opposed to an accrual basis. "Cash Basis" is defined as "a method of bookkeeping by which revenues and expenditures are recorded when they are received and paid." "Accrual Basis" is defined as "a method of accounting that recognizes revenue when earned, rather than when collected and expenses when incurred, rather than when paid."

The "Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds" (pages 27-28) identifies a fund balance ending for 2019 of \$18.2 million (down from \$24.4 million in 2018). The amount is comprised of Capital Improvement (36%) and General (34%), with lesser percentages connected to Other Governmental (29%) with Library Operating no longer reported as a separate category. This compares to 2018 for Capital Improvement (52%) and General (26%), with lesser percentages connected to Other Governmental (18%) and Library Operating (4%). The biggest changes being a further reduction in the General Fund balance of \$650,000 from 2017 to 2018 and \$175,000 from 2018 to 2019; but even more significant reductions for Capital Improvement of \$6 million from 2018 to 2019.

The fund balance decreases were derived from both the categories of General and Capital Improvement as two of the three reported categories for a "Deficiency of Revenues and Other Financing Sources." In 2016 and 2017 the Library Operating Fund (no longer reported separately) and the General Fund and, in 2017, the Capital Improvement Fund. In 2018 only the General Fund fell into this category.

HORSHAM TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

The Capital Improvement Fund's expenditures increased from \$430,382 in 2016 to \$664,679 in 2017, to more than \$2.6 million in 2018, and more than \$7.2 million in 2019. The larger expenditures were offset by an influx for a \$4 million borrowing. In 2020 the amount for capital improvement expenditures will decrease as the construction of the new municipal building was primarily completed in 2019. The Capital Improvement Fund is committed to road construction improvements that have already begun, but will switch to a saving mode once those have been completed.

And finally it should be mentioned that stress on the Library Operating Fund has been reduced over recent years. One way this was accomplished was refinancing the Library debt in 2016 which reduced debt payments through extending the loan's life. In 2016 it was estimated that at the current rate, the Fund would have a depleted balance in about five years. This, of course, is three years less than a similar calculation identified in 2015. In 2017 after refinancing, the Fund's depletion was extended more than ten years; and, with budgetary adjustments such as paying traditional costs with other funds, like Librarian employee benefits, the fund's exhaustion is no longer a consideration. The Township would like to increase the fund's balance from \$932,683 to an annual reserve of \$1 million, and will likely reach that goal in 2021.

Overview of the Financial Statements

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

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of Horsham Township's finances, in a manner similar to a private-sector business.

The Statement of Net Position (on page 21) presents information on all of Horsham Township's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Horsham Township is improving or deteriorating. The following table reflects the condensed statement of net position. In 2016, there was a decrease of more than 1%, and in 2017 a decrease of about 2%. These are not wide fluctuations - and suggested a declining trend with one of relative stability and consistency. In 2018, due to restatement, ending balances were adjusted so that 2017 "net-position - ending" was reduced from \$79,875,396 to \$69,134,174. In 2019, total net position decreased from \$70.7 million to \$68.9 million, or about 2.5%.

HORSHAM TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Table 1
Statement of Net Position

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 19,575,036 | \$ 25,775,209 |
| Capital assets | <u>82,988,690</u> | <u>78,485,505</u> |
| Total Assets | <u>102,563,726</u> | <u>104,260,714</u> |
| Deferred outflows | <u>4,134,059</u> | <u>2,465,965</u> |
| Long-term liabilities | 34,751,029 | 32,788,608 |
| Other liabilities | <u>617,116</u> | <u>881,618</u> |
| Total Liabilities | <u>35,368,145</u> | <u>33,670,226</u> |
| Deferred inflows | <u>2,395,902</u> | <u>2,386,314</u> |
| Net investment in capital assets | 73,960,567 | 69,190,215 |
| Restricted | 3,334,402 | 4,083,472 |
| Unrestricted | <u>(8,361,231)</u> | <u>(2,603,548)</u> |
| Total Net Position | <u>\$ 68,933,738</u> | <u>\$ 70,670,139</u> |

The Statement of Activities (on pages 22 and 23) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net position are reported on the accrual basis of accounting. This accounting method records revenues and expenses as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (e.g., uncollected taxes and earned but unused vacation leave).

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

The following chart shows the revenues and expenses of the governmental activities for 2018 and 2019.

**Table 2
Changes in Net Position**

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|----------------------|----------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 2,202,800 | \$ 1,634,352 |
| Operating grants and contributions | 2,075,390 | 1,948,325 |
| Capital grants and contributions | 38,400 | 94,385 |
| General revenues: | | |
| Property taxes | 2,791,612 | 2,337,846 |
| Transfer tax | 883,120 | 844,421 |
| Local and enabling act tax | 11,020,422 | 10,586,862 |
| Franchise fees | 574,392 | 584,813 |
| Investment income | 677,349 | 458,938 |
| Other | <u>167,170</u> | <u>266,870</u> |
| Total Revenues | <u>20,430,655</u> | <u>18,756,812</u> |
| Expenses | | |
| Administrative | 5,853,665 | 4,598,941 |
| Licenses and permits | 1,059,053 | 753,720 |
| Police and emergency services | 8,971,145 | 7,112,660 |
| Public works | 3,956,557 | 2,977,367 |
| Library and parks | <u>2,326,636</u> | <u>1,778,159</u> |
| Total Expenses | <u>22,167,056</u> | <u>17,220,847</u> |
| Changes in Net Position | (1,736,401) | 1,535,965 |
| Net Position - Beginning, restated | <u>70,670,139</u> | <u>69,134,174</u> |
| Net Position - Ending | <u>\$ 68,933,738</u> | <u>\$ 70,670,139</u> |

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Horsham Township, like other government organizations, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Horsham Township can be divided into two categories: governmental funds and fiduciary funds.

Government Funds - Government funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Horsham Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet (on pages 24 and 25) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (on pages 27 and 28) for the general fund, library operating, capital improvement, and highway aid fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Reconciliations are provided (on pages 26 and 29) for the comparison of the governmental fund Balance Sheet to the government-wide Statement of Net Position and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances to the government-wide Statement of Activities.

General Fund - The General Fund is the general operating fund of the Township. Horsham Township adopts an annual appropriated general fund budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Library Operating Fund - The Library Operating Fund is the general operating fund for the Township Library. Horsham Township adopts an annual appropriated operating fund budget for its Library fund.

Debt Service Funds - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. State Liquid Fuels /Highway Aid Fund are the fund into which Horsham Township's state allocation is deposited.

Capital Projects Funds - These funds are used to account for financial resources to be used for property acquisition and the development and construction of major capital facilities (other than those financed by proprietary funds).

Fiduciary Funds - Trust and custodial funds are used to account for assets held by Horsham Township in a trustee capacity or as an agent for individuals, other governments, and/or other funds. These include Pension Trust and Custodial funds. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those programs are not available to support Horsham Township's own programs.

Notes to Financial Statements - These notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Horsham Township's progress in funding its obligation to provide pension benefits to its employees.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

General Fund Budgetary Highlights

General Fund expenditures for 2019 were under budget by \$1.65 million – a reversal of the previous years' year-over-year increases of \$2.1 million in 2018, \$1.5 million in 2017, and \$1.1 million in 2016. Of the various expenditure categories public safety and highways and roads represented half of the 2019 difference. Explanations for this variance for highways and roads include budgeting for a worst-case scenario of road materials sensitive to petroleum prices; and for public safety the contractual issues that did not have a fully complete year at the time of 2019 budget formulation.

The 2019 expenditures, along with revenues that exceeded budget, resulted in excess of revenue over expenditures by \$3.4 million. Of the several revenue categories earned income tax represented about one-third of the actual over budgeted revenue, and charges for services about another one-third. Because revenue exceeded budget and expenditures were less than budgeted the \$3.4 million difference increased from the prior year by about \$.4 million. There are several reasons for the budgetary and actual differences, and these include a conservative budgeting approach, time constraints for project completion, unforeseen circumstances, and stagnant revenue sources. Future budgets will attempt to narrow - not increase - these differences.

The municipality periodically reviews and revises its budget to deal with unexpected fluctuations of expenditures and revenues. General Fund expenditures for recent years came in under the budget, and revenues came in over budget. Overall, these were favorable budgetary results, but future budgets should strive even more vigorously to bring budgeted revenue more in-line with actual revenue and expenditures - something that is difficult because of forecast uncertainty and the risk of underestimation. A good example of the difficulty is exemplified in the area of tax collection - the impact of other municipalities adopting the earned income tax (EIT), changes in employment that may impact the local services tax (LST), and private sector employment decisions - decisions to close a headquarters or transfer operations - which may be contingent on decisions unrelated to the municipality. Each year the municipality determines its EIT and LST projections on information provided by the income tax collector.

Actual revenue exceeded budgeted revenue in eight of the ten categories in 2015, in 2016 all categories had greater revenue than budgeted, in 2017 all but one - "intergovernmental revenue" - had greater revenue than budgeted, in 2018, again, all but one - "fees, licenses, and permits," and again in 2019, all but one ("other"). An explanation for the shortcoming of the single category in 2019 was primarily the budget and actuals approximation - deviating by only about 16%.

In the nine of ten categories of General Fund revenue exceeding budget in 2019, the greatest of these continued to be the 2017 and 2018 category of "investment income and rent". The actual amount received was more than double the amount budgeted. This increase was particularly due to a rising interest rate environment, increased balances, and new investment products by township approved depositories. However, as 2019 evolved, these factors were less favorable and will greatly narrow for 2020. The other categories that exceeded budget amounts and the category's percent of all revenue were as follows: charges for services (65.7%), intergovernmental revenues (24.4%), earned income tax (6.8%), local tax enabling act (7.6%), fines and forfeitures (7.1%), transfer tax (6.8%), fees, licenses and permits (2.2%), and property tax (.3%).

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

The \$1.75 million or 11.4% that was over budget for revenue in 2019 was more than in recent prior years. In 2018 the amount was \$.9 million or 6.1% and in 2017 the amount was \$1.25 million or 9%. These recent three years were less than in 2016 when revenue over budget was \$3.2 million or 23% and in 2015 when revenue over budget was \$2.49 million or 19%. Explanations for deviation of budget and actual in the revenue categories include a conservative budget approach of preferring to underestimate these revenues, unpredictable variations, incomplete or unavailable data during the budget process such as the annual fee resolution's passage after the budget has concluded, the sale of significant properties that often can't be predicted, and the earlier explanations specifically identified in this narrative such as the adoption of earned income taxes by other municipalities. However, it has been the case, that the municipality is working to narrow the deviations.

As in 2017 and 2018, General Fund actual expenditures were below budget in all seven reported categories. The six in 2019, and their percentage below budget, are as follows: highways and roads (24%), general government (22%), library and parks (15%), capital projects (6%), miscellaneous (7%), public safety (5%), and debt service (<1%). Important reasons for variations included the timetable and cost uncertainty of preparing for capital improvements, the cost of petroleum and its impact on asphalt prices, employment or workforce variations, etc.

The sum of all the variances was about 91% of the final budget. The 9% difference was a close approximation of prior year activity that had a 13% deviation, and the year before that of a 10% deviation. This range should be regarded as a close approximation of actual expenditures. The reasons for the differences, the deviations, vary from category to category, but can generally be explained by unexpected, unique, and recurring factors. An unexpected factor, in recent years, was the discovery of contaminants in the municipal water supply; and a unique and anticipated factor was the planning for a new municipal building. In addition, the following are four paragraphs identify recurring factors.

First, salaries in several classifications did not hit a budget target. This can in part be explained by personnel changes that impact how labor is charged, allocated funding for positions that weren't filled, and/or changes in personnel or job classification. Also, there is budget unpredictability due to various categories of compensation that are discretionary or at least "not fixed." These discretionary type wages include overtime, compensation in lieu of vacation, sick pay incentive, education incentive, fitness bonus, festive pay, etc.

Second, professional services and other services for planning and zoning and other departments often deviate from budget, and this is due to hourly rates that aren't determined until after the budget process, third party work assignments that are dictated by land development and other projects, timetables that aren't under the municipality's direct control, contingency budgeting for things such as cost overruns or "what-if" scenarios, and an inability to fully anticipate how many professional hours are necessary as on-going projects encounter expanded professional involvement.

Third, highways and roads had several classifications that deviated from budget. These deviations can be explained by a host of factors: the type of non-discretionary work performed such as snow removal or equipment maintenance, inclement weather, unanticipated equipment maintenance or replacement, and the fluctuating and erratic cost of petroleum in road materials that are needed for the municipality's annual road maintenance projects.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Fourth, miscellaneous benefit categories such as Blue Cross and FICA were below budget in large part due to the budget allowances for coverage changes that do not materialize, providing for unknown medical rate inflation, allowing for changes in personnel, etc. Overestimating benefit categories is preferred to underestimation, and an overestimation buffer should be expected for upcoming budget cycles.

Because expenditures in certain categories are over expended, and expenditures in certain accounts remain unexpended and un-appropriated, a budget transfer is annually made in December. In 2017 unappropriated funds, \$52,000, were transferred from public safety to general government. In 2018 \$55,054 was transferred from administration to solid waste collection and traffic signals and in 2019, \$121,507 was transferred from local taxes (310) to fire, protective inspection, planning and zoning, traffic signals and the repair for tools and small machinery.

Annual budget transfers aren't made until the 4th quarter and it is therefore important to note that the municipality monitors its budget throughout the year, preparing for these adjustments prior to the 4th quarter. As the municipality monitors its budget throughout the year there are several challenges it faces related to sustained budgetary levels. In terms of revenue, one revenue source that has been under scrutiny is the earned income tax. The earned income tax is a local tax representing 1% of a resident's wages. Half of the earned income taxes are given to the Hatboro-Horsham School District, and the other half is given to Horsham Township. The amount collected varies from year to year based on a host of variables that include the following: inflation rates that affect the amount of a resident's year-to-year earned income, the adoption of the tax by other municipalities resulting in withheld amounts going to another jurisdiction, and social influences such as demographics shifts that increase or decrease the number and type of individuals having income that is eligible for the earned income tax. The EIT represents approximately 55% of the General Fund revenues – a decrease from the 58% amount in 2018.

