

WORCESTER TOWNSHIP
MONTGOMERY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED DECEMBER 31, 2020

(See Independent Auditors' Report)

WORCESTER TOWNSHIP

FINANCIAL STATEMENTS

December 31, 2020

TABLE OF CONTENTS

Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-16
Basic Financial Statements:	
Government – wide Financial Statements	
Statement of Net Position	17
Statement of Activities	18-19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	24
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	29
Notes to Financial Statements	30-56
Required Supplemental Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios – Non-Uniformed Pension Plan	58-59
Schedule of Contributions – Non-Uniformed Pension Plan	60-61

BEE BERGVALL & Co.

Certified Public Accountants

936 Easton Rd., PO Box 754, Warrington, PA 18976
70 W. Oakland Ave., Doylestown, PA 18901 | 130 Almshouse Rd. Suite 201A, Richboro, PA 18954
215-343-2727 | www.bbco-cpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
Worcester Township
Worcester, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Worcester, Pennsylvania, as of and for the year ended December 31, 2020, and the related notes to the financial statements which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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


Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Worcester Township, Pennsylvania, as of December 31, 2020 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, and the historical trend information on pages 57 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing 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.


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

Warrington, PA
May 5, 2021

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

This discussion and analysis of the financial statements of Worcester Township, Montgomery County, Pennsylvania (the Township) for the calendar year ended December 31, 2020 has been prepared by the Township Treasurer. The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2020. Please read this in conjunction with the Township's financial statements, which begin on page 17.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements (Full Accrual)

The government-wide financial statements report information about the Township as a whole using the economic resources measurement focus and accrual basis of accounting.

- The total net position (assets less liabilities) on a government-wide basis was \$33.1 million.
- Taxes and other revenues of the Township's governmental activities amounted to \$5.5 million and expenses equaled \$3.9 million.
- Revenues of the Township's business-type activities for 2020 were \$662,000 and business-type expenses were \$829,000.

Highlights for Fund Financial Statements (Modified Accrual)

The fund financial statements provide more detailed information about the Township's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting.

- At December 31, 2020, the Township's total government funds reported a fund balance of \$15.5 million, an increase of \$1.5 million in comparison with the prior year.
- The Township's General Fund reported a fund balance of \$682,000, an increase of \$78,000 from December 31, 2019.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

General Financial Highlights

Township receipts increased in 2020. Dollars received from General Fund receipts – Taxes, Investment Earnings and Miscellaneous Income – totaled \$4.2 million in 2020, compared to \$3.9 million in 2019, for an approximate 8% increase. Earned Income Taxes accounted for 63% percent of this amount, or \$2.7 million. Employment among Township residents is well diversified, in terms of both employment sectors and employment location. As such the Earned Income Tax receipt is relatively protected against modest fluctuations in local, state and federal employment conditions.

The Township levies a 0.05 mill tax on real estate, which is currently the lowest municipal real estate tax rate in Montgomery County. In 2020, real estate tax generated \$47,200.

Public Works-related costs have long topped the annual list of Township expenditures, and 2020 was no different. The annual road program construction cost totaled \$817,000, which included \$378,000 in Liquid Fuel Funds. The Township recognizes that State-provided Liquid Fuel Funds are inadequate to meet the community's infrastructure needs, and therefore augments this annual allocation with dollars from the Capital Fund and General Fund. By providing a responsible road program today, the Township avoids shifting an undue maintenance obligation to the residents of tomorrow.

Using this Annual Report

This annual report consists of two kinds of basic financial statements, each with a different view of the Township's finances. The Statement of Net Position and the Statement of Activities (on pages 17-19) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 20. For governmental activities, these statements indicate how services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the information about the Township's most significant funds. The remaining statements provide information on funds outside the government activities. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the pension plans.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Reporting the Township as a Whole

Our analysis of the Township as a whole begins on page 9. The question asked about the Township's finances is if the Township as a whole is better or worse as a result of the year's activities. The Statement of Net Position and the Statement of Activities report information about Worcester Township as a whole and about its activities in the way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net position and changes in them. Think of the Township's net position, the difference between assets and liabilities, as one way to measure the financial health or financial position. Over time, increases or decreases in the Township's net position are an indicator of whether the financial health is improving or deteriorating. Consideration needs to be given to other non-financial factors, however, such as the changes in the Township's property tax base, wage tax changes, and condition of the Township's roads, parks, and buildings to assess the overall health of the Township.

In the Statement of Net Position and the Statement of Activities, the Township is divided into two kinds of activities:

- Governmental activities – Most of the Township's basic services are reported here including administrative, permit and licenses, fire services, public works, parks and recreation, and community development. Property taxes, earned income tax, franchise fees, user fees and state grants finance most of these activities.
- Business-type activities – The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's wastewater (sewer) services are reported here.

Reporting the Township's Most Significant Funds

Our analysis of Worcester's major funds begins on page 14. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements begin on page 20 and provide detailed information about the most significant funds, not the Township as a whole. Some funds are required to be established by State law. However, the Township Board of Supervisors establishes other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities utilizing certain taxes, grants, and other money. The Township's two kinds of funds, governmental and proprietary, use different accounting approaches.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

- **Governmental Funds** – Most of the Township's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds in reconciliations on pages 21 and 23.
- **Proprietary Funds** – When the Township charges customers for the services it provides, whether to outside customers or the other units of the Township, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, one of the Township's enterprise funds – Sewage Treatment (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flows for sewer operations.