A second tax that had been under stress is the Local Services Tax (LST) which became effective in 2010. The LST, a flat tax of \$52, but with greater restrictions for those eligible to pay the tax, generated substantially more than the OPT in subsequent years. As taxpayers become more familiar with the OPT the municipality is recognizing more current and less delinquent and prior-year payments, and will be budgeting to reflect those changes. It is expected that the LST will be a relatively constant, significant, and somewhat flat revenue source in the near future. However, with the recent hire of an economic development specialist and development at the former Willow Grove Naval Air Station, it is expected that the LST will increase in the longer term.

Finally, a third tax that received municipal attention is real estate (or property) taxes. This tax has been relatively stable with slight increases in recent years due to development and the resulting increase in the municipality's assessed valuation. New housing developments, along Limekiln Pike and in other areas, as well as development at the former naval base and on vacant land such as golf courses, will increase the amount of property tax collections in future years.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Impacts on Revenues and Expenses

Normal Impacts

There are essentially eight basic and recurring impacts on revenues and expenses in the municipality. These are as follows:

Revenues

- **Economic Conditions:** Can reflect a declining, stable or growing economic environment and has a substantial impact on property, income, transfer or other tax revenue, as well as public spending habits for building permits and elective user fees.
- **Increase/Decrease in Township Approved Rates:** While certain tax rates are set by statute, the Township Council has significant authority to impose and periodically increase/decrease rates (real estate tax millage, building fees, user charges, etc.).
- **Changing Patterns in Intergovernmental and Grant Revenues (both recurring and non-recurring):** Certain recurring revenues (state-shared revenues, block grants, etc.) may experience significant changes periodically, while non-recurring (one time) grants are less predictable and often distorting in their impact on year to year comparisons.
- **Market Impacts on Investment Income:** The Township's investment portfolio is managed using a longer average maturity on capital funds. Market conditions cause investment income to fluctuate with the economic conditions.

Expenses

- **Introduction of New Programs:** Within the functional expense categories (Public Safety, Public Works, etc.), individual programs may be added or deleted to meet changing community needs.
- **Increase/Decrease in Authorized Personnel:** Change in service demand may cause the Township Council to increase/decrease authorized staffing. Staffing costs represent a significant portion of the Township's program expenses.
- **Salary Increases (annual adjustment and merit):** The ability to attract and retain human resources requires Horsham Township to maintain a competitive salary and range position in the marketplace.
- **Inflation:** While overall inflation appears to be reasonably modest, the Township may experience unusual commodity specific increases. The potential for this type of impact is most common in the areas of fuel, utilities, large equipment and construction.

HORSHAM TOWNSHIP

MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Current Year Impacts

Revenues for the Township’s governmental activities were \$20.4 million in 2019, \$18.8 in 2018, and \$18.6 million in 2017. Sources of revenues for fiscal years 2019 and 2018 are comprised of the following items:

Governmental Activities - Revenues by Source
For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>% of Total</u> <u>Revenues</u> | <u>2018</u> | <u>% of Total</u> <u>Revenues</u> |
|------------------------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|
| Revenues | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 2,202,800 | 10.8 | \$ 1,634,352 | 8.8 |
| Operating grants and contributions | 2,075,390 | 10.2 | 1,948,325 | 10.4 |
| Capital grants and contributions | 38,400 | 0.2 | 94,385 | 0.5 |
| General revenues: | | | | |
| Property taxes | 2,791,612 | 13.7 | 2,337,846 | 12.5 |
| Transfer tax | 883,120 | 4.3 | 844,421 | 4.5 |
| Local and enabling act tax | 11,020,422 | 53.9 | 10,586,862 | 56.4 |
| Franchise fees | 574,392 | 2.8 | 584,813 | 3.1 |
| Investment income | 677,349 | 3.3 | 458,938 | 2.4 |
| Miscellaneous | 167,170 | 0.8 | 266,870 | 1.4 |
| Total Revenues | <u>\$ 20,430,655</u> | <u>100.0</u> | <u>\$ 18,756,812</u> | <u>100.0</u> |

Total revenues have increased, year-to-year, for the last several years: \$18,322,278 in 2016, \$18,571,382 in 2017, and \$18,756,812 in 2018, and \$20,430,655 in 2019. Reasons for these variations include a single large property owner completing several real estate transactions during the year and generating revenue through the real estate transfer tax, and fluctuations in grants and contributions that are non-recurring and project dependent. The annual budgeting of revenues considers these variations, often selecting the lowest revenue per line item in the last three years as the budgeted amount.

Of all the general revenue the local and tax enabling act taxes comprise the greatest revenue source, followed by the property tax and the transfer tax (these last two were reversed in order from 2016 to 2015). Horsham Township does not levy a business privilege or mercantile tax. Horsham Township can’t adopt either of these taxes at any point in the near future as the imposition of these taxes are grandfathered and no longer an option.

Taken as a whole, after taxes, the second largest revenue component is charges for services, followed by operating grants and contributions. Of the two, the municipality has greatest control over charges for services - a fee resolution directly impacting the amount of revenue generated. Historically, charges for services represented 8-11% of total revenues (8.8% in 2018 and only 10.8% in 2019). A fee resolution, enabling increases that can maintain the line item’s proportionality to the larger revenue amounts, is annually passed by the Township Council. In 2019 revenue for this line item now represents more than 10% of all revenue.

HORSHAM TOWNSHIP

MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

The cost of all governmental activities in 2019 significantly increased from the prior year of 2018, increasing by about \$5 million dollars. This was at faster rate than in previous years. For example, from 2017 to 2018 there was an increase of only about \$200,000. It may have been that 2019 was an unusual year. There were some emerging and unexpected events, but there were also several planned increases.

By category, the largest expenditure continues to be “police and emergency expenses” which comprised 39.4% of the whole in 2017, 41.3% in 2018, and 40.4% in 2019. This is followed by “administrative” at 26.4%, “public works” at 17.8%, “library and parks” at 10.5%, and “licenses and permits” at 4.8%. These allocations approximate 2017 and 2018 in so far as these categories have the same ranking order.

The following schedule compares the total cost and net cost of services by functional category for 2019 and 2018:

| Governmental Activities - Expenses by Function | | | | | |
|---|----------------------|-----------------|----------------------|-----------------|--|
| For the Years Ended December 31, 2019 and December 31, 2018 | | | | | |
| Expenses | <u>2019</u> | % | <u>2018</u> | % | |
| | \$ | <u>Expenses</u> | \$ | <u>Expenses</u> | |
| Administrative | 5,853,665 | 26.4 | 4,598,941 | 26.7 | |
| Licenses and permits | 1,059,053 | 4.8 | 753,720 | 4.4 | |
| Police and emergency services | 8,971,145 | 40.4 | 7,112,660 | 41.3 | |
| Public works | 3,956,557 | 17.8 | 2,977,367 | 17.3 | |
| Library and parks | 2,326,636 | 10.5 | 1,778,159 | 10.3 | |
| Total Expenses | <u>\$ 22,167,056</u> | <u>99.9</u> | <u>\$ 17,220,847</u> | <u>100.0</u> | |

Table 3 is titled “Changes in Capital Assets”. There are three terms that are usually attached to this section and highly important for further explanation. The three terms are infrastructure assets, capital asset and debt administration, and long term debt.

Infrastructure Assets - At one point, a Township’s largest asset group (infrastructure - roads, bridges, storm sewers, streetlights, traffic signals, etc.) was not reported or depreciated in government financial statements. This changed in the last decade and newer statements require that assets be valued and reported within the governmental column of the government-wide statements. Additionally, the government must elect to either (1) depreciate these assets over their estimated useful life, or (2) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The Township has chosen to depreciate assets over their useful life. For example, if a road project is considered maintenance, the cost of the project will be charged as expense. An “overlay” of a road will be considered maintenance, whereas a “rebuild” of a road will be capitalized. The Township utilizes PennDot requirements to determine when a road is classified as being maintained or rebuilt. Other departments have similar guidelines and challenges.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Capital Assets - The investment in capital assets includes, land, buildings and systems, improvements, machinery and equipment, park facilities, roads and bridges. Horsham Township's investment in capital assets for its governmental activities as of December 31, 2016, was \$77.5 million and this decreased to \$76.2 million in 2017. However, as capital improvements progressed, this increased to \$78.5 million in 2018 and by the end of 2019 to almost \$83 million.

**Table 3
Change in Capital Assets**

| | Ending Balance <u>12/31/2018</u> | <u>Increases</u> | <u>Decreases</u> | Ending Balance <u>12/31/2019</u> |
|--|--|---------------------|------------------|--|
| Non-Depreciable Assets | | | | |
| Land | \$ 10,339,029 | \$ - | \$ - | \$ 10,339,029 |
| Construction in progress | 2,429,202 | 6,282,808 | - | 8,712,010 |
| Other Capital Assets | | | | |
| Buildings and improvements | 9,151,215 | 8,780 | - | 9,159,995 |
| Library building and contents | 8,220,760 | 92,645 | (187,945) | 8,125,460 |
| Police building contents | 5,619,409 | - | - | 5,619,409 |
| Machinery, vehicles and equipment | 4,725,398 | 438,241 | (503,697) | 4,659,942 |
| Infrastructure | 82,073,298 | - | - | 82,073,298 |
| Less: accumulated depreciation | | | | |
| Accumulated depreciation on capital assets | <u>(44,072,806)</u> | <u>(2,319,289)</u> | <u>691,642</u> | <u>(45,700,453)</u> |
| Total Government-wide | <u>\$ 78,485,505</u> | <u>\$ 4,503,185</u> | <u>\$ -</u> | <u>\$ 82,988,690</u> |

Major capital asset events during the 2019 fiscal year included the following: new vehicles and machinery, computers and related equipment, library collection additions, road and park improvements, inlet repairs, municipal building construction, and signalization. In prior years many of the capital asset events were the same - for example, every year the municipality makes road improvements; however, the scope of these projects changes from year to year and is based on need, competing projects, and resource availability. It is expected that asset value will increase in the next few years, for the reasons already discussed, but also as the municipality acquires open space, develops the naval base, and makes planned improvements or replacements to its infrastructure.

Long Term Debt - At the end of 2019, Horsham Township had a total bonded debt outstanding of approximately \$4.820 million for the library, \$4.055 million for capital improvements, and a non-interest-bearing note with Montgomery County for the 2015 purchase of emergency radio equipment over five years for \$500,700 which will conclude in 2020. The outstanding debt of the municipality is backed by the full faith and credit of the government. During the time period covered by his audit Horsham Township maintained an Aa1 rating on the Township's General Obligation bonds from Moody's Investor's Service.

HORSHAM TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Horsham Township does not operate in an independent, isolated economy. It is part of a much larger regional, national, and world economy. It is economically interdependent: forces and events that occur far beyond the municipality's boundaries impact the local government. This occurs in both subtle and obvious ways. Horsham Township officials considered many obvious and subtle economic factors when it formulated recent budgets and will continue to do so in the formulation of future budgets.

Three economic factors that were considered in the budget process are employment rates, the real estate market, and petroleum prices. First, there is the employment rate. Employment rates are important for several reasons. First, the rate impacts the number of wage earners eligible to pay - and the amount of - employment taxes such as the earned income tax and the local services tax. Second, lower employment rates make it more difficult for other municipalities to raise tax revenue; creating added pressure for other municipalities to pass taxes and ultimately decreasing the amount that Horsham Township can collect. Third, employment rates affect the value of property, the value of property impacting revenue that can be generated from the real estate transfer tax and property tax.

The first economic factor is the number of wage earners eligible to pay and the amount of employment taxes each pays toward the earned income tax and the local services tax. According to statistics provided by the municipality's earned income tax collector, H. A. Berkheimer, the top ten largest employers, as reported by the earned income tax collector for the first quarter of 2019, were the following: United Parcel Service (2,440), Comcast of Willow Grove (1,222), Toll Bros., Inc. (940), Johnson & Johnson Services (895), Hatboro-Horsham School District (833), Reed Technology & Information Service (699), Arris Global (661), Penn Mutual Payroll Administration (605), Quest Diagnostics (602), and United Healthcare Services (596).

A second economic factor is the real estate market. A property owner's ability to pay for and impacts housing prices, and this in turn affects the amount of taxes collected by the municipality. The taxes most directly affected by this potential problem are the real estate transfer tax and property taxes.

A third economic factor is gas prices. The price of gasoline directly impacts the cost of operating municipal vehicles, purchasing and delivering road materials, and often necessitates the payment of a fuel surcharge on routine purchases. In short, in order to maintain the same level of municipal services there may become a need for additional revenue to offset spikes in gas prices.

These are just three economic factors that affect Horsham Township's municipal budgets. There are many more. The challenge for now and in the foreseeable future is for Township officials to identify the factors and work toward maximizing the effectiveness and efficiency of its organization so that both Horsham Township's annual budget and its tax rates are maintained at current, stable levels.

Requests for Information

This fiscal report is designed to give our citizens, taxpayers, customers, investors and creditors a general overview of the Township's finances and to show the Township's accountability for the money it receives. Questions concerning any of the information should be addressed to the Township Manager, Horsham Township, 1025 Horsham Road, Horsham, PA 19044.

HORSHAM TOWNSHIP

STATEMENT OF NET POSITION

December 31, 2019

| | <u>Primary Government</u> <u>Governmental</u> <u>Activities</u> |
|---|---|
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 2,484,636 |
| Investments | 13,575,827 |
| Receivables | 3,514,573 |
| Land | 10,339,029 |
| Construction in progress | 8,712,010 |
| Other capital assets (net of accumulated depreciation) | <u>63,937,651</u> |
| Total Assets | <u>102,563,726</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Deferred outflows of resources for non-uniform pension | 861,420 |
| Deferred outflows of resources for police pension | 1,414,044 |
| Deferred outflows of resources for OPEB | <u>1,858,595</u> |
| Total Deferred Outflows of Resources | <u>4,134,059</u> |
| <u>LIABILITIES</u> | |
| Accounts payable and other current liabilities | 556,204 |
| Accrued interest payable | 60,912 |
| Non-current liabilities: | |
| Due within one year | 345,154 |
| Due after one year | <u>34,405,875</u> |
| Total Liabilities | <u>35,368,145</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Deferred inflows of resources for non-uniform pension | 21,427 |
| Deferred inflows of resources for police pension | 1,103,195 |
| Deferred inflows of resources for OPEB | <u>1,271,280</u> |
| Total Deferred Inflows of Resources | <u>2,395,902</u> |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 73,960,567 |
| Restricted for: | |
| Library | - |
| Highway and streets | 2,953,125 |
| Street light /fire hydrant | 381,277 |
| Capital projects | - |
| Unrestricted | <u>(8,361,231)</u> |
| Total Net Position | <u>\$ 68,933,738</u> |

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

HORSHAM TOWNSHIP

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

| | <u>Governmental Activities</u> | | |
|---|--------------------------------|-----------------------------|---------------------------------|
| | <u>Total</u> | <u>Adminis- trative</u> | <u>Licenses and Permits</u> |
| Expenses: | | | |
| Program expenses | \$ 19,551,493 | \$ 5,511,142 | \$ 1,057,032 |
| Depreciation | 2,319,289 | 46,249 | 2,021 |
| Interest on debt | 296,274 | 296,274 | - |
| Total Expenses | <u>22,167,056</u> | <u>5,853,665</u> | <u>1,059,053</u> |
| Program Revenues: | | | |
| Charges for services | 2,202,800 | 124,438 | 1,296,605 |
| Operating grants and contributions | 2,075,390 | 21,496 | - |
| Capital grants and contributions | 38,400 | - | - |
| Total Program Revenues | <u>4,316,590</u> | <u>145,934</u> | <u>1,296,605</u> |
| Net (Expense) Revenue | (17,850,466) | (5,707,731) | 237,552 |
| General Revenues: | | | |
| Taxes: | | | |
| Property | 2,791,612 | | |
| Transfer | 883,120 | | |
| Local and enabling act | 11,020,422 | | |
| Franchise fees | 574,392 | | |
| Grants and contributions not restricted to specific programs | 5,813 | | |
| Investment income | 677,349 | | |
| Gain (loss) on sale of capital assets | 4,604 | | |
| Miscellaneous | 156,753 | | |
| Total General Revenues | <u>16,114,065</u> | | |
| Change in Net Position | (1,736,401) | | |
| Net Position - Beginning | <u>70,670,139</u> | | |
| Net Position - Ending | <u>\$ 68,933,738</u> | | |

| <u>Governmental Activities</u> | | |
|--|-------------------------|--------------------------------|
| <u>Police and Emergency Services</u> | <u>Public Works</u> | <u>Library & Parks</u> |
| \$ 8,559,921 | \$ 2,615,421 | \$ 1,807,977 |
| 411,224 | 1,341,136 | 518,659 |
| - | - | - |
| <u>8,971,145</u> | <u>3,956,557</u> | <u>2,326,636</u> |
| 167,114 | 491,521 | 123,122 |
| 854,249 | 1,094,698 | 104,947 |
| - | 15,000 | 23,400 |
| <u>1,021,363</u> | <u>1,601,219</u> | <u>251,469</u> |
| (7,949,782) | (2,355,338) | (2,075,167) |

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

HORSHAM TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2019

| | General | Capital Improvement |
|---|--------------|------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 2,012,912 | \$ - |
| Investments | 2,121,146 | 6,481,749 |
| Receivables | 2,579,816 | - |
| Loan receivable from Fire Company | - | 130,000 |
| Revolving loan receivable | - | 91,500 |
| Interest receivable from Fire Company | - | 9,206 |
| Interest receivable on revolving loan | - | 2,237 |
| Total Assets | \$ 6,713,874 | \$ 6,714,692 |
| <u>LIABILITIES</u> | | |
| Accounts payable and accrued wages | \$ 440,233 | \$ 53,763 |
| Total Liabilities | 440,233 | 53,763 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | |
| Unavailable revenue - property taxes | 11,396 | - |
| Unavailable revenue - special assessments | - | - |
| Total Deferred Inflows of Resources | 11,396 | - |
| <u>FUND BALANCE</u> | | |
| Restricted for: | | |
| Capital projects | - | - |
| Street and highways | - | - |
| Libraries | - | - |
| Street light /fire hydrant | - | - |
| Committed for: | | |
| Storm water | - | - |
| Capital projects | - | 6,660,929 |
| Park and recreation | - | - |
| Unassigned | 6,262,245 | - |
| Total Fund Balances | 6,262,245 | 6,660,929 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 6,713,874 | \$ 6,714,692 |

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 471,724 | \$ 2,484,636 |
| 4,972,932 | 13,575,827 |
| 12,970 | 2,592,786 |
| - | 130,000 |
| - | 91,500 |
| - | 9,206 |
| - | 2,237 |
| <u>\$ 5,457,626</u> | <u>\$ 18,886,192</u> |

| | |
|------------------|-------------------|
| <u>\$ 62,208</u> | <u>\$ 556,204</u> |
| <u>62,208</u> | <u>556,204</u> |

| | |
|--------------|---------------|
| 7,337 | 18,733 |
| <u>1,206</u> | <u>1,206</u> |
| <u>8,543</u> | <u>19,939</u> |

| | |
|------------------|-------------------|
| - | - |
| 2,953,125 | 2,953,125 |
| 932,683 | 932,683 |
| 381,277 | 381,277 |
| 51,626 | 51,626 |
| 734,457 | 7,395,386 |
| 333,707 | 333,707 |
| - | 6,262,245 |
| <u>5,386,875</u> | <u>18,310,049</u> |

| | |
|---------------------|----------------------|
| <u>\$ 5,457,626</u> | <u>\$ 18,886,192</u> |
|---------------------|----------------------|

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

HORSHAM TOWNSHIP

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

For the Year Ended December 31, 2019

Amounts reported for governmental activities in the statement of net position (page 21) are different because:

Total fund balances-total governmental funds (pages 24-25) \$ 18,310,049

Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds.

| | | |
|--------------------------|---------------------|------------|
| Cost of capital assets | \$ 128,689,143 | |
| Accumulated depreciation | <u>(45,700,453)</u> | 82,988,690 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds 688,844

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. 19,939

Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

| | | |
|--|--------------------|-----------|
| Deferred outflows of resources - non-uniform pension | 861,420 | |
| Deferred outflows of resources - police pension | 1,414,044 | |
| Deferred outflows of resources - OPEB | 1,858,595 | |
| Deferred inflows of resources - non-uniform pension | (21,427) | |
| Deferred inflows of resources - police pension | (1,103,195) | |
| Deferred inflows of resources - OPEB | <u>(1,271,280)</u> | 1,738,157 |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.

Other post retirement benefits (19,823,618)

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 | (8,975,154) | |
| Unamortized bond premium | (52,969) | |
| Interest payable | (60,912) | |
| Net pension liability | (5,713,632) | |
| Compensated absences | <u>(185,656)</u> | <u>(14,988,323)</u> |

Net position of the governmental activities (page 21) \$ 68,933,738

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

HORSHAM TOWNSHIP

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

For the Year Ended December 31, 2019

| | <u>General</u> | <u>Capital Improvement</u> |
|---|---------------------|--------------------------------|
| Revenues | | |
| Taxes: | | |
| Property | \$ 1,583,561 | \$ - |
| Transfer | 883,120 | - |
| Earned income tax | 9,394,366 | - |
| Local service tax | 1,536,568 | - |
| Fees, licenses and permits | 602,357 | - |
| Investment income and rent | 160,542 | 287,219 |
| Intergovernmental revenues | 1,136,787 | 23,400 |
| Fines and forfeitures | 147,442 | - |
| Charges for services | 1,459,620 | - |
| Other | 130,638 | - |
| Total Revenues | <u>17,035,001</u> | <u>310,619</u> |
| Expenditures | | |
| Current: | | |
| General government | 1,276,060 | - |
| Public safety | 7,833,692 | - |
| Highways and roads | 1,550,026 | - |
| Library and parks | 708,324 | - |
| Miscellaneous | 4,658,181 | - |
| Debt service: | | |
| Principal | 100,154 | - |
| Interest | 539 | 207,575 |
| Capital projects | 296,993 | 7,004,098 |
| Total Expenditures | <u>16,423,969</u> | <u>7,211,673</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>611,032</u> | <u>(6,901,054)</u> |
| Other Financing Sources (Uses) | | |
| Proceeds from sale of capital assets | 900 | - |
| Transfers in | - | 781,800 |
| Transfers out | <u>(781,800)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(780,900)</u> | <u>781,800</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources (Uses) | (169,868) | (6,119,254) |
| Fund Balance - Beginning | <u>6,432,113</u> | <u>12,780,183</u> |
| Fund Balance - Ending | <u>\$ 6,262,245</u> | <u>\$ 6,660,929</u> |

| <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---|
| \$ 1,188,112 | \$ 2,771,673 |
| - | 883,120 |
| - | 9,394,366 |
| - | 1,536,568 |
| - | 602,357 |
| 229,588 | 677,349 |
| 925,613 | 2,085,800 |
| 20,855 | 168,297 |
| 98,260 | 1,557,880 |
| 508,576 | 639,214 |
| <u>2,971,004</u> | <u>20,316,624</u> |
| - | 1,276,060 |
| 60,870 | 7,894,562 |
| 1,119,578 | 2,669,604 |
| 794,345 | 1,502,669 |
| 7,963 | 4,666,144 |
| 160,000 | 260,154 |
| 123,500 | 331,614 |
| 493,294 | 7,794,385 |
| <u>2,759,550</u> | <u>26,395,192</u> |
| <u>211,454</u> | <u>(6,078,568)</u> |
| 3,704 | 4,604 |
| 284,039 | 1,065,839 |
| <u>(284,039)</u> | <u>(1,065,839)</u> |
| <u>3,704</u> | <u>4,604</u> |
| 215,158 | (6,073,964) |
| <u>5,171,717</u> | <u>24,384,013</u> |
| <u>\$ 5,386,875</u> | <u>\$ 18,310,049</u> |

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

HORSHAM TOWNSHIP

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

For the Year Ended December 31, 2019

Amounts reported for governmental activities in the statement of activities (pages 22-23)
are different because:

| | |
|--|----------------|
| Net change in fund balances-total governmental funds (pages 26-27) | \$ (6,073,964) |
|--|----------------|

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 | \$ 6,822,474 | |
| Depreciation expense | <u>(2,319,289)</u> | 4,503,185 |

| | |
|---|---------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 109,427 |
|---|---------|

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 issuance costs, 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 | 265,154 | |
| Amortization expense | <u>2,013</u> | 267,167 |

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.

| | | |
|--|---------------|------------------|
| Net pension liability and deferred items | 370,458 | |
| Net OPEB liability and deferred items | (927,220) | |
| Compensated absences | (14,320) | |
| Interest expense | <u>28,866</u> | <u>(542,216)</u> |

| | |
|---|-----------------------|
| Change in net position of governmental activities (pages 22-23) | <u>\$ (1,736,401)</u> |
|---|-----------------------|

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

HORSHAM TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND - (CASH BASIS)

For the Year Ended December 31, 2019

| | GENERAL FUND | | | Variance with Final Budget - Over (Under) |
|---|--------------------|--------------------|---------------------|---|
| | Budgeted Amounts | | ACTUAL | |
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property | \$ 1,581,500 | \$ 1,581,500 | \$ 1,587,001 | \$ 5,501 |
| Transfer | 750,000 | 750,000 | 872,861 | 122,861 |
| Earned income tax | 8,810,000 | 8,931,567 | 9,407,502 | 475,935 |
| Local tax enabling act | 1,423,000 | 1,423,000 | 1,531,677 | 108,677 |
| Fees, licenses and permits | 595,850 | 595,850 | 609,192 | 13,342 |
| Investment income and rent | 64,000 | 64,000 | 160,541 | 96,541 |
| Intergovernmental revenues | 913,579 | 913,579 | 1,136,787 | 223,208 |
| Fines and forfeitures | 145,000 | 145,000 | 155,323 | 10,323 |
| Charges for services | 910,500 | 910,500 | 1,508,649 | 598,149 |
| Other | 156,700 | 156,700 | 131,730 | (24,970) |
| Total Revenues | <u>15,350,129</u> | <u>15,471,696</u> | <u>17,101,263</u> | <u>1,629,567</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,635,875 | 1,703,875 | 1,330,660 | (373,215) |
| Public safety | 9,804,916 | 9,842,709 | 9,290,511 | (552,198) |
| Highways and roads | 1,941,950 | 1,957,724 | 1,483,448 | (474,276) |
| Library and parks | 826,500 | 826,500 | 705,477 | (121,023) |
| Miscellaneous | 3,387,407 | 3,387,407 | 3,163,564 | (223,843) |
| Capital projects | 418,181 | 418,181 | 392,663 | (25,518) |
| Debt service | 208,575 | 208,575 | 207,575 | (1,000) |
| Total Expenditures | <u>18,223,404</u> | <u>18,344,971</u> | <u>16,573,898</u> | <u>(1,771,073)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(2,873,275)</u> | <u>(2,873,275)</u> | <u>527,365</u> | <u>3,400,640</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers out | <u>(1,104,124)</u> | <u>(1,104,124)</u> | <u>(574,225)</u> | <u>529,899</u> |
| Total Other Financing Sources (Uses) | <u>(1,104,124)</u> | <u>(1,104,124)</u> | <u>(574,225)</u> | <u>529,899</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources (Uses) | <u>(3,977,399)</u> | <u>(3,977,399)</u> | <u>(46,860)</u> | <u>3,930,539</u> |
| Fund Balance - Beginning | <u>3,977,399</u> | <u>3,977,399</u> | <u>4,181,368</u> | <u>203,969</u> |
| Fund Balance - Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,134,508</u> | <u>\$ 4,134,508</u> |