The Township as a Trustee

The Township is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 28-29. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Infrastructure Assets

Infrastructure (roads, bridges, storm sewers, etc.) is capitalized on a perspective basis beginning in 2004. The Township has chosen to depreciate assets over their useful life. If a road project is considered maintenance, the cost of the project will be expensed. An "overlay" of a road will be considered maintenance whereas a "rebuild" of a road will be capitalized.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

THE TOWNSHIP AS A WHOLE

The following table reflects the condensed statement of net position:

Table 1
Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 16,242,091	\$ 14,688,559	\$ 1,764,298	\$ 1,766,568	\$ 18,006,389	\$ 16,455,127
Capital assets	<u>13,242,083</u>	<u>13,160,452</u>	<u>4,411,779</u>	<u>4,703,454</u>	<u>17,653,862</u>	<u>17,863,906</u>
Total assets	<u>29,484,174</u>	<u>27,849,011</u>	<u>6,176,077</u>	<u>6,470,022</u>	<u>35,660,251</u>	<u>34,319,033</u>
Total deferred outflows of resources	<u>89,695</u>	<u>100,502</u>	<u>-</u>	<u>-</u>	<u>89,695</u>	<u>100,502</u>
Other liabilities	430,014	452,456	151,231	148,951	581,245	601,407
Long term liabilities	<u>-</u>	<u>8,697</u>	<u>1,840,000</u>	<u>1,970,000</u>	<u>1,840,000</u>	<u>1,978,697</u>
Total liabilities	<u>430,014</u>	<u>461,153</u>	<u>1,991,231</u>	<u>2,118,951</u>	<u>2,421,245</u>	<u>2,580,104</u>
Total deferred inflows of resources	<u>195,789</u>	<u>193,170</u>	<u>-</u>	<u>-</u>	<u>195,789</u>	<u>193,170</u>
Net position:						
Net investment in capital assets	13,242,083	13,160,452	2,441,779	2,608,454	15,683,862	15,768,906
Restricted	1,415,625	1,000,345	-	-	1,415,625	1,000,345
Unrestricted	<u>14,290,358</u>	<u>13,134,393</u>	<u>1,743,067</u>	<u>1,742,617</u>	<u>16,033,425</u>	<u>14,877,010</u>
Total net position	<u>\$ 28,948,066</u>	<u>\$ 27,295,190</u>	<u>\$ 4,184,846</u>	<u>\$ 4,351,071</u>	<u>\$ 33,132,912</u>	<u>\$ 31,646,261</u>

For more detailed information, see the Statement of Net Position (page 17).

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$33.1 million at year-end 2020. The largest portion of the Township's assets reflects cash and investments that will be used to fund future projects. The restricted net position portion represents resources that are subject to external restrictions on how they may be used. The unrestricted net position for governmental activities is the portion of net position for governmental activities that can be used to finance day-to-day operations without constraints established by enabling legislation, or other legal requirements.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Normal Impacts

There are basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

Net Results of Activities which will impact (increase/decrease) current assets and unrestricted net position.

Spending of Non-Borrowed Current Assets on New Capital which will (a) reduce current assets and increase capital assets, and (b) will reduce unrestricted net position and increase invested in capital assets, net of debt.

Reduction of Capital Assets through Depreciation which will reduce capital assets and invested in capital assets, net of debt.

Current Year Impacts

The primary impact for governmental activities is the use of unrestricted net position to offset the gap between appropriations and revenues.

The overall net position of governmental activities increased to \$1,650,000 in 2020, which was \$293,000 higher than last year's change in net position. Expenses were higher in 2020 by \$210,000 due to road maintenance, vehicle repairs, and a change to Public Works and Administration employees.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

The following chart shows the revenues and expenses of the governmental activities and business-type activities:

**Table 2
Statement of Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
REVENUES						
Program Revenues						
Charges for services	\$ 314,764	\$ 193,904	\$ 655,002	\$ 837,773	\$ 969,766	\$ 1,031,677
Operating grants and contributions	517,319	527,423	-	-	517,319	527,423
Capital grants and contributions	884,991	405,622	-	-	884,991	405,622
General Revenue						
Property taxes	47,223	47,238	-	-	47,223	47,238
Other taxes	3,235,379	3,114,862	-	-	3,235,379	3,114,862
Investment income	89,483	285,491	7,494	9,328	96,977	294,819
Other	432,111	442,964	-	-	432,111	442,964
Total Revenues	<u>5,521,270</u>	<u>5,017,504</u>	<u>662,496</u>	<u>847,101</u>	<u>6,183,766</u>	<u>5,864,605</u>
EXPENSES						
Administrative	1,008,466	938,908	-	-	1,008,466	938,908
Permits and licenses	183,472	153,663	-	-	183,472	153,663
Fire service	375,690	369,843	-	-	375,690	369,843
Public works	2,071,287	1,944,559	-	-	2,071,287	1,944,559
Parks and recreation	229,479	251,011	-	-	229,479	251,011
Sewer	-	-	828,721	774,417	828,721	774,417
Total Expenses	<u>3,868,394</u>	<u>3,657,984</u>	<u>828,721</u>	<u>774,417</u>	<u>4,697,115</u>	<u>4,432,401</u>
Changes in net position	1,652,876	1,359,520	(166,225)	72,684	1,486,651	1,432,204
Net Position, beginning of year	<u>27,295,190</u>	<u>25,935,670</u>	<u>4,351,071</u>	<u>4,278,387</u>	<u>31,646,261</u>	<u>30,214,057</u>
Net Position, end of year	<u>\$ 28,948,066</u>	<u>\$ 27,295,190</u>	<u>\$ 4,184,846</u>	<u>\$ 4,351,071</u>	<u>\$ 33,132,912</u>	<u>\$ 31,646,261</u>

For more detail see Statement of Activities (pages 18-19).

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Normal Impacts

There are basic impacts on revenues and expenses as reflected below.

Revenues:

Economic Condition – This can reflect a declining, stable or growing economic environment and has a substantial impact on property 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 Board of Supervisors has authority to impose and periodically increase/decrease rates (real estate tax millage, sewer fees, building fees, user fees, etc.). The real estate tax millage has remained at .05.

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring) – Certain recurring revenues (state-shared revenues, block grant, etc.) may experience significant changes periodically, while non-recurring (or 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 one to two-year average maturity on capital funds. Market conditions cause investment income to fluctuate with the economic conditions.

Expenses:

Salary & Benefits Increases (annual adjustments) – The ability to attract and retain human resources requires Worcester Township to strive to approach a competitive salary and range position in the marketplace.