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

HORSHAM TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

December 31, 2019

| | <u>Police Pension Trust Fund</u> | <u>Custodial Funds</u> | <u>Total</u> |
|---|--------------------------------------|----------------------------|--------------------------|
| <u>ASSETS</u> | | | |
| Assets | | | |
| Cash and cash equivalents | \$ 432,019 | \$ 3,675,267 | \$ 4,107,286 |
| Receivables | | | |
| Accrued interest | - | | - |
| Contributions receivable | 18,497 | - | 18,497 |
| Revolving loan receivable | - | 380,800 | 380,800 |
| Revolving loan interest receivable | - | 130,860 | 130,860 |
| Total Receivables | <u>18,497</u> | <u>511,660</u> | <u>530,157</u> |
| Investments | | | |
| Exchange -Traded Fund | <u>23,232,398</u> | <u>-</u> | <u>23,232,398</u> |
| Assets with PMRS | <u>-</u> | <u>-</u> | <u>-</u> |
| Equities | 354,969 | - | 354,969 |
| Bonds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Investments | <u>23,587,367</u> | <u>-</u> | <u>23,587,367</u> |
| TOTAL ASSETS | <u>\$ 24,037,883</u> | <u>\$ 4,186,927</u> | <u>\$ 28,224,810</u> |
| <u>LIABILITIES AND NET POSITION</u> | | | |
| Liabilities | | | |
| Escrow deposits | <u>\$ -</u> | <u>\$ 4,186,927</u> | <u>\$ 4,186,927</u> |
| Total Liabilities | <u>-</u> | <u>4,186,927</u> | <u>4,186,927</u> |
| Net Position | | | |
| Net position restricted for pension benefits | <u>\$ 24,037,883</u> | <u>\$ -</u> | <u>\$ 24,037,883</u> |

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

HORSHAM TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the Year Ended December 31, 2019

| | <u>Police Pension Trust Fund</u> |
|---|--------------------------------------|
| Additions | |
| Contributions | |
| Member contributions | \$ 218,420 |
| Employer contributions | 859,379 |
| State contributions | 609,339 |
| Total Contributions | <u>1,687,138</u> |
| Investment Income | |
| Net appreciation (depreciation) in fair value of investments | 3,659,155 |
| Interest | <u>533,825</u> |
| Total Investment Earnings | 4,192,980 |
| Less: investment expense | <u>74,525</u> |
| Net Investment Income | <u>4,118,455</u> |
| Total Additions | <u>5,805,593</u> |
| Deductions | |
| Benefit payments | 1,268,960 |
| Actuarial fees | <u>26,755</u> |
| Total Deductions | <u>1,295,715</u> |
| Change in net position | 4,509,878 |
| Net position restricted for pension benefits-beginning | <u>19,528,005</u> |
| Net position restricted for pension benefits-ending | <u>\$ 24,037,883</u> |

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

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies

A. Reporting entity

Horsham Township is a municipal corporation existing and operating under the Home Rule Charter code of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Township (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Township have been addressed. Financial accountability is present if the Township appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. There are two component units, described as entities for which the government is considered to be financially accountable.

The following component units are not included in the financial statements:

Horsham Fire Company

Horsham Land Redevelopment Authority

Horsham Township Charitable Foundation

Complete financial statements for the Horsham Fire Company may be obtained at the entity's administrative offices located at the following address: Horsham Fire Company No. 1, 315 Meetinghouse Road, Horsham, PA 19044. Complete financial statements for the Horsham Land Redevelopment Authority and the Horsham Township Charitable Foundation and may be obtained at the Township Building located at 1025 Horsham Road, Horsham, PA 19044.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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.

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.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

The *capital improvement fund* is used to account for financial resources for property acquisition and the development and construction of major capital facilities.

The government reports the following fiduciary fund types:

The *pension trust fund* accounts for the activities of the Police Pension plan, which accumulate resources for pension benefit payments to qualified employees.

The *custodial fund* accounts for monies held by the Township on a purely custodial basis. Assets in the custodial fund equal liabilities.

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. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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 Police Pension Trust Fund, 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. 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 asset, 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 government invests in obligations and agencies of the United States of America. These investments are comprised primarily of U.S. Treasury obligations. The government recognizes interest rate risk and extension risk with some of these obligations. The government has stratified their portfolio so that the investments with extension risk are comprised of monies needed on a long-term basis. Investments with interest rate risk are selected so that the risk of interest decline below area savings account rates is minimal.

The law provides that the government's Police Pension Trust Fund 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 pool's amortized cost-based net asset value per share, which approximates fair value. There are no limitations or restrictions on withdrawals.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

2. *Receivables and payables*

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. At December 31, 2019, all trade receivables were deemed to be fully collectible. The property tax receivable allowance is equal to 2% of outstanding property taxes at December 31, 2019.

Property taxes are levied as of January 1 on property values assessed as of the same date. Any change to the January 1 amount is handled as an interim bill or credit. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 1; face amount May 1 through June 30; and a 10% penalty thereafter. Any unpaid bills at December 31 are subject to lien, with the exception of interim bills dated after September 1, and penalties and interest are assessed. The Township employs an appointed tax collector to collect the property tax levied. The tax collector remits Township taxes several times per month and is paid a salary.

3. *Use of estimates*

The preparation of the financial statements in conformity with 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.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 municipal owned items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of at least \$5,000 (amount not rounded) 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 acquisition 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Prior to January 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets have been valued at estimated historical cost. Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and improvements | 45 |
| Roads and bridges | 75 |
| Storm sewers | 100 |
| Library collection | 7 |
| Lighting | 20 |
| Machinery, vehicles and equipment | 5-25 |

5. *Compensated absences*

The Township does not allow employees to carry over sick pay until retirement. However, vacation pay can be carried over, on a limited basis, from year-to-year. As such, a liability for compensated absences has been included in the government-wide financial statements.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

6. *Long-term obligations*

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

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

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 the following items that qualify for reporting in this category:

1. *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.
2. *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.
3. *Pension contributions made after the measurement date* is reported in the government-wide statement of net position. The pension measurement date is December 31, 2018. These amounts are deferred and recognized as an outflow of resources in the next period.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

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

4. *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. This amount is deferred and amortized over a five-year period.

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 the following items that qualify for reporting in this category.

1. *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.
2. *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. This amount is deferred and amortized over a five-year period.
3. *Changes in assumptions-pension plan* 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 inflow of resources in the period that the amount becomes available.
4. *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 inflow of resources in the period that the amounts become available.
5. *Differences between expected and actual experience on OPEB 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 inflow of resources in the period that the amounts become available.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

8. *Fund equity*

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 can consist 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.

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 Council. 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. The governing body, the Township Council, has by resolution authorized the finance director to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

I. Summary of significant accounting policies (Continued)

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

8. Fund equity (continued)

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.

9. 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.

| | |
|---|----------------------|
| Net Investment in Capital Assets | |
| Capital assets not being depreciated | \$ 19,051,039 |
| Capital assets being depreciated, net of accumulated depreciation | 63,937,651 |
| Less: Long-term debt outstanding | (8,975,154) |
| Less: Unamortized debt premium | <u>(52,969)</u> |
| Total Net Investment in Capital Assets | <u>\$ 73,960,567</u> |

E. 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 to be released.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 appropriations lapse at year end.

During the 4th quarter of the fiscal year, the Township holds budget hearings for the purpose of receiving oral and written comments from interested parties in regard to the proposed operating budget for the following year. The Township makes available to the public its proposed operating budget for all funds. The Operating budget includes expenditures and the means of financing them. The Board holds public hearings and a final budget must be prepared and adopted by Council with or without amendment on or before the twentieth of December and shall become effective immediately upon adoption and shall constitute for the ensuing year appropriations of the amounts specified therein as expenditures from the funds indicated and shall constitute a levy of the taxes therein proposed, and shall be published immediately.

All budget revisions require the approval of the Township Council. At any time during the fiscal year at the request of the Manager, Council may, by resolution, transfer part or all of any unencumbered balance appropriated to a department, office, agency or other organizational level to another. Also, Council may amend the budget at any time during the fiscal year by ordinance, provided that such amendment shall not result in expenditures exceeding the estimated income, except that, if there is available unencumbered revenues in excess of those estimated in the budget, Council may by ordinance, make supplemental appropriations not to exceed such excess. At year end, the Board passes a resolution to move under expended funds to over expended categories. The budgetary information in these financial statements includes these amendments.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year end lapse.

Budget for the General and Library Operating Funds are adopted on the cash basis of accounting. The following is a reconciliation of Excess (Deficiency) of Revenues over Expenditures from cash basis (budget basis) to modified accrual basis.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

II. Stewardship, compliance, and accountability (Continued)

A. Budgetary information (continued)

| | <u>General</u> |
|--|---------------------|
| Budgetary (Cash) Basis | \$ (46,860) |
| Accrued revenues at December 31, 2018 | (2,644,317) |
| Accrued revenues at December 31, 2019 | 2,568,848 |
| Accrued liabilities at December 31, 2018 | 393,142 |
| Accrued liabilities at December 31, 2019 | <u>(445,736)</u> |
| GAAP Basis | <u>\$ (174,923)</u> |

B. Excess of expenditures over appropriations

For the year ended December 31, 2019, expenditures did not exceed appropriations in any category of the general fund or in the library operating.

III. Detailed notes on all funds

A. Deposits and investments

Custodial credit risk - deposits

Horsham Township had the following depository accounts. All deposits are carried at cost plus accrued interest. The government passes an annual depository resolution. 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.

The investment in externally pooled investments and certificates of deposit are considered cash equivalents due to the short maturities of those investments and are included above. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the pool's amortized cost-based net asset value per share, which approximates fair value. There are no limitations or restrictions on withdrawals.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

A. Deposits and investments (continued)

As of December 31, 2019, the government had the following investments:

| | | <u>Maturities in Years</u> | | |
|-------------------------------|----------------------|----------------------------|---------------------|-------------------|
| | | <u>< 1 year</u> | <u>1-5 years</u> | <u>5-10 years</u> |
| GOVERNMENTAL FUNDS | | | | |
| Externally Pooled Investments | \$ 5,262,817 | \$ 5,262,817 | \$ - | \$ - |
| Certificates of Deposit | <u>8,313,010</u> | <u>1,481,510</u> | <u>6,831,500</u> | <u>-</u> |
| Total Governmental Funds | <u>\$ 13,575,827</u> | <u>\$ 6,744,327</u> | <u>\$ 6,831,500</u> | <u>\$ -</u> |
| FIDUCIARY FUNDS | | | | |
| Exchange-Traded Fund | \$ 23,232,398 | \$ 23,232,398 | \$ - | \$ - |
| Externally Pooled Investments | 2,018,786 | 2,018,786 | - | - |
| Certificates of Deposit | <u>2,088,500</u> | <u>275,000</u> | <u>1,813,500</u> | <u>-</u> |
| Total Fiduciary Funds | <u>\$ 27,339,684</u> | <u>\$ 25,526,184</u> | <u>\$ 1,813,500</u> | <u>\$ -</u> |

Interest rate risk: This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The government frequently uses short-term investments with less than one-year maturity as a means of managing its exposure to fair value losses arising from increasing and decreasing interest rates.

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's investment policy (when not in violation of state law) requires for fixed income securities (here defined as bonds, preferred stocks, and money market instruments) to perform above its peer group (those maintaining portfolios of similar term structure and credit quality). The government's investment in the external investment pool was rated AAAM by Standard & Poor's.

Concentration of credit risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the government's policy that the pension investment portfolio should hold no more than 5% of the fixed income securities be invested in one issuer except U. S. Treasury securities or AAA-rated securities issued by government-sponsored enterprises (upon which there is no limit). Asset allocation is set at 55% equities, 40% fixed income (+ or - 15%) and 5% cash equivalents (+ or - 5%) and should be diversified among capitalization ranges, and between domestic and international equities.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

A. Deposits and investments (continued)

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 does not have a deposit policy for custodial credit risk. As of December 31, 2019, the government's carrying amount of deposits was \$2,575,636 and the bank balance was \$3,559,166. Of the bank balance, \$250,000 was covered by federal depository insurance. Any balances exceeding federal 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. Any financial institution holding more than \$250,000 in Township funds must provide the municipality with information that it is in compliance with Act 72.

Investment Pool - The Township has carrying deposits in external investment pools, held with PLGIT Bank. These deposits are considered cash equivalents because of their short maturity dates and are included in the carrying amount of deposits disclosed above. These deposits are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The investment in the pool is the same as the value of the pool shares and is reported at amortized cost, which approximates fair value. PLGIT activities are invested directly in a portfolio of securities, which are held by a third-party custodian. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania. The Township can withdraw funds from the external investment pool without limitation or fees upon adequate notice. The investment pool was rated AAAM by Standard & Poor's and has average maturities of less than 30 days. The Investment Pool operates in accordance with appropriate state laws and regulations.

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. All investments are "held in the name of the government" and thus not exposed to custodial credit risk.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

A. Deposits and investments (continued)

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, 2019:

FIDUCIARY FUNDS

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-----------------------|----------------------|----------------------|----------------|----------------|
| Exchange-Traded Fund | \$ 23,232,398 | \$ 23,232,398 | \$ - | \$ - |
| State Investment Pool | <u>2,018,786</u> | <u>2,018,786</u> | <u>-</u> | <u>-</u> |
| Total Fiduciary Funds | <u>\$ 25,251,184</u> | <u>\$ 25,251,184</u> | <u>\$ -</u> | <u>\$ -</u> |

B. Receivables

Receivables as of year-end for the government's individual major funds and non-major and fiduciary funds in the aggregate are as follows:

| | <u>General</u> | <u>Capital Improvement</u> | <u>Nonmajor and Other Funds</u> | <u>Custodial Funds</u> | <u>Total</u> |
|-------------------------|---------------------|--------------------------------|---|----------------------------|---------------------|
| Receivables: | | | | | |
| Taxes | \$ 2,400,622 | \$ - | \$ - | \$ - | \$ 2,400,622 |
| Accounts | 179,194 | - | 12,970 | - | 192,164 |
| Loan from Fire Company | - | 130,000 | - | - | 130,000 |
| Loan from Horsham | | | | | |
| Redevelopment Authority | - | 91,500 | - | 380,800 | 472,300 |
| Interest from Fire Co. | - | 9,206 | - | - | 9,206 |
| Interest from Horsham | | | | | |
| Redevelopment Authority | <u>-</u> | <u>2,237</u> | <u>-</u> | <u>130,860</u> | <u>133,097</u> |
| Total Receivables | <u>\$ 2,579,816</u> | <u>\$ 232,943</u> | <u>\$ 12,970</u> | <u>\$ 511,660</u> | <u>\$ 3,337,389</u> |

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

B. Receivables (continued)

Horsham Fire Company Term Note

Horsham Fire Company borrowed \$975,000 from Horsham Township for the construction of a new fire house and related facilities located at 1023 Horsham Road, Horsham, Pennsylvania. The purpose for which the Note proceeds may be used will include, without limitation, any and all site improvements, public improvements, public improvements, land development, construction of a new fire house facility and acquisition and installation of fixtures and equipment necessary for firefighting purposes. The Fire Company has agreed to pay interest on the unpaid balance of principal at a per annum rate equivalent to 65% of the New York Prime Rate as set forth in the Wall Street Journal, adjusted from time to time. The annual interest rate is computed on a 365/365-day basis, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal is outstanding. Each annual payment hereunder shall be comprised of a principal payment in the amount of \$65,000 plus all accrued but unpaid interest calculated at the aforesaid rate up to June 1 of the year in which the payment is due. At December 31, 2019, the rate was 4.75%. The interest receivable at December 31, 2019 was \$ 9,206.

The Authority has a tax exempt demand note securing a revolving line of credit with Horsham Township. The principal balance outstanding shall not exceed \$750,000 at any single time. As collateral security, the Authority grants Horsham Township a security interest in, a lien upon and a right of set-off against all funds, balances or other property of any kind that the Authority has an interest in or custody of. The Authority has agreed to pay interest on the unpaid balance of principal at a per annum rate equivalent to 65% of the New York Prime Rate as set forth in the *Wall Street Journal*, adjusted from time to time. The annual interest rate is computed on a 365/365-day basis, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal is outstanding. At December 31, 2019, the rate was 4.75%. The interest receivable at December 31, 2019 was \$ 133,097.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

C. Capital assets

Capital asset activity for the year ended December 31, 2019 was as follows:

| | Beginning <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | Ending <u>Balance</u> |
|--|-----------------------------|---------------------|------------------|--------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 10,339,029 | \$ - | \$ - | \$ 10,339,029 |
| Construction in progress | <u>2,429,202</u> | <u>6,282,808</u> | <u>-</u> | <u>8,712,010</u> |
| Total capital assets, not being depreciated | <u>12,768,231</u> | <u>6,282,808</u> | <u>-</u> | <u>19,051,039</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 9,151,215 | 8,780 | - | 9,159,995 |
| Library building and contents | 8,220,760 | 92,645 | (187,945) | 8,125,460 |
| Police building contents | 5,619,409 | - | - | 5,619,409 |
| Machinery, vehicles and equipment | 4,725,398 | 438,241 | (503,697) | 4,659,942 |
| Infrastructure | <u>82,073,298</u> | <u>-</u> | <u>-</u> | <u>82,073,298</u> |
| Total capital assets being depreciated | <u>109,790,080</u> | <u>539,666</u> | <u>(691,642)</u> | <u>109,638,104</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 3,349,874 | 312,223 | - | 3,662,097 |
| Library building and contents | 3,345,839 | 281,093 | (187,945) | 3,438,987 |
| Police building contents | 1,238,449 | 136,020 | - | 1,374,469 |
| Machinery, vehicles and equipment | 3,559,372 | 542,305 | (503,697) | 3,597,980 |
| Infrastructure | <u>32,579,272</u> | <u>1,047,648</u> | <u>-</u> | <u>33,626,920</u> |
| Total accumulated depreciation | <u>44,072,806</u> | <u>2,319,289</u> | <u>(691,642)</u> | <u>45,700,453</u> |
| Total capital assets, being depreciated, net | <u>65,717,274</u> | <u>(1,779,623)</u> | <u>-</u> | <u>63,937,651</u> |
| Governmental-type activities capital assets, net | <u>\$ 78,485,505</u> | <u>\$ 4,503,185</u> | <u>\$ -</u> | <u>\$ 82,988,690</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|-------------------------------|---------------------|
| Governmental Activities: | |
| Administrative | \$ 46,249 |
| Licenses and permits | 2,021 |
| Police and emergency services | 411,224 |
| Public works | 1,341,136 |
| Library and parks | <u>518,659</u> |
| Total | <u>\$ 2,319,289</u> |

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

D. Interfund receivables, payables, and transfers

Interfund transfers:

| | <u>Transfers out</u> | <u>Transfers In</u> |
|--------------------------|----------------------|---------------------|
| General fund | \$ 781,800 | \$ - |
| Library operating fund | 284,039 | - |
| Capital improvement fund | - | 781,800 |
| Non-major fund | - | 284,039 |
| Total | <u>\$ 1,065,839</u> | <u>\$ 1,065,839</u> |

Transfers are used to (1) move revenue from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Leases

Operating Leases

The government leases many pieces of office equipment under non-cancelable operating leases. Total liabilities under these leases are considered immaterial to the financial statements.

F. Long-term debt

General Obligation Bonds and Notes

The bond is subject to redemption prior to maturity at the option of the Township, as described in the Trust Indenture.

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. In 2016, The Township issued \$5,540,000 in general obligation bond used for the current refunding of the Township's GO Bond Series 2011 and costs of issuing the bonds. The coupon rate of the new debt ranges from 2%-3% through 2042. In 2018, The Township issued \$4,060,000 in general obligation bond used for the construction of the new municipal complex. The coupon rate of the new debt ranges from 3%-5% through 2042.

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. These bonds are generally issued as 15-20 year serial bonds with varying amounts of principal maturing each year.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

F. Long-term debt (continued)

General obligation bond currently outstanding is as follows:

In 2015, the Township entered into a non-interest bearing note with Montgomery County for the amount of \$500,700 for the purpose of purchasing radio equipment for the Township's police, fire and emergency personnel. The notes will be paid in five annual installments.

| <u>Purpose</u> | <u>Rates</u> | <u>Amount</u> |
|-------------------------|--------------|---------------------|
| Governmental Activities | 0.0% to 5.0% | \$ <u>8,975,154</u> |

Annual debt service requirements to maturity for the general obligation bond and note are as follows:

| <u>Year</u> | <u>Bond Payable</u> | | <u>Total</u> | <u>Note Payable</u> |
|-------------|---------------------|---------------------|----------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | | <u>Principal</u> |
| 2020 | \$ 245,000 | \$ 274,656 | \$ 519,656 | \$ 100,154 |
| 2021 | 245,000 | 267,506 | 512,506 | - |
| 2022 | 255,000 | 260,206 | 515,206 | - |
| 2023 | 265,000 | 252,556 | 517,556 | - |
| 2024 | 275,000 | 244,556 | 519,556 | - |
| 2025-2029 | 1,450,000 | 1,122,380 | 2,572,380 | - |
| 2030-2034 | 1,665,000 | 909,996 | 2,574,996 | - |
| 2035-2039 | 1,935,000 | 631,074 | 2,566,074 | - |
| 2040-2044 | 1,700,000 | 301,144 | 2,001,144 | - |
| 2045-2048 | <u>840,000</u> | <u>77,394</u> | <u>917,394</u> | <u>-</u> |
| Total | <u>\$ 8,875,000</u> | <u>\$ 4,341,468</u> | <u>\$ 13,216,468</u> | <u>\$ 100,154</u> |

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2019 was as follows:

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

III. Detailed notes on all funds (Continued)

F. Long-term debt (continued)

| | Beginning | | | Ending | Due Within |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|-------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> | <u>One Year</u> |
| Governmental activities: | | | | | |
| Bonds payable | \$ 9,040,000 | \$ - | \$ 165,000 | \$ 8,875,000 | \$ 245,000 |
| Deferred amount: | | | | | |
| On debt issuance | <u>54,982</u> | <u>-</u> | <u>2,013</u> | <u>52,969</u> | <u>-</u> |
| Total Bonds Payable | 9,094,982 | - | 167,013 | 8,927,969 | 245,000 |
| Note payable | 200,308 | - | 100,154 | 100,154 | 100,154 |
| Compensated absences | 171,336 | 31,601 | 17,281 | 185,656 | - |
| Net pension liability | 6,481,889 | 5,241,696 | 6,009,953 | 5,713,632 | - |
| OPEB obligation | <u>16,840,093</u> | <u>2,983,525</u> | <u>-</u> | <u>19,823,618</u> | <u>-</u> |
| Governmental activity | | | | | |
| Long-Term Liabilities | <u>\$ 32,788,608</u> | <u>\$ 8,256,822</u> | <u>\$ 6,294,401</u> | <u>\$ 34,751,029</u> | <u>\$ 345,154</u> |

Debt service for general obligation bonds and notes is funded primarily from real estate taxes for governmental activities and charges for service in the business type activities. Any liabilities for compensated absences, net pension liability, and net OPEB obligations are generally liquidated by the general fund. Currently, there is no net pension obligation.

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. The Township participates in the Delaware Valley Property and Liability Trust pool. The insurance expense for the year ended December 31, 2019 was \$232,488. The pooling agreement permits the pool to make additional assessments to its members. At December 31, 2019, there were no additional assessments due or anticipated; instead the pool declared a dividend of which the Township's share was \$41,260.

The Township is also a member of the Delaware Valley Workers' Compensation Trust (DVWCT), a risk retention pool. The insurance expense for the year ended December 31, 2019 was \$235,954. The Trust declared a dividend in 2019. Horsham Township's share of the dividend distribution was \$28,316. In 2019, the Township received \$11,048 as a result of the 2018 payroll audit. No additional contributions are anticipated although an audit of the reported 2019 payroll will be performed in 2020.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

A. Risk management (continued)

The Township is also a member of the Delaware Valley Health Trust (DVHT), a risk retention pool. The insurance expense for the year ended December 31, 2019 was \$1,923,790. The Trust did not declare a dividend in 2019.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. 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

The Township sponsors two defined benefit pension plans, the Non-Uniform Pennsylvania Municipal Retirement System (PMRS) Plan and the Police Pension Plan. All full time police and non-uniform employees participate in the plans. Following are details of these two plans. These Police Pension Plan is reported as Pension Trust Funds in the accompanying financial statements and does not issue stand-alone reports. The most recent actuarial valuation was as of January 1, 2019. Details below are from the valuation.

Plan Description

Police Pension Defined Benefit Pension Plan - The plan is a contributory, single employer defined benefit plan that covers all full time police officers of the township. An employee enters the plan on the day he becomes a full-time police officer. The Police Pension Advisory Committee consists of seven members who are appointed by the Township Council: four elector/citizens of the Township, the chief of police, the township manager, and a representative of the police department selected by the officers of the department.

Non-Uniform Defined Benefit Pension Plan - The Horsham Township Non-Uniform Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system, which consists of over 900 participating employer plans.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

It is the responsibility of PMRS to act as a common investment agent for participating municipal pension plan. PMRS maintains each municipality's plans separately with that municipality's contributions and related employees' contributions and account earnings and activity. Assets are held separately and may only be used for the payment of plan benefits to its members. Management of the plan is vested with PMRS, which consists of an 11 member Board - the State Treasurer, Secretary of the Commonwealth, and eight other members appointed by the Governor. All assets of the Non-Uniformed Plan are held in a trust and the assets of PMRS and, therefore, will be excluded from the Township's financial statements. The assets of the Non-Uniformed Plan will be managed by the Board of PMRS and are placed in the custody of the Treasurer of the Commonwealth. A copy of the plan's financial statements can be obtained by writing to the Pennsylvania Municipal Retirement System, PO Box 1165, Harrisburg, PA 17108.

The following table provides information concerning types of covered employees and benefit provisions for each of the Township's Plans as part of the December 31, 2019 actuarial valuation:

| | <u>Police</u> | <u>Non-Uniform</u> |
|---|---------------|--------------------|
| Inactive employees (or their beneficiaries) | | |
| currently receiving benefits | 31 | 16 |
| Inactive employees entitled to benefits | | |
| but not yet receiving them | 2 | 3 |
| Active employees (1) | <u>36</u> | <u>48</u> |
| Total Membership | <u>69</u> | <u>67</u> |

(1) includes 3 DROP members

Benefits Provided

Police Pension Defined Benefit Pension Plan: The pension plan provides retirement benefits as well as death and disability benefits. All benefits vest after 12 years of credited service. Normal retirement is for officers attaining age 50 with 25 years of service. Early retirement is available at age 45 with 10 years of service. Employees who retire at or after age 52 with 25 years of credited service are entitled to monthly retirement benefit, payable for life, in an amount equal to 50% of their final three-year average compensation plus a service increment of 2% of the final average earnings for each year of service past normal retirement up to age 65. Retirement prior to Normal Retirement Date is prorated based on completed service and is actuarially reduced for early commencement.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

If the officer dies before retirement age, the spouses receive 100% of the officer's accrued benefit payable until the spouse reaches age 65. In absence of a spouse, the officer's children receive the benefit until they reach the age of 18 (age 23 if attending college). If the member dies after retirement age, the spouse receives 50% of the benefit.