Inflation – While overall inflation appears to be increasing, the Township is a major consumer of certain commodities such as supplies, fuels, and parts. Some functions may experience unusual commodity-specific fluctuations.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

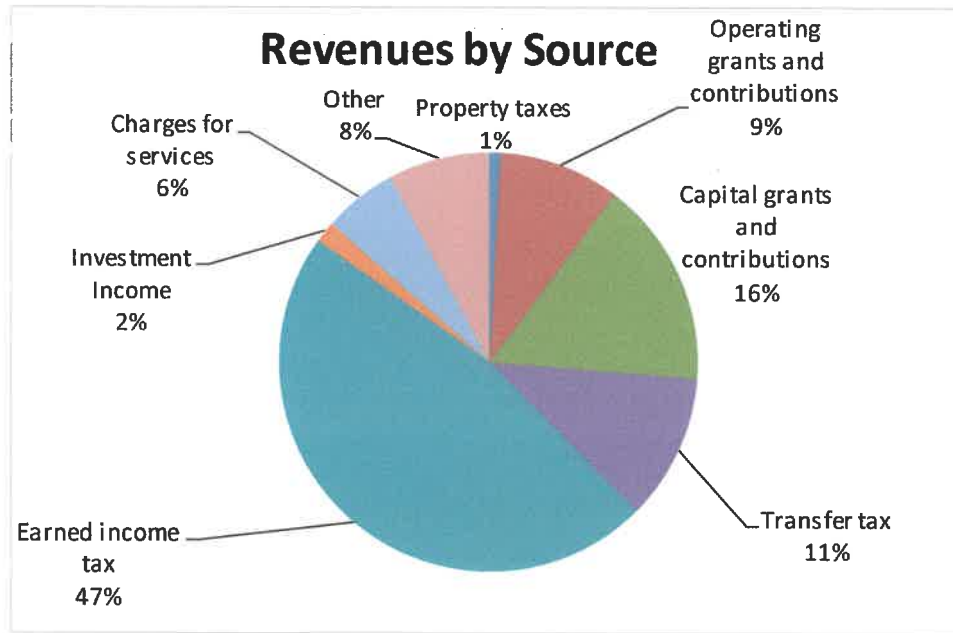
DECEMBER 31, 2020

Current Year Impacts

Governmental Activities

Revenues for the Township's governmental activities were \$5.5 million. Earned Income Taxes constitute the largest source of Township revenues (47%), and totaled \$2.6 million in 2020, a decrease of \$148,000 from 2019. In 2020, real estate taxes totaled \$47,200, or approximately 1% of total revenues, and real estate transfer taxes totaled \$621,000, an increase of \$275,000 from 2019.

The following chart shows the revenues of the governmental activities.



The cost of all governmental activities this year was \$3.9 million consisting of administrative, code enforcement, safety, public works, and park expenses.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Business-type Activities

Total revenues of the Wastewater Treatment Operations were \$655,000 as compared to total costs of 829,000 including non-cash depreciation expense of \$292,000. The Sewer Fund receives its primary revenue through user fees, tapping fees and assessment payments. Each year the Township approves a user fee calculated to recapture the sanitary sewer system's estimated operating and capital expenses.

Table 3
Governmental/Business Type Activities

	Total Cost of Services		Net Cost of Services	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Governmental Activities				
Administrative	\$ 1,008,466	\$ 938,908	\$ 930,063	\$ 884,379
Code and Engineering	183,472	153,663	161,834	136,323
Emergency Services	375,690	369,843	6,165	130,545
Public Works	2,071,287	1,944,559	839,230	1,158,428
Parks	229,479	251,011	214,028	221,360
Total Governmental Activities	<u>\$ 3,868,394</u>	<u>\$ 3,657,984</u>	<u>\$ 2,151,320</u>	<u>\$ 2,531,035</u>
Total Sewer - Business Type Activities	<u>\$ 828,721</u>	<u>\$ 774,417</u>	<u>\$ 173,719</u>	<u>\$ (63,356)</u>

THE TOWNSHIP'S FUNDS

At year's end Township governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$15.5 million. Of this amount \$42,300 is Liquid Fuel Funds, and as such is restricted for road maintenance expenditures only, and \$1.4 million is restricted for transportation improvement projects in accordance with Act 209 of 1990. The balance represents the unreserved fund balance.

General Fund Budgetary Highlights

General Fund actual revenues exceeded budgeted revenues by \$525,000. The largest variances were realized in the transfer taxes, earned income, which exceeded amounts budgeted by \$266,000 and \$107,000, respectively. Those increases are attributable to new development, which resulted in new homes sales and new residents paying taxes.

General Fund expenses were \$362,500 under budget mainly from having conservative budget practices, and having lower stormwater management, legal and engineering expenses than anticipated.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Capital Assets

As of December 31, 2020, on a government-wide basis, the Township had \$17.7 million invested in a broad range of capital assets, including buildings, parks, open space, and wastewater facilities (see table below). One roadway was added to the liquid fuels inventory in 2019, and no new roadways were added to the liquid fuels inventory in 2020. The new roadway is located in a newly-completed development.

The following reconciliation summarizes the Capital Assets, which is presented in detail on pages 43-44 of the Notes.

Table 4
Change in Capital Assets
Governmental Activities

	Beginning Balance <u>12/31/2019</u>	Net Additions/ Deletions	Ending Balance <u>12/31/2020</u>
Non-Depreciable Assets			
Land	\$ 4,871,637	\$ -	\$ 4,871,637
Easements	642,588	-	642,588
Other Capital Assets			
Building and improvements	3,189,467	(132,604)	3,056,863
Infrastructure	5,809,847	212,315	6,022,162
Land improvements	1,457,404	-	1,457,404
Office equipment	273,738	(145,816)	127,922
Machinery and equipment	618,376	(72,546)	545,830
Vehicles	732,498	32,294	764,792
Traffic signal	215,127	250,575	465,702
Accumulated depreciation	<u>(4,650,230)</u>	<u>(62,587)</u>	<u>(4,712,817)</u>
Total Governmental Capital Assets	\$ 13,160,452	\$ 81,631	\$ 13,242,083
Business-Type Activities			
Other Capital Assets			
Building and improvements	\$ 3,483,147	\$ -	\$ 3,483,147
Improvements/sewer lines	4,387,393	-	4,387,393
Machinery and equipment	686,813	-	686,813
Accumulated depreciation	<u>(3,853,899)</u>	<u>(291,675)</u>	<u>(4,145,574)</u>
Total Business-Type Capital Assets	\$ 4,703,454	\$ (291,675)	\$ 4,411,779
Total Government-Wide Capital Assets	\$ 17,863,906	\$ (210,044)	\$ 17,653,862

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Debt

Township Governmental Activities ended the year without debt.