A disability pension is available to participants disabled in the line of duty. The disability pension is equal to 50% of the final average earnings, prorated on actual service over total projected service, and actuarially reduced for early commencement. If an officer is still working and past normal retirement requirements or killed in the line of duty, the Plan also provides certain death benefits to the surviving spouse and/or dependents. The amount of these benefits is 100% of the officer's accrued benefit, payable until the spouse reaches age 65. In the absence of a spouse, the officer's children receive the benefit until they reach age 18 or under the age of 23 if registered at an accredited institution of higher learning and carrying a minimum of 7 credit hours per semester. If the member dies after retirement age, the spouse receives 50% of the benefit. If there is no spouse, then the children receive the benefit.

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 less than one year or more than three years. 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-Uniform Defined Benefit Pension Plan: The pension plan provides retirement, death, and disability benefits to plan members and their beneficiaries. All benefits are vested after ten years of credited service. Normal retirement is available for plan members at age 52 with 25 years credited service or at age 65, or elect early retirement with 24 years of service. The normal retirement benefit is a monthly benefit equal to 1.25% times credit service times Final Average Salary but in no event is the basic benefit greater than 50% of Final Average Salary. Final Average Salary is based upon the last 3 years' annualized salary. Covered employees are required to contribute 3.0% of their salary to the Pension Fund. At retirement, a member may select a survivor benefit. If eligible to retire at the time of death, the beneficiary receives the present value of accrued benefits. A 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service. This benefit is offset by worker's compensation benefit. A 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

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.

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. The Non Uniform plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable securities. Police Pension Plan equity and fixed income securities are reported at fair value.

Contributions

Member contributions are determined on an annual basis. For the year ended December 31, 2019, the Police member contribution was 5% of salary. Non-Uniform members were required to contribute 3% of salary. Administrative costs, including investment manager fees, custodial trustee fees and actuarial fees, are charged to the Plans and funded through investment earnings.

The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the pensions. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. The pension plans 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.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

Contributions (continued)

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 during the year. State law requires that state aid be used first to fund the plan, then employee contribution and finally general Township funds. The Township received state aid, which is recognized as revenue and expenses, in the amount of \$609,339 for the year ended December 31, 2019.

Investments

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

Rate of Return: The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Police Pension Plan - For the year ended December 31, 2019, the annual money-weighted rate of return on Plan investments, net of investment expense was 26.56%

Non-Uniform Pension Plan - For the Measurement Date of December 31, 2018, the annual money-weighted rate of return on Plan investments, net of investment expense was -4.57%.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

Net Pension Liability

The components of the net pension liability of participating entities were as follows:

Police Pension Plan - For the year ended December 31, 2019.

Non-Uniform Plan - For the Measurement Date of December 31, 2018.

| | <u>Police</u> | <u>Non-Uniform</u> |
|---|---------------------|---------------------|
| Total pension liability | \$ 28,421,352 | \$ 9,184,306 |
| Plan fiduciary net position | <u>(24,037,883)</u> | <u>(7,854,143)</u> |
| Net pension liability | <u>\$ 4,383,469</u> | <u>\$ 1,330,163</u> |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | 85% | 86% |

Actuarial Assumptions: The total pension liability in the January 1, 2019 for the Police and January 1, 2017 for the Non-Uniformed actuarial valuation 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 | 4.75% | ** (average, including inflation) |
| Investment Rate of Return | 7.50% | 5.25% |
| Post retirement Cost of Living Increase | 0.0% | 3.0% |

**age related with merit and inflation component

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for males and females. This table does not include projected mortality improvements.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2015 to December 31, 2016 and the actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2018.

The net pension liability for Police was measured as of December 31, 2019 and for Non-Uniform as of the Measurement Date of December 31, 2018. The total pension liability for both plans was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2015. For the Police Pension Plan, Discount rate decreased to 7.5% from 7.75%. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end for the Non-Uniform Plan.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

Police Pension Plan: 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> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Equities | 70% | 10.0% |
| Fixed Income | 27% | 3.0% |
| Cash | 3% | 1.0% |

Non-Uniform Pension Plan: PMRS has not performed a formal cash flow projection but has applied an alternative method to confirm the sufficiency of the pension plan's projected Net Position. The result would be greater than or equal to the benefit payments projected for each future period. 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.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| U. S. Equity | 47% | 6.6% |
| International Equity | 20% | 8.6% |
| Fixed Income | 25% | 3.0% |
| Real Estate | 8% | 6.9% |
| Cash | 0% | 1.0% |

Discount Rate: The discount rate used to measure the total pension liability was 7.5 percent for Police and 5.5 percent for Non-Uniform. 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.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

C. Employee retirement systems and pension plans (continued)

Discount Rate (continued)

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. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| <u>Police Pension Plan</u> | | | |
| Balance at December 31, 2018 | \$ 25,822,482 | \$ 19,528,005 | \$ 6,294,477 |
| Changes for the year: | | | |
| Service cost | 481,609 | - | 481,609 |
| Interest | 1,989,972 | - | 1,989,972 |
| Change of benefit terms | - | - | - |
| Differences between expected and actual experience | 661,313 | - | 661,313 |
| Change of assumptions | 720,041 | - | 720,041 |
| Contributions - employer | - | 1,468,718 | (1,468,718) |
| Contributions - employee | - | 218,420 | (218,420) |
| Net investment income | - | 4,082,305 | (4,082,305) |
| Benefit payments, including refunds of employee contributions | (1,254,065) | (1,254,065) | - |
| Administrative expense | - | (5,500) | 5,500 |
| Other changes | - | - | - |
| Net Changes | 2,598,870 | 4,509,878 | (1,911,008) |
| Balance at December 31, 2019 | \$ 28,421,352 | \$ 24,037,883 | \$ 4,383,469 |

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| <u>Non-Uniformed Pension Plan</u> | | | |
| Balance at December 31, 2017 | \$ 8,465,923 | \$ 8,278,511 | \$ 187,412 |
| Changes for the year: | | | |
| Service cost | 186,014 | - | 186,014 |
| Interest | 447,389 | - | 447,389 |
| Change of benefit terms | - | - | - |
| Differences between expected and actual experience | 348,829 | - | 348,829 |
| Change of assumptions | - | - | - |
| Contributions - employer | - | 145,766 | (145,766) |
| Contributions - employee | - | 94,744 | (94,744) |
| Net investment income | - | (381,446) | 381,446 |
| Benefit payments, including refunds of employee contributions | (263,849) | (263,849) | - |
| Administrative expense | - | (19,583) | 19,583 |
| Other changes | - | - | - |
| Net Changes | 718,383 | (424,368) | 1,142,751 |
| Balance at December 31, 2018 | \$ 9,184,306 | \$ 7,854,143 | \$ 1,330,163 |

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | 1% <u>Decrease</u> | Current <u>Discount</u> | 1% <u>Increase</u> |
|-----------------------|-----------------------|----------------------------|-----------------------|
| Net pension liability | (6.50%) | Rate (7.50%) | (8.50%) |
| Police | \$ 7,687,203 | \$ 4,383,469 | \$ 1,600,582 |
| Non-Uniform | \$ 2,520,956 | \$ 1,330,163 | \$ 315,520 |

Deferred Outflows and Inflows of Resources: The Township recognized pension expense as follows: Police Pension Plan - For the year ended December 31, 2019, the pension expense was \$977,993. Non-Uniform Pension Plan - For the Measurement Date of December 31, 2018, the pension expense was \$281,184.

At December 31, 2019, the Township reported deferred outflows of resources and deferred inflows of resources related to pension related from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| <u>Police Pension</u> | | |
| Differences between expected and actual experience | \$ 756,219 | \$ 195,414 |
| Changes in assumptions | 657,825 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 907,781 |
| Total | <u>\$ 1,414,044</u> | <u>\$ 1,103,195</u> |
| <u>Non-Uniformed Pension</u> | | |
| Differences between expected and actual experience | \$ 426,432 | \$ - |
| Contributions made after measurement date | 160,832 | - |
| Changes in assumptions | 152,412 | 21,427 |
| Net difference between projected and actual earnings on pension plan investments | 121,744 | - |
| Total | <u>\$ 861,420</u> | <u>\$ 21,427</u> |

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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> |
| 2020 | \$ (27,741) | \$ 117,012 |
| 2021 | (11,747) | 47,112 |
| 2022 | 270,583 | 86,066 |
| 2023 | (332,797) | 253,433 |
| 2024 | 187,139 | 88,333 |
| Thereafter | <u>225,412</u> | <u>87,205</u> |
| Total | <u>\$ 310,849</u> | <u>\$ 679,161</u> |

Payable to the Pension Plan: There was no amounts payable for contributions to the pension plans.

Deferred Retirement Option Program

An active member who has met the eligibility requirements for the program, which are age 50 and 25 years of service, may elect to participate in the deferred retirement option program for a period of at least one year, but not more than five years. Monthly pension shall be calculated as of the date of participation in the program and shall be accumulated in a self-directed account and distributed in a lump sum at retirement. The member must retire within 36 months after entering the DROP. As of December 31, 2019, the DROP account balance of \$446,615 is held by the plan pursuant to the DROP.

D. Other post-employment benefits

The Township sponsors a single-employer defined benefit post-employment plan (the Plan, OPEB) for eligible employees of the Township. The Plan was established and is governed by the provisions of the collective bargaining agreement between the Township and the employees, to provide continuation of medical and vision insurance for employees who retire from the Horsham Township Pension Plan. The plan is funded on a pay-as-you-go basis and there is no irrevocable trust established for the plan. The most recent valuation was as of January 1, 2019.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

D. Other postemployment benefits

The plan does not issue a separate financial statement.

At January 1, 2019 for the Horsham Township OPEB Plan consisted of the following:

| | |
|----------------------|-----------|
| Retired participants | 29 |
| Active participants | <u>68</u> |
| Total Membership | <u>97</u> |

Eligibility: For Non-Uniform employees who retire at age sixty-five, the Township agrees to provide the Aetna Medicare Supplement. Cobra benefits will be extended an additional 18 months to employees who retire at age 62, but total COBRA benefits allowed will not exceed 36 months. The Township agrees to provide employees who retire at age 62 with a minimum of 20 years of service, the Aetna Medicare Supplement benefit after exhausting Cobra benefits. There will be no post-retirement medical coverage for employees hired after January 1, 2010.

Eligibility: Police pension benefits shall be payable to police officers who have served in the Township for an aggregate total of at least 25 years, provided they have attained at least age 52 years, after which members of the force may retire from active duty on the first day of any month coincident with or next following the completion of the above requirements. The retired employee and spouse shall continue to be provided with hospital and Major Medical coverage. Until age 65, the retirees will be provided with coverage as described in Article III, Section II of their contract.

At 65 years of age, the Township shall provide Blue Cross 65 Special or its equivalent. Should the retiree, uniformed or non-uniformed, relocate out of the service area of the then current provider, he or she shall be provided with a monthly payment equal to the then current premium, to purchase health insurance on his or her own.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

D. Other postemployment benefits (continued)

The retired police officer shall also receive Life Insurance equal to one-half the amount for which he or she was insured as an employee, at the time of retirement. When he or she reaches the age of 65, the Life Insurance shall be one-quarter of the original insurance coverage.

The plans do not issue a stand-alone financial report.

Net OPEB Liability:

The Township's net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

| | | |
|-----------------------------|--|--------------------------------|
| Inflation | 3.0% | |
| Wage Inflation | 3.5% | |
| Salary Increases | 4.75% | (average, including inflation) |
| Investment Rate of Return | 2.74% | |
| Healthcare Cost Trend Rates | 7% increase in the first year, decreasing by 0.5% per year to an ultimate rate of 5% | |

Mortality rates were based on the RP-2000 Mortality tables for healthy males and females, using blended rates for small employers.

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study from the period January 1, 2016 to December 31, 2018.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

D. Other postemployment benefits (continued)

The net OPEB liability was measured as of December 31, 2019 and the total OPEB liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019. There was a change in the discount rate from 4.1% to 2.74% in 2019.

Discount Rate: The discount rate used to measure the total OPEB liability was 2.74 percent, based upon Bond Buyer Municipal Bond Index AA, for the plan. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods.

Change in Net OPEB Liability

| | Increase (Decrease) | | |
|---|-------------------------|--------------------------------|-----------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| <u>OPEB</u> | | | |
| Balance at December 31, 2018 | \$ 16,840,093 | \$ - | \$ 16,840,093 |
| Changes for the year: | | | |
| Service cost | 519,731 | - | 519,731 |
| Interest | 705,162 | - | 705,162 |
| Change of benefit terms | - | - | - |
| Differences between expected and actual experience | 2,080,120 | - | 2,080,120 |
| Change of assumptions | - | - | - |
| Contributions - employer | - | 321,488 | (321,488) |
| Contributions - employee | - | - | - |
| Net investment income | - | - | - |
| Benefit payments, including refunds of employee contributions | (321,488) | (321,488) | - |
| Administrative expense | - | - | - |
| Other changes | - | - | - |
| Net Changes | <u>2,983,525</u> | <u>-</u> | <u>2,983,525</u> |
| Balance at December 31, 2019 | <u>\$ 19,823,618</u> | <u>\$ -</u> | <u>\$ 19,823,618</u> |

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

D. Other postemployment benefits (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability calculated using the discount rate of 4 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.74 percent) or one percentage point higher (3.74 percent) than the current rate:

| | 1% Decrease <u>(1.74%)</u> | Current Discount Rate <u>(2.74%)</u> | 1% Increase <u>(3.74%)</u> |
|--------------------|----------------------------------|--|----------------------------------|
| Net OPEB liability | \$ 22,670,141 | \$ 19,823,618 | \$ 17,477,815 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using healthcare cost trend rates 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease Valuation Rates | Healthcare Cost Trend <u>Valuation Rates</u> | 1% Increase Valuation Rates |
|--------------------|-----------------------------------|--|-----------------------------------|
| Net OPEB liability | \$ 17,070,840 | \$ 19,823,618 | \$ 23,278,143 |

OPEB Expense, and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2019, the actuarial determined expense for the OPEB Plan was \$1,248,707.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

D. Other postemployment benefits (continued)

At December 31, 2019, the Township reported the following deferred outflows and inflows of resources related to OPEB:

| <u>OPEB</u> | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 1,858,595 | \$ 1,271,280 |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| Total | <u>\$ 1,858,595</u> | <u>\$ 1,271,280</u> |

E. 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, 2019, \$3,643,997 represents the balance of these monies held in escrow.

HORSHAM TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

IV. Other information (Continued)

F. Subsequent Events

Management has evaluated subsequent events that occurred after the balance sheet date but before November 17, 2020, the date the financial statements were available for release. No items were determined by management that requires recognition.

Subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. As a result, economic uncertainties have arisen that could negatively impact the Township finances including investment income. The potential impact is unknown at this time.

G New Accounting Pronouncements

GASB Codification Section L20, Leases (GASB 87): GASB 87 substantially changes current accounting procedures regarding lease accounting and offers specific accounting guidance for lessees, lessors and sale-leaseback transactions. GASB 87 establishes a right-of-use (“ROU”) model that requires lessees to record a ROU asset and lease liability in the statement of financial position for all leases with terms longer than 12 months (the standard may optionally be applied to leases with term of 12 months or less). Leases will be classified as either finance leases or operating leases depending on the characteristics of the lease; consistent with current accounting procedures, the recognition, measurement and presentation of expenses and cash flows arising from the lease will depend on the lease classification. This Statement is expected to have an implementation date for fiscal years beginning after June 15, 2021.

REQUIRED SUPPLEMENTAL INFORMATION

HORSHAM TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
POLICE PENSION PLAN

December 31, 2019

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | | | |
| Service cost | \$ 481,609 | \$ 393,117 | \$ 396,240 | \$ 370,907 | \$ 361,486 | \$ 324,093 |
| Interest | 1,989,972 | 1,916,181 | 1,844,520 | 1,788,284 | 1,677,714 | 1,652,993 |
| Changes of benefit terms | - | - | - | - | - | - |
| Differences between expected and actual experience | 661,313 | (134,641) | 45,527 | (273,967) | 501,052 | (104,654) |
| Changes of assumptions | 720,041 | - | - | - | 119,158 | - |
| Benefit payments, including refunds of employee contributions | <u>(1,254,065)</u> | <u>(1,367,946)</u> | <u>(1,349,056)</u> | <u>(1,020,818)</u> | <u>(1,463,432)</u> | <u>(1,127,306)</u> |
| Net change in total pension liability | 2,598,870 | 806,711 | 937,231 | 864,406 | 1,195,978 | 745,126 |
| Total pension liability - beginning | <u>25,822,482</u> | <u>25,015,771</u> | <u>24,078,540</u> | <u>23,214,134</u> | <u>22,018,156</u> | <u>21,273,030</u> |
| Total pension liability - ending (a) | <u>\$ 28,421,352</u> | <u>\$ 25,822,482</u> | <u>\$ 25,015,771</u> | <u>\$ 24,078,540</u> | <u>\$ 23,214,134</u> | <u>\$ 22,018,156</u> |
| Plan fiduciary net position | | | | | | |
| Contributions - employer | \$ 1,468,718 | \$ 1,330,404 | \$ 1,334,456 | \$ 1,240,176 | \$ 1,216,457 | \$ 795,581 |
| Contributions - employee | 218,420 | 215,076 | 206,007 | 209,503 | 200,926 | 181,084 |
| Net investment income | 4,082,305 | (1,345,116) | 2,929,546 | 1,324,290 | (144,082) | 1,061,636 |
| Benefit payments, including refunds of employee contributions | (1,254,065) | (1,367,946) | (1,349,056) | (1,020,818) | (1,463,432) | (1,127,306) |
| Administrative expense | (5,500) | (8,400) | (7,025) | (8,350) | (7,350) | - |
| Other | - | - | - | - | 23,002 | - |
| Net change in plan fiduciary net position | 4,509,878 | (1,175,982) | 3,113,928 | 1,744,801 | (174,479) | 910,995 |
| Plan fiduciary net position - beginning | <u>19,528,005</u> | <u>20,703,987</u> | <u>17,590,059</u> | <u>15,845,258</u> | <u>16,019,737</u> | <u>15,108,742</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 24,037,883</u> | <u>\$ 19,528,005</u> | <u>\$ 20,703,987</u> | <u>\$ 17,590,059</u> | <u>\$ 15,845,258</u> | <u>\$ 16,019,737</u> |
| Township's net pension liability - ending (a)-(b) | <u>\$ 4,383,469</u> | <u>\$ 6,294,477</u> | <u>\$ 4,311,784</u> | <u>\$ 6,488,481</u> | <u>\$ 7,368,876</u> | <u>\$ 5,998,419</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 84.6% | 75.6% | 82.8% | 73.1% | 68.3% | 72.8% |
| Covered-employee payroll | \$ 4,347,708 | \$ 4,276,803 | \$ 4,330,859 | \$ 4,228,342 | \$ 3,852,683 | \$ 3,633,343 |
| Township's net pension liability as a percentage of covered-employee payroll | 100.8% | 147.2% | 99.6% | 153.5% | 191.3% | 165.1% |
| Annual money-weighted rate of return, net of investment expense | 26.56% | -9.48% | 16.60% | 8.12% | -0.97% | 7.29% |

Notes to Schedule:

Change in benefit terms: None since 1/1/2019

Change of assumptions: Discount rate decrease to 7.50% from 7.75% and amortization period changed from 6 years to 8 years

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.

HORSHAM TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - POLICE PENSION PLAN

December 31, 2019

| Fiscal year ended December 31, | Actuarially determined contribution | Actual Employer Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered payroll |
|-----------------------------------|---|------------------------------------|--|---------------------------------|---|
| 2010 | \$ 380,333 | \$ 380,333 | \$ - | \$ 3,547,788 | (1) 10.7% |
| 2011 | 573,516 | 602,188 | (28,672) | 3,892,508 | (1) 15.5% |
| 2012 | 575,702 | 575,702 | - | 3,892,508 | (1) 14.8% |
| 2013 | 789,861 | 789,861 | - | 3,378,449 | (1) 23.4% |
| 2014 | 795,581 | 795,581 | - | 3,378,449 | (1) 23.5% |
| 2015 | 1,214,965 | 1,216,457 | (1,492) | 3,852,683 | 31.6% |
| 2016 | 1,240,176 | 1,240,176 | - | 4,228,342 | 29.3% |
| 2017 | 1,334,456 | 1,334,456 | - | 4,330,859 | 30.8% |
| 2018 | 1,330,404 | 1,330,404 | - | 4,276,803 | 31.1% |
| 2019 | 1,468,718 | 1,468,718 | - | 4,347,708 | 33.8% |

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 | 1/1/2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar - closed |
| Remaining amortization period | 6 years |
| Asset valuation method | Market value |
| Inflation | 3% |
| Salary increases | 4.75% average, including inflation |
| Investment rate of return | 7.75% |
| Retirement age | Age 55 and 28 years of service |
| Mortality | RP-2000 Mortality Table (Blue Collar) with Scale AA. |

Change in benefit terms: None since 1/1/2017

(1) - covered employee payroll taken from 1/1/2008 through 1/1/2013 actuarial valuations

HORSHAM TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
NON-UNIFORM PENSION PLAN

December 31, 2019

| | Measurement Year Ending | | | | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total pension liability | | | | | |
| Service cost | \$ 186,014 | \$ 183,200 | \$ 172,933 | \$ 194,539 | \$ 200,125 |
| Interest | 447,389 | 428,792 | 408,276 | 397,422 | 381,136 |
| Changes of benefit terms | - | - | - | - | - |
| Differences between expected and actual experience | 348,829 | - | 148,256 | - | 64,227 |
| Changes of assumptions | - | - | 243,858 | (38,567) | - |
| Benefit payments, including refunds of employee contributions | (263,849) | (257,364) | (221,611) | (444,301) | (245,936) |
| Net change in total pension liability | 718,383 | 354,628 | 751,712 | 109,093 | 399,552 |
| Total pension liability - beginning | 8,465,923 | 8,111,295 | 7,359,583 | 7,250,490 | 6,850,938 |
| Total pension liability - ending (a) | <u>\$ 9,184,306</u> | <u>\$ 8,465,923</u> | <u>\$ 8,111,295</u> | <u>\$ 7,359,583</u> | <u>\$ 7,250,490</u> |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ 145,766 | \$ 152,202 | \$ 120,558 | \$ 113,574 | \$ 73,565 |
| Contributions - employee | 94,744 | 93,311 | 94,184 | 88,963 | 83,862 |
| Net investment income | (381,446) | 1,221,568 | 579,590 | 21,077 | 290,279 |
| Benefit payments, including refunds of employee contributions | (263,849) | (257,364) | (221,611) | (444,301) | (245,936) |
| Administrative expense | (19,583) | (18,974) | (20,133) | (16,729) | (15,152) |
| Other | - | - | - | - | - |
| Net change in plan fiduciary net position | (424,368) | 1,190,743 | 552,588 | (237,416) | 186,618 |
| Plan fiduciary net position - beginning | 8,278,511 | 7,087,768 | 6,535,180 | 6,772,596 | 6,585,978 |
| Plan fiduciary net position - ending (b) | <u>\$ 7,854,143</u> | <u>\$ 8,278,511</u> | <u>\$ 7,087,768</u> | <u>\$ 6,535,180</u> | <u>\$ 6,772,596</u> |
| Township's net pension liability - ending (a)-(b) | <u>\$ 1,330,163</u> | <u>\$ 187,412</u> | <u>\$ 1,023,527</u> | <u>\$ 824,403</u> | <u>\$ 477,894</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 85.5% | 97.8% | 87.4% | 88.8% | 93.4% |
| Covered-employee payroll | \$ 3,158,118 | \$ 3,110,354 | \$ 3,139,448 | \$ 2,965,420 | \$ 3,051,948 |
| Township's net pension liability as a percentage of covered-employee payroll | 42.1% | 6.0% | 32.6% | 27.8% | 15.7% |
| Annual money-weighted rate of return, net of investment expense | -4.57% | 17.84% | 8.23% | -0.27% | 5.20% |

Notes to Schedule:

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

Investment Return Assumption for municipal assets decreased from 5.5% to 5.25% in 2017

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.

HORSHAM TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - NON-UNIFORM PENSION PLAN

December 31, 2019

| Fiscal year ended December 31, | Actuarially determined contribution | Actual Employer Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered payroll |
|-----------------------------------|---|------------------------------------|--|---------------------------------|---|
| 2010 | \$ 91,161 | \$ 91,161 | \$ - | \$ 2,693,808 | (1) 3.4% |
| 2011 | 84,480 | 102,446 | (17,966) | 2,555,179 | (1) 4.0% |
| 2012 | 82,695 | 82,695 | - | 2,555,179 | (1) 3.2% |
| 2013 | 64,532 | 64,532 | - | 2,928,933 | (1) 2.2% |
| 2014 | 66,962 | 73,565 | (6,603) | 3,051,948 | (1) 2.4% |
| 2015 | 113,574 | 113,614 | (40) | 2,965,420 | 3.8% |
| 2016 | 120,478 | 120,558 | (80) | 3,139,448 | 3.8% |
| 2017 | 152,162 | 152,202 | (40) | 3,110,354 | 4.9% |
| 2018 | 145,681 | 145,766 | (85) | 3,158,118 | 4.6% |
| 2019 | 160,831 | 160,831 | - | 3,127,176 | 5.1% |

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 based upon the amortization periods in Act 205 10 years initial liability, 20 years gains and losses, 15 years change in assumption, 20 years changes due to plan provisions, 10 years changes in benefits |
| Remaining amortization period | |
| Asset valuation method | Based upon the municipal reserves |
| Inflation | 3% |
| Salary increases | age related scale with merit and inflation component |
| Investment rate of return | 5.5% |
| Retirement age | Normal Retirement Age |
| Mortality | RP2000 Table |

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

Investment Return Assumption for municipal assets decreased from 5.5% to 5.25% in 2017

(1) - covered employee payroll taken from 1/1/2008 through 1/1/2013 actuarial valuations

HORSHAM TOWNSHIP

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
OPEB PLAN

December 31, 2019

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Total pension liability | | |
| Service cost | \$ 519,731 | \$ 537,801 |
| Interest | 705,162 | 621,713 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | 2,080,120 | (1,666,701) |
| Changes of assumptions | - | - |
| Benefit payments, including refunds of employee contributions | <u>(321,488)</u> | <u>(375,953)</u> |
| Net change in total pension liability | 2,983,525 | (883,140) |
| Total pension liability - beginning | <u>16,840,093</u> | <u>17,723,233</u> |
| Total pension liability - ending (a) | <u>\$ 19,823,618</u> | <u>\$ 16,840,093</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 321,488 | \$ - |
| Contributions - employee | - | - |
| Net investment income | - | - |
| Benefit payments, including refunds of employee contributions | (321,488) | - |
| Administrative expense | - | - |
| Other | - | - |
| Net change in plan fiduciary net position | <u>-</u> | <u>-</u> |
| Plan fiduciary net position - beginning | <u>-</u> | <u>-</u> |
| Plan fiduciary net position - ending (b) | <u>\$ -</u> | <u>\$ -</u> |
| Township's net pension liability - ending (a)-(b) | <u>\$ 19,823,618</u> | <u>\$ 16,840,093</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 0.0% | 0.0% |
| Covered-employee payroll | \$ 7,729,809 | \$ 7,651,463 |
| Township's net pension liability as a percentage of covered-employee payroll | 256.5% | 220.1% |

Notes to Schedule:

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

Investment Return Assumption for municipal assets increased from 4.10% to 2.74% in 2019