Township Business-type Activities include the 2017 issuance of a \$2.495 million General Obligation Bond to fund the Hickory Hill Sewer Expansion Project and to retire a 2013 loan to construct improvements to the Valley Green Wastewater Treatment Plant.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township retained its conservative fiscal practices when preparing the 2021 Budget.

The 2020 General Fund budget is approximately 2.5% or \$86,000 higher than the 2020 budget. The years were comparable, with the only difference being the hire of an Assistant Township Manager in July, and a 10% increase to the monthly stipend paid to those employees who serve as volunteer firefighters.

At the time of last year's report was issued the Township did not know how the pandemic would affect the municipality's finances. Throughout the final nine months of 2020 the Township monitored key receipts and expenditures on a weekly basis, and stood ready to tap more than \$900,000 in operating reserve funds if required to do so. Fortunately, this was not needed. Earned Income Tax receipts met budget, largely due to the high percentage of Township residents working in professional positions that, in general, fared better than positions in the retail and service sectors. In addition, the brief moratorium on construction did not adversely affect building permits and Real Estate Transfer Tax receipts, as a strong real estate market saw higher than average new home starts and sales during the second half of 2020. Worcester Township maintains an operating reserve fund that is funded to the maximum amount permitted by the Second Class Township Code.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact the Treasurer at Worcester Township, P.O. Box 767, 1721 Valley Forge Road, Worcester, PA 19490 or go to the web site www.Worcestertwp.com.

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION

DECEMBER 31, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 14,782,342	\$ 1,290,073	\$ 16,072,415
Restricted cash (escrows)	372,307	-	372,307
Receivables	1,053,451	42,234	1,095,685
Notes receivable	-	430,031	430,031
Internal balances	(1,960)	1,960	-
Net pension asset	35,951	-	35,951
Land	4,871,637	-	4,871,637
Easements	642,588	-	642,588
Other capital assets (net of accumulated depreciation)	7,727,858	4,411,779	12,139,637
Total Assets	<u>29,484,174</u>	<u>6,176,077</u>	<u>35,660,251</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Changes in pension assumptions	89,695	-	89,695
Total Deferred Outflows of Resources	<u>89,695</u>	<u>-</u>	<u>89,695</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	57,707	21,231	78,938
Deposits	372,307	-	372,307
Non-current liabilities:			
Due within one year	-	130,000	130,000
Due after one year	-	1,840,000	1,840,000
Total Liabilities	<u>430,014</u>	<u>1,991,231</u>	<u>2,421,245</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between expected and actual experience on pension plan liability	139,940	-	139,940
Net difference between projected and actual earnings on pension plan investments	55,849	-	55,849
Total Deferred Inflows of Resources	<u>195,789</u>	<u>-</u>	<u>195,789</u>
<u>NET POSITION</u>			
Net investment in capital assets	13,242,083	2,441,779	15,683,862
Restricted			
Highways	42,345	-	42,345
Transportation	1,373,280	-	1,373,280
Unrestricted	14,290,358	1,743,067	16,033,425
Total Net Position	<u>\$ 28,948,066</u>	<u>\$ 4,184,846</u>	<u>\$ 33,132,912</u>

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

Governmental Activities			Business-Type Activities
Fire Services	Public Works	Park & Recreation	Sewage Treatment
\$ 375,690	\$ 1,705,358	\$ 118,093	\$ 491,865
-	365,929	111,386	291,675
-	-	-	45,181
<u>375,690</u>	<u>2,071,287</u>	<u>229,479</u>	<u>828,721</u>
277,675	-	15,451	655,002
91,850	366,337	-	-
-	865,720	-	-
<u>369,525</u>	<u>1,232,057</u>	<u>15,451</u>	<u>655,002</u>
(6,165)	(839,230)	(214,028)	(173,719)
			-
			-
			-
			-
			-
			7,494
			-
			<u>7,494</u>
			(166,225)
			<u>4,351,071</u>
			<u>\$ 4,184,846</u>

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

WORCESTER TOWNSHIP

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2020

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Government Funds Highway Aid</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 57,207	\$ 14,682,790	\$ 42,345	\$ 14,782,342
Restricted cash	372,307	-	-	372,307
Receivables	684,632	75,420	-	760,052
Due from other funds	1,029,567	-	-	1,029,567
Total Assets	<u>\$ 2,143,713</u>	<u>\$ 14,758,210</u>	<u>\$ 42,345</u>	<u>\$ 16,944,268</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable and accrued wages	\$ 57,415	\$ 292	\$ -	\$ 57,707
Due to other funds	1,031,527	-	-	1,031,527
Deposits	372,307	-	-	372,307
Total Liabilities	<u>1,461,249</u>	<u>292</u>	<u>-</u>	<u>1,461,541</u>
Fund Balances				
Restricted for:				
Highways	-	-	42,345	42,345
Transportation	-	1,373,280	-	1,373,280
Committed for:				
Capital projects	-	13,384,638	-	13,384,638
Unassigned	682,464	-	-	682,464
Total Fund Balances	<u>682,464</u>	<u>14,757,918</u>	<u>42,345</u>	<u>15,482,727</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,143,713</u>	<u>\$ 14,758,210</u>	<u>\$ 42,345</u>	<u>\$ 16,944,268</u>

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

WORCESTER TOWNSHIP

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

DECEMBER 31, 2020

Amounts reported for governmental activities in the statement of net position (page 17)
are different because:

Total fund balances-total governmental funds (page 20)		\$ 15,482,727
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		293,399
Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds.		
Cost of capital assets	17,954,900	
Accumulated depreciation	<u>(4,712,817)</u>	13,242,083
Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Net difference between projected and actual earnings on pension plan investments	(55,849)	
Changes in pension assumptions	89,695	
Differences between expected and actual experience on pension plan liability	<u>(139,940)</u>	(106,094)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension asset		<u>35,951</u>
Total net position for governmental activities (page 17)		<u>\$ 28,948,066</u>