See accompanying notes to supplementary schedules

SUPPLEMENTAL INFORMATION

HORSHAM TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

December 31, 2019

| | Special Revenue Funds | | | | | Total |
|---|------------------------|-----------------------|--------------------------------|---------------------|----------------------|---------------------|
| | Park and Recreation | Morale and Welfare | Street Light & Fire Hydrant | Highway Aid | Library Operating | |
| <u>ASSETS</u> | | | | | | |
| Cash and cash equivalents | \$ 61,825 | \$ - | \$ 380,305 | \$ - | \$ 29,594 | \$ 471,724 |
| Investments | 289,527 | - | - | 1,407,859 | 944,197 | 2,641,583 |
| Receivables | - | - | 2,178 | - | 10,792 | 12,970 |
| Total Assets | <u>\$ 351,352</u> | <u>\$ -</u> | <u>\$ 382,483</u> | <u>\$ 1,407,859</u> | <u>\$ 984,583</u> | <u>\$ 3,126,277</u> |
| <u>LIABILITIES</u> | | | | | | |
| Accounts payable and accrued wages | \$ 17,645 | \$ - | \$ - | \$ - | \$ 44,563 | \$ 62,208 |
| Total Liabilities | <u>17,645</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,563</u> | <u>62,208</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | | |
| Unavailable revenue - | | | | | | |
| property taxes | - | - | - | - | 7,337 | 7,337 |
| special assessments | - | - | 1,206 | - | - | 1,206 |
| Total Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>1,206</u> | <u>-</u> | <u>7,337</u> | <u>8,543</u> |
| <u>FUND BALANCES</u> | | | | | | |
| Restricted for: | | | | | | |
| Street and highways | - | - | - | 1,407,859 | - | 1,407,859 |
| Street light and fire hydrant | - | - | 381,277 | - | - | 381,277 |
| Libraries | - | - | - | - | 932,683 | 932,683 |
| Committed for: | | | | | | |
| Storm water | - | - | - | - | - | - |
| Capital projects | - | - | - | - | - | - |
| Park and recreation | 333,707 | - | - | - | - | 333,707 |
| Total Fund Balances | <u>333,707</u> | <u>-</u> | <u>381,277</u> | <u>1,407,859</u> | <u>932,683</u> | <u>3,055,526</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 351,352</u> | <u>\$ -</u> | <u>\$ 382,483</u> | <u>\$ 1,407,859</u> | <u>\$ 984,583</u> | <u>\$ 3,126,277</u> |

Capital Projects Funds

| Outfall Contribution | Act 209 East and West | Storm Water | Park Improvement | Total |
|-------------------------|--------------------------|------------------|---------------------|---------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 132,386 | 1,545,266 | 51,626 | 602,071 | 2,331,349 |
| - | - | - | - | - |
| <u>\$ 132,386</u> | <u>\$ 1,545,266</u> | <u>\$ 51,626</u> | <u>\$ 602,071</u> | <u>\$ 2,331,349</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 1,545,266 | - | - | 1,545,266 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 51,626 | - | 51,626 |
| 132,386 | - | - | 602,071 | 734,457 |
| - | - | - | - | - |
| <u>132,386</u> | <u>1,545,266</u> | <u>51,626</u> | <u>602,071</u> | <u>2,331,349</u> |
| <u>\$ 132,386</u> | <u>\$ 1,545,266</u> | <u>\$ 51,626</u> | <u>\$ 602,071</u> | <u>\$ 2,331,349</u> |

HORSHAM TOWNSHIP

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

For the Year Ended December 31, 2019

| | Special Revenue Funds | | | | | Total |
|---|------------------------|-----------------------|--------------------------------|---------------------|----------------------|---------------------|
| | Park and Recreation | Morale and Welfare | Street Light & Fire Hydrant | Highway Aid | Library Operating | |
| Revenues | | | | | | |
| Taxes: | | | | | | |
| Property | \$ - | \$ - | \$ 173,434 | \$ - | \$ 1,014,678 | \$ 1,188,112 |
| Investment income and rent | 13,352 | 50 | - | 29,136 | 29,945 | 72,483 |
| Intergovernmental revenues | - | - | - | 833,656 | 74,252 | 907,908 |
| Fines and forfeitures | - | - | - | - | 20,855 | 20,855 |
| Charges for services | 89,259 | - | - | - | 9,001 | 98,260 |
| Other | 1,119 | - | 173 | - | 2,332 | 3,624 |
| Total Revenues | <u>103,730</u> | <u>50</u> | <u>173,607</u> | <u>862,792</u> | <u>1,151,063</u> | <u>2,291,242</u> |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Public safety | - | - | 60,870 | - | - | 60,870 |
| Highways and roads | - | - | 37,707 | 679,212 | - | 716,919 |
| Library and parks | 121,263 | - | - | - | 673,082 | 794,345 |
| Miscellaneous | 4,473 | 2,951 | - | - | - | 7,424 |
| Debt service: | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - |
| Capital projects | - | - | - | 210,321 | 140,077 | 350,398 |
| Total Expenditures | <u>125,736</u> | <u>2,951</u> | <u>98,577</u> | <u>889,533</u> | <u>813,159</u> | <u>1,929,956</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(22,006)</u> | <u>(2,901)</u> | <u>75,030</u> | <u>(26,741)</u> | <u>337,904</u> | <u>361,286</u> |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from sale of capital assets | - | - | - | - | 3,704 | 3,704 |
| Transfers in | - | - | - | - | - | - |
| Transfers out | - | - | - | - | (284,039) | (284,039) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(280,335)</u> | <u>(280,335)</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources (Uses) | <u>(22,006)</u> | <u>(2,901)</u> | <u>75,030</u> | <u>(26,741)</u> | <u>57,569</u> | <u>80,951</u> |
| Fund Balance - Beginning | <u>355,713</u> | <u>2,901</u> | <u>306,247</u> | <u>1,434,600</u> | <u>875,114</u> | <u>2,974,575</u> |
| Fund Balance - Ending | <u>\$ 333,707</u> | <u>\$ -</u> | <u>\$ 381,277</u> | <u>\$ 1,407,859</u> | <u>\$ 932,683</u> | <u>\$ 3,055,526</u> |

| Capital Projects Funds | | | | | | Total Nonmajor |
|-------------------------|--------------------------|------------------|---------------------|---------------------|----------------------------|-----------------------|
| Outfall Contribution | Act 209 East and West | Storm Water | Park Improvement | Total | Sinking Fund Bond Issue | Governmental Funds |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,188,112 |
| 1,360 | 31,113 | 827 | 123,805 | 157,105 | - | 229,588 |
| - | - | - | 17,705 | 17,705 | - | 925,613 |
| - | - | - | - | - | - | 20,855 |
| - | - | - | - | - | - | 98,260 |
| <u>5,813</u> | <u>449,301</u> | <u>15,000</u> | <u>34,838</u> | <u>504,952</u> | - | <u>508,576</u> |
| <u>7,173</u> | <u>480,414</u> | <u>15,827</u> | <u>176,348</u> | <u>679,762</u> | - | <u>2,971,004</u> |
| - | - | - | - | - | - | 60,870 |
| - | 402,659 | - | - | 402,659 | - | 1,119,578 |
| - | - | - | - | - | - | 794,345 |
| - | - | - | - | - | 539 | 7,963 |
| - | - | - | - | - | 160,000 | 160,000 |
| - | - | - | - | - | 123,500 | 123,500 |
| - | - | - | 142,896 | 142,896 | - | 493,294 |
| - | <u>402,659</u> | - | <u>142,896</u> | <u>545,555</u> | <u>284,039</u> | <u>2,759,550</u> |
| <u>7,173</u> | <u>77,755</u> | <u>15,827</u> | <u>33,452</u> | <u>134,207</u> | <u>(284,039)</u> | <u>211,454</u> |
| - | - | - | - | - | - | 3,704 |
| - | - | - | - | - | 284,039 | 284,039 |
| - | - | - | - | - | - | (284,039) |
| - | - | - | - | - | 284,039 | 3,704 |
| 7,173 | 77,755 | 15,827 | 33,452 | 134,207 | - | 215,158 |
| <u>125,213</u> | <u>1,467,511</u> | <u>35,799</u> | <u>568,619</u> | <u>2,197,142</u> | - | <u>5,171,717</u> |
| <u>\$ 132,386</u> | <u>\$ 1,545,266</u> | <u>\$ 51,626</u> | <u>\$ 602,071</u> | <u>\$ 2,331,349</u> | <u>\$ -</u> | <u>\$ 5,386,875</u> |

HORSHAM TOWNSHIP

COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

December 31, 2019

| | <u>Pension Trust Fund</u> | |
|---|---------------------------|--------------------------------|
| | <u>Police Pension</u> | <u>Total Pension Trust</u> |
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 432,019 | \$ 432,019 |
| Receivables | - | - |
| Accrued interest | - | - |
| Contributions receivable | 18,497 | 18,497 |
| Loan receivable | - | - |
| Loan interest receivable | - | - |
| Total Receivables | <u>18,497</u> | <u>18,497</u> |
| Investments | | |
| Exchange-Traded Fund | 23,232,398 | 23,232,398 |
| Assets with PMRS | - | - |
| Equities | 354,969 | 354,969 |
| Bonds | - | - |
| Total Investments | <u>23,587,367</u> | <u>23,587,367</u> |
| TOTAL ASSETS | <u>\$ 24,037,883</u> | <u>\$ 24,037,883</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Liabilities | | |
| Escrow deposits | \$ - | \$ - |
| Total Current Liabilities | <u>-</u> | <u>-</u> |
| Net Position | | |
| Net position restricted for pension benefits | <u>24,037,883</u> | <u>24,037,883</u> |
| Total Net Position | <u>\$ 24,037,883</u> | <u>\$ 24,037,883</u> |

Custodial Funds

| Litigation Escrow | Basin Maintenance | 449 Cedar Hill Road | Private Public Partnership Escrow | Revolving Escrow | Total Custodial Funds | Total |
|----------------------|----------------------|------------------------|---|---------------------|-----------------------------|----------------------|
| \$ 83,931 | \$ 231,242 | \$ 6,814 | \$ 467,680 | \$ 2,885,600 | \$ 3,675,267 | \$ 4,107,286 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 18,497 |
| - | - | - | - | 380,800 | 380,800 | 380,800 |
| - | - | - | - | 130,860 | 130,860 | 130,860 |
| - | - | - | - | 511,660 | 511,660 | 530,157 |
| - | - | - | - | - | - | 23,232,398 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 354,969 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 23,587,367 |
| <u>\$ 83,931</u> | <u>\$ 231,242</u> | <u>\$ 6,814</u> | <u>\$ 467,680</u> | <u>\$ 3,397,260</u> | <u>\$ 4,186,927</u> | <u>\$ 28,224,810</u> |
| <u>\$ 83,931</u> | <u>\$ 231,242</u> | <u>\$ 6,814</u> | <u>\$ 467,680</u> | <u>\$ 3,397,260</u> | <u>\$ 4,186,927</u> | <u>\$ 4,186,927</u> |
| <u>83,931</u> | <u>231,242</u> | <u>6,814</u> | <u>467,680</u> | <u>3,397,260</u> | <u>4,186,927</u> | <u>4,186,927</u> |
| - | - | - | - | - | - | 24,037,883 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,037,883</u> |

HORSHAM TOWNSHIP

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
CUSTODIAL FUNDS

For the Year Ended December 31, 2019

| <u>Litigation Escrow</u> | | | | | |
|---------------------------------|----|-------------------|-----------|------------|-------------------|
| | | Balance | | | Balance |
| | | December 31, 2018 | Additions | Deductions | December 31, 2019 |
| <u>ASSETS</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | 82,014 | \$ 1,917 | \$ - | \$ 83,931 |
| <u>LIABILITIES</u> | | | | | |
| Liabilities | | | | | |
| Deposits | \$ | 82,014 | \$ 1,917 | \$ - | \$ 83,931 |

| <u>Basin Maintenance</u> | | | | | |
|---------------------------------|----|-------------------|-----------|------------|-------------------|
| | | Balance | | | Balance |
| | | December 31, 2018 | Additions | Deductions | December 31, 2019 |
| <u>ASSETS</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | 233,764 | \$ 6,403 | \$ 8,925 | \$ 231,242 |
| <u>LIABILITIES</u> | | | | | |
| Liabilities | | | | | |
| Deposits | \$ | 233,764 | \$ 6,403 | \$ 8,925 | \$ 231,242 |

| <u>449 Cedar Hill Road</u> | | | | | |
|-----------------------------------|----|-------------------|-----------|------------|-------------------|
| | | Balance | | | Balance |
| | | December 31, 2018 | Additions | Deductions | December 31, 2019 |
| <u>ASSETS</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | 6,676 | \$ 138 | \$ - | \$ 6,814 |
| <u>LIABILITIES</u> | | | | | |
| Liabilities | | | | | |
| Deposits | \$ | 6,676 | \$ 138 | \$ - | \$ 6,814 |

| <u>Private Public Escrow</u> | | | | | |
|-------------------------------------|----|-------------------|-----------|------------|-------------------|
| | | Balance | | | Balance |
| | | December 31, 2018 | Additions | Deductions | December 31, 2019 |
| <u>ASSETS</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | 457,005 | \$ 10,675 | \$ - | \$ 467,680 |
| <u>LIABILITIES</u> | | | | | |
| Liabilities | | | | | |
| Deposits | \$ | 457,005 | \$ 10,675 | \$ - | \$ 467,680 |

| <u>Revolving Escrow</u> | | | | | |
|--------------------------------|----|-------------------|--------------|--------------|-------------------|
| | | Balance | | | Balance |
| | | December 31, 2018 | Additions | Deductions | December 31, 2019 |
| <u>ASSETS</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | 3,763,697 | \$ 856,282 | \$ 1,765,649 | \$ 2,854,330 |
| Receivables | | | | | |
| Loan receivable | | 374,331 | 308,700 | 302,231 | 380,800 |
| Loan interest receivable | | 115,002 | 15,858 | - | 130,860 |
| Total Receivables | | 489,333 | 324,558 | 302,231 | 511,660 |
| TOTAL ASSETS | \$ | 4,253,030 | \$ 1,180,840 | \$ 2,067,880 | \$ 3,365,990 |
| <u>LIABILITIES</u> | | | | | |
| Liabilities | | | | | |
| Deposits | \$ | 4,253,030 | \$ 1,180,840 | \$ 2,067,880 | \$ 3,365,990 |