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

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

FOR THE YEAR DECEMBER 31, 2020

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Governmental Funds Highway Aid</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Property	\$ 47,223	\$ -	\$ -	\$ 47,223
Transfer	621,106	-	-	621,106
Earned income	2,656,781	-	-	2,656,781
Other	941	-	-	941
Fees, licenses and permits	217,036	-	-	217,036
Investment income and rent	214,358	87,322	1,388	303,068
Intergovernmental revenues	150,982	446,638	366,337	963,957
Fines and forfeitures	1,620	-	-	1,620
Program revenues	313,144	418,954	-	732,098
Other	1,618	19,271	-	20,889
Total Revenues	<u>4,224,809</u>	<u>972,185</u>	<u>367,725</u>	<u>5,564,719</u>
Expenditures				
Current:				
General government	856,073	44,849	-	900,922
Public safety	559,718	-	-	559,718
Highways and roads	817,733	1,113,404	378,000	2,309,137
Culture and recreation	73,955	44,138	-	118,093
Miscellaneous	93,377	-	-	93,377
Total Expenditures	<u>2,400,856</u>	<u>1,202,391</u>	<u>378,000</u>	<u>3,981,247</u>
Excess (Deficiency) of Revenues Over expenditures	<u>1,823,953</u>	<u>(230,206)</u>	<u>(10,275)</u>	<u>1,583,472</u>
Other Financing Sources (Uses)				
Transfers in	-	1,746,143	-	1,746,143
Transfers out	<u>(1,746,143)</u>	<u>-</u>	<u>-</u>	<u>(1,746,143)</u>
Total Other Financing Sources (Uses)	<u>(1,746,143)</u>	<u>1,746,143</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	77,810	1,515,937	(10,275)	1,583,472
Fund Balance - Beginning	604,654	13,241,981	52,620	13,899,255
Fund Balance - Ending	<u>\$ 682,464</u>	<u>\$ 14,757,918</u>	<u>\$ 42,345</u>	<u>\$ 15,482,727</u>

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

WORCESTER TOWNSHIP

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

FOR THE YEAR DECEMBER 31, 2020

Changes in Net Position

Amounts reported for governmental activities in the statement of activities (page 18-19)
are different because:

Net change in fund balances-total governmental funds (page 22)	\$ 1,583,472
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(43,449)
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	603,779
Depreciation expense	<u>(522,148)</u>
	81,631
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	<u>31,222</u>
Net change in net position - governmental activities (page 18)	<u>\$ 1,652,876</u>

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

WORCESTER TOWNSHIP

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

FOR THE YEAR DECEMBER 31, 2020

	GENERAL FUND			Variance with Final Budget Over (under)
	Budgeted Amounts		ACTUAL	
	Original	Final		
Revenues				
Taxes:				
Property	\$ 47,340	\$ 47,340	\$ 47,223	\$ (117)
Transfer	355,000	355,000	621,106	266,106
Earned income	2,550,050	2,550,050	2,656,781	106,731
Other	-	-	941	941
Fees, licenses and permits	225,000	225,000	217,036	(7,964)
Interest and rent	187,063	187,063	214,358	27,295
Intergovernmental revenues	146,524	146,524	150,982	4,458
Fines and forfeitures	2,600	2,600	1,620	(980)
Program revenues	184,660	184,660	313,144	128,484
Other	1,825	1,825	1,618	(207)
Total Revenues	<u>3,700,062</u>	<u>3,700,062</u>	<u>4,224,809</u>	<u>524,747</u>
Expenditures				
Current:				
General government	921,214	921,214	856,073	(65,141)
Public safety	604,582	604,582	559,718	(44,864)
Highways and roads	998,513	998,513	817,733	(180,780)
Culture and recreation	121,326	121,326	73,955	(47,371)
Miscellaneous	117,701	117,701	93,377	(24,324)
Total Expenditures	<u>2,763,336</u>	<u>2,763,336</u>	<u>2,400,856</u>	<u>(362,480)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>936,726</u>	<u>936,726</u>	<u>1,823,953</u>	<u>887,227</u>
Other Financing Sources (Uses)				
Transfers out	(938,606)	(938,606)	(1,746,143)	(807,537)
Total Other Financing Sources (Uses)	<u>(938,606)</u>	<u>(938,606)</u>	<u>(1,746,143)</u>	<u>(807,537)</u>
Net Change in Fund Balance	(1,880)	(1,880)	77,810	79,690
Fund Balance-beginning	<u>604,654</u>	<u>604,654</u>	<u>604,654</u>	
Fund Balance-ending	<u>\$ 602,774</u>	<u>\$ 602,774</u>	<u>\$ 682,464</u>	

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

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

DECEMBER 31, 2020

	<u>Business-Type Activities Sewage Treatment</u>
<u>ASSETS</u>	
Current Assets	
Cash	\$ 1,290,073
Receivables	
Sewer rents	42,234
Notes	34,369
Due from other funds	1,960
Total Current Assets	<u>1,368,636</u>
Long-Term Assets	
Notes receivable	395,662
Capital Assets (net of accumulated depreciation)	<u>4,411,779</u>
Total Assets	<u>\$ 6,176,077</u>
<u>LIABILITIES</u>	
Current Liabilities	
Current maturities	\$ 130,000
Accounts payable and accrued wages	<u>21,231</u>
Total Current Liabilities	<u>151,231</u>
Long-Term Debt	
Long-term note and bonds payable	<u>1,840,000</u>
Total Long-Term Debt	<u>1,840,000</u>
Total Liabilities	<u>1,991,231</u>
<u>NET POSITION</u>	
Net investment in capital assets	2,441,779
Unrestricted	<u>1,743,067</u>
Total Net Position	<u>\$ 4,184,846</u>

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

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS

FOR THE YEAR DECEMBER 31, 2020

	Business-Type Activities <u>Sewage Treatment</u>
Operating Revenues	
Sewer service charges	\$ 628,962
Other revenues	10,840
Total Operating Revenues	<u>639,802</u>
Operating Expenses	
Sewer operations	486,963
Administrative	3,852
Depreciation expense	291,675
Total Operating Expenses	<u>782,490</u>
Operating Income (Loss)	<u>(142,688)</u>
Nonoperating Revenues (Expense)	
Net earnings on investments	7,494
Interest expense	(45,181)
Tapping fees	15,200
Bond issuance fees	(1,050)
Total Nonoperating Revenues (Expense)	<u>(23,537)</u>
Change in Net Position	(166,225)
Total Net Position-Beginning	<u>4,351,071</u>
Total Net Position-Ending	<u>\$ 4,184,846</u>

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

WORCESTER TOWNSHIP

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR DECEMBER 31, 2020

	<u>Business-Type Activities Sewage Treatment</u>
Cash flows from operating activities	
Cash received from customers	\$ 625,164
Cash paid to suppliers for goods and services	(495,495)
Net cash provided by (used in) operating activities	<u>129,669</u>
Cash flows from capital and related financing activities	
Principal paid on long-term debt	(125,000)
Payment on notes receivable	32,667
Interest paid on long-term debt	(45,181)
Bond issuance expenditures	(1,050)
Payments for tapping fees	15,200
Net cash provided by (used in) capital and related financing activities	<u>(123,364)</u>
Cash flows from investing activities	
Interest and dividends on investments	7,494
Net cash provided by (used in) investing activities	<u>7,494</u>
Net increase (decrease) in cash and cash equivalents	13,799
Beginning cash and cash equivalents	1,276,274
Ending cash and cash equivalents	<u>\$ 1,290,073</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Net operating income (loss)	<u>\$ (142,688)</u>
Adjustments to reconcile net operating (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	291,675
Changes in assets and liabilities	
(Increase) decrease in receivables	(14,638)
Increase (decrease) in accounts payable	(2,720)
(Increase) decrease in due from other funds	(1,960)
Net adjustments	<u>272,357</u>
Cash provided by (used in) operating activities	<u>\$ 129,669</u>

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

WORCESTER TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

DECEMBER 31, 2020

	Pension Trust Funds		
	Defined	Defined	
	<u>Benefit</u>	<u>Contribution</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets			
Pennsylvania State Association of Boroughs			
Municipal Retirement Trust	\$ 1,279,473	\$ 44,749	\$ 1,324,222
Total Current Assets	<u>1,279,473</u>	<u>44,749</u>	<u>1,324,222</u>
 Total Assets	 <u>\$ 1,279,473</u>	 <u>\$ 44,749</u>	 <u>\$ 1,324,222</u>
 <u>NET POSITION</u>			
Net Position Restricted for Pension Benefits	<u>\$ 1,279,473</u>	<u>\$ 44,749</u>	<u>\$ 1,324,222</u>

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

WORCESTER TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE YEAR DECEMBER 31, 2020

	Pension Trust Funds		
	Defined	Defined	
	<u>Benefit</u>	<u>Contribution</u>	<u>Total</u>
Additions			
Municipal contributions	\$ -	\$ 14,728	\$ 14,728
State contributions	49,491	4,671	54,162
Total Contributions	<u>49,491</u>	<u>19,399</u>	<u>68,890</u>
Investment Earnings			
Net appreciation (depreciation) in fair value of investments	102,859	4,017	106,876
Dividends	13,171	327	13,498
Interest	4,747	120	4,867
Total Earnings	<u>120,777</u>	<u>4,464</u>	<u>125,241</u>
Less: Investment Expense	-	-	-
Net Investment Earnings	<u>120,777</u>	<u>4,464</u>	<u>125,241</u>
Total Additions	<u>170,268</u>	<u>23,863</u>	<u>194,131</u>
Deductions			
Benefits	84,721	-	84,721
Administrative expenses	8,974	430	9,404
Total Deductions	<u>93,695</u>	<u>430</u>	<u>94,125</u>
Change in Net Position	76,573	23,433	100,006
Net Position Restricted for Pension Benefits:			
Beginning of Year - Restated	<u>1,202,900</u>	<u>21,316</u>	<u>1,224,216</u>
End of Year	<u>\$ 1,279,473</u>	<u>\$ 44,749</u>	<u>\$ 1,324,222</u>

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies

A. Reporting entity

Worcester Township is a municipal corporation existing and operating under the Second Class Township 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. Based upon the application of these criteria, there are currently no component units of Worcester Township.

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 nonfiduciary 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*.

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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 proprietary fund and 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 compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds on the governmental fund financial statements:

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

The *capital reserve fund* accounts for capital purchases and construction to enhance and improve the property throughout the Township.

The government reports the following major proprietary funds:

The *sewage treatment fund* provides wastewater treatment services throughout the Township.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

Additionally, the government reports the following fiduciary fund types:

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

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 and other charges between the government's sewer function and various other functions of the government, if existing. 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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer treatment fund and are charges to customers for services.

The sewer treatment fund also recognizes as operating revenues the portion of tapping fees intended to recover the cost of system design, permitting, and construction. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

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 Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. 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 savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

The government invests in obligations and agencies of the United States of America. These investments are comprised of collateralized mortgage obligations, U.S. Treasury obligation, and money market mutual funds. 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 accounts rates is minimal.

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

1. 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, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
GOVERNMENTAL FUNDS				
Externally Pooled Investments	\$15,687,429	\$ -	\$15,687,429	\$ -
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
FIDUCIARY FUNDS				
PSAB Municipal Retirement Trust-Balanced Fund	\$ 1,324,222	\$ -	\$ 1,324,222	\$ -

The government's position in the external investment pool is the same as the value of the pool shares and is reported at amortized cost which approximates 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.

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 property tax receivables are shown net of an allowance for uncollectible amounts. At December 31, 2020, all tax receivables were deemed to be fully collectible. There is no tax receivable allowance due to the materiality of the outstanding receivables.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

2. Receivables and payables (continued)

Property taxes are levied as of January 1 on property values assessed as of the same date. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through June 30; and a 10% penalty after June 30. The township employs an elected tax collector to collect the property tax levied. The tax collector remits Township taxes at least monthly and is paid a commission. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

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.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. roads, bridges, sidewalks, and similar 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 more than \$10,000 for infrastructure and intangible assets and \$5,000 for all other capital assets, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their 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.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

4. Capital assets (continued)

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, 2004, governmental funds' infrastructure assets were not capitalized as the standard was applied prospectively.

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	40
Building and land improvements	7-30
Roads and bridges	30-50
Guiderrails, manholes, and curbing	20-30
Storm sewer pipes	50
Sewer pipes	50
Utility and heavy equipment	10-18
Vehicles and equipment	5-15
Signs and traffic signals	7-15

5. Long-term obligations

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

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. Any premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

6. 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 item that qualifies for reporting in this category:

Change in assumptions is reported in the government-wide statement. A difference results when assumptions used to prepare the actuarial valuation of the pension plan changes. These amounts are deferred and recognized as an outflow of resources in the period that the amounts become available.

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.

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.

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.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

7. 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.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net investment in capital assets		
Capital assets not being depreciated	\$ 5,514,225	\$ -
Capital assets being depreciated, net of accumulated depreciation	7,727,858	4,411,779
Less: Long-term debt outstanding	-	(1,970,000)
	<u>\$ 13,242,083</u>	<u>\$ 2,441,779</u>

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.

8. Fund balance

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

8. *Fund balance (continued)*

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

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

Assigned fund balance - includes amounts intended to be used by the Township for specific purposes but do not meet the criteria to be classified as committed. The governing body, the Board of Supervisors, has by resolution authorized the Township Manager or Finance Director to assign fund balance. The Board 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.

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.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

I. Summary of significant accounting policies (Continued)

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

9. Subsequent events

The Township has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No items required adjustment to or disclosure in the financial statements.

II. Stewardship, compliance, and accountability

A. Budgetary information

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

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During November, the Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them.
2. All budget revisions require the approval of the Township Board of Supervisors. All appropriations lapse at year-end.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Proprietary Funds. Budgetary control is maintained at the fund level.

B. Excess of expenditures over appropriations

For the year ended December 31, 2020 expenditures did not exceed appropriations in any category of the general fund. These over expenditures were funded by greater than anticipated revenues.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds

A. *Deposits and investments*

As of December 31, 2020, the government had the following investments:

	<u>Maturities</u>	
GOVERNMENTAL FUNDS		
Externally Pooled Investments	1 day	<u>\$ 15,687,429</u>
FIDUCIARY FUNDS		
PSAB Municipal Retirement Trust-Balanced Fund	N/A	<u>\$ 1,324,222</u>

Interest Rate Risk. This is the risk that changes in interest will adversely affect the fair value of an investment. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 I Note D. The government's investment in the external investment pools 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 fiduciary assets may not be invested in more than 5% of the total equity portfolio in the common stock of one corporation and not more than 25% of the stock value at market may be held in any one industry.

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, 2020, the government's carrying amount of deposits was \$16,444,722 and the bank balance was \$16,695,598. Of the bank balance, \$322,063 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. Externally pooled investments are considered a cash equivalent.

The Township's cash equivalent investments in PLGIT and money markets are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds (Continued)

A. *Deposits and investments (continued)*

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.

B. *Receivables*

Receivables as of year-end for the government’s funds are as follows:

	<u>General</u>	<u>Sewer</u>	<u>Capital Reserve</u>	<u>Total</u>
Receivables:				
Taxes	\$ 598,349	\$ -	\$ -	\$ 598,349
Accounts	86,283	42,234	75,420	203,937
Notes	-	430,031	-	430,031
Total Receivables	<u>\$ 684,632</u>	<u>\$ 472,265</u>	<u>\$ 75,420</u>	<u>\$ 1,232,317</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds (Continued)

C. *Capital assets*

Capital asset activity for the year ended December 31, 2020 was as follows:

Primary Government	Beginning			Ending
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,871,637	\$ -	\$ -	\$ 4,871,637
Easements	642,588	-	-	642,588
Total capital assets, not being depreciated	<u>5,514,225</u>	<u>-</u>	<u>-</u>	<u>5,514,225</u>
Capital assets, being depreciated:				
Buildings and improvements	3,189,467	-	132,604	3,056,863
Land improvements	1,457,404	-	-	1,457,404
Infrastructure	5,809,847	212,315	-	6,022,162
Traffic signal	215,127	250,575	-	465,702
Office equipment	273,738	-	145,816	127,922
Equipment	618,376	20,151	92,697	545,830
Vehicles	732,498	120,738	88,444	764,792
Total capital assets being depreciated	<u>12,296,457</u>	<u>603,779</u>	<u>459,561</u>	<u>12,440,675</u>
Less accumulated depreciation for:				
Buildings and improvements	1,458,690	93,592	132,604	1,419,678
Land improvements	789,562	97,160	-	886,722
Infrastructure	1,148,498	162,854	-	1,311,352
Traffic signal	165,434	28,832	-	194,266
Office equipment	237,789	8,756	145,816	100,729
Equipment	418,923	71,362	92,697	397,588
Vehicles	431,334	59,592	88,444	402,482
Total accumulated depreciation	<u>4,650,230</u>	<u>522,148</u>	<u>459,561</u>	<u>4,712,817</u>
Total capital assets, being depreciated, net	<u>7,646,227</u>	<u>81,631</u>	<u>-</u>	<u>7,727,858</u>
Governmental activities capital assets, net	<u>\$ 13,160,452</u>	<u>\$ 81,631</u>	<u>\$ -</u>	<u>\$ 13,242,083</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds (Continued)

C. Capital assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 3,483,147	\$ -	\$ -	\$ 3,483,147
Improvements	4,387,393	-	-	4,387,393
Machinery and equipment	686,813	-	-	686,813
Total capital assets being depreciated	<u>8,557,353</u>	<u>-</u>	<u>-</u>	<u>8,557,353</u>
Less accumulated depreciation for:				
Buildings	1,170,996	116,105	-	1,287,101
Improvements	2,187,848	145,740	-	2,333,588
Machinery and equipment	495,055	29,830	-	524,885
Total accumulated depreciation	<u>3,853,899</u>	<u>291,675</u>	<u>-</u>	<u>4,145,574</u>
Total capital assets, being depreciated, net	<u>4,703,454</u>	<u>(291,675)</u>	<u>-</u>	<u>4,411,779</u>
Business-type activities capital assets, net	<u>\$ 4,703,454</u>	<u>\$ (291,675)</u>	<u>\$ -</u>	<u>\$ 4,411,779</u>

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

Governmental activities:	
Administrative	\$ 44,833
Public works	365,929
Parks and Recreation	111,386
Total depreciation expense-governmental activities	<u>\$ 522,148</u>
Business-type activities	
Sewage treatment	<u>\$ 291,675</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds (Continued)

D. Interfund receivables, payables, and transfers

The interfund balances and transfers for the year ended December 31, 2020 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 1,029,567	\$ 1,031,527
Sewage treatment fund	1,960	-
Total	\$ 1,031,527	\$ 1,031,527

Interfund balances represent expenses paid for one fund on behalf of another.

	<u>Transfer in</u>	<u>Transfer out</u>
General fund	\$ -	\$ 1,746,143
Capital reserve	1,746,143	-
Total	\$ 1,746,143	\$ 1,746,143

Interfund transfers are primarily to fund capital projects in another fund.

E. Long term debt

General Obligation Notes and Bonds

The government issues general obligation notes and bonds to provide funds for the acquisition, construction, and improvement of facilities and the purchase of equipment and open space. General obligation notes and bonds have been issued for the governmental activities only. In 2016, the government issued \$2,495,000 in a general obligation bonds. General obligation notes and bonds are direct obligations and pledge the full faith and credit of the government. These notes and bonds are generally issued as 20-30 year serial notes and bonds with varying amounts of principal maturing each year.

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business activities	2-3%	\$ 1,970,000

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

III. Detailed notes on all funds (Continued)

E. Long term debt (continued)

The annual debt service requirements to maturity, including principal and interest, for long term debt, as of December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>
2021	\$ 130,000	\$ 41,431
2022	130,000	40,001
2023	130,000	38,376
2024	135,000	36,556
2025	135,000	33,856
2026-2030	730,000	126,381
2031-2035	395,000	48,781
2036-2040	150,000	18,750
2041	35,000	1,050
	<u>\$ 1,970,000</u>	<u>\$ 385,182</u>

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Net Pension Liability	<u>\$ 8,697</u>	<u>\$ 161,571</u>	<u>\$ 170,268</u>	<u>\$ -</u>	<u>\$ -</u>
Business Type activities:					
Bonds payable	<u>\$ 2,095,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 1,970,000</u>	<u>\$ 130,000</u>

Debt service for debt payments are funded primarily from taxes for governmental activities. Any liabilities for net pension obligations are generally liquidated by the general fund for governmental activities.

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 & Liability Trust pool. The insurance expense for the year ended December 31, 2020 was \$42,567.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

A. Risk management (continued)

The pooling agreement permits the pool to make additional assessments to its members. At December 31, 2020 there were no additional assessments due or anticipated. Instead the pool declared a dividend of which Worcester Township's share was \$4,485.

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, 2020 was \$26,027. The Trust declared a dividend in 2020 of which the Township's share was \$181. As a result of an audit of 2019 payroll, the Township received an additional \$79. An audit of the 2020 payroll will be performed in 2021.

The Township is also a member of the Delaware Valley Health Trust, a public entity risk pool operated for the benefit of approximately 30 municipalities. Trust underwriting and rate-setting policies are established after consultation with independent insurance consultants. Any member may withdraw from the Trust by giving 150 written notice to the Executive Committee. The insurance expense for the year ended December 31, 2020 was \$231,543. There were no additional assessments due or anticipated. The Trust did not declare a dividend.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world to date has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Township is unable to determine the extent to which this will materially impact its operations.

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. At the present time, there are no significant litigation matters pending.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan

Plan Description and Membership

The Township of Worcester Non-Uniformed Pension plan is a single-employer defined benefit pension. The Plan was established and entered into a Joinder Agreement with the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT) effective January 1, 1993. The Plan was restated by Ordinance No. 2003-187, effective December 31, 2002. This Plan is reported as a Pension Trust Fund in the accompanying financial statements and does not issue stand-alone reports. The Plan is administered by the Township. The most recent valuation was as of January 1, 2019. Details below are from the valuation.

Effective January 1, 2017, the Plan was amended and closed to new participants.

Non-Uniformed Employees' Defined Benefit Pension Plan - The Plan is a contributory, single employer defined benefit plan that covers all full-time non-uniformed employees who were hired before January 1, 2019.

The Plans are governed by the Board of Supervisors of the Township of Worcester which may amend the plan provisions, and which is responsible for the management of Plan assets. The Board of Supervisors has delegated authority to manage certain Plan assets to the PSABMRT. The Plan is required to file Form PC-203C biennially with the Public Employee Retirement Commission (PERC).

At December 31, 2020, Worcester Township's Pension Plan consisted of the following:

	Defined <u>Benefit</u>
Inactive employees (or their beneficiaries)	
currently receiving benefits	11
Inactive employees entitled to benefits	
but not yet receiving them	3
Active employees	<u>4</u>
Total members	<u>18</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Benefits Provided

The Plan provides retirement benefits as well as death benefits to plan members and their beneficiaries. Compensation is averaged over the last 60 months of employment. Pennsylvania law establishes benefits and contribution provisions. All benefits are vested 20% after the completion of three years of services, increasing by 20% per year to a maximum of 100% percent after seven years of service. Participants as of September 1, 1993 were 100% vested. Employees, who retire at or after age 65, are entitled to an annual retirement benefit, payable monthly, equal to 1.3 percent of Average Monthly Compensation multiplied by Years of Credited Service after January 1, 1993.

A member is eligible for early retirement after attainment of age 62 and completion of 7 years of service. The early retirement pension is the actuarial equivalent of the member's accrued benefit payable at normal retirement. A death benefit before retirement, after vesting is equal to 50% of the joint and survivor benefit that would have been payable to the participant, assuming the participant had retired or terminated the day before death. Benefit provisions are established and amended by Pennsylvania law. Administrative costs of the Plan are financed through investment earnings.

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.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Method Used to Value Investments: Pension Plan equity security fixed income securities are reported at fair value, investment income is recognized as earned. 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. Gains and losses on sales and exchanges of fixed income securities are recognized on the transaction date. Market related value of assets is used to determine the indicated contribution.

Contributions

Members are not required to contribute to the plan. Contributions are determined on an annual basis. Administrative costs and investment costs of the Plan are financed through an addition to the Actuarially Determined Employer Contribution.

The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Pension Fund. 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.

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

The Township's annual required contribution is equal to its minimum municipal obligation ("MMO") as calculated in accordance with Pennsylvania law (Act 205 of 1984) less state aid and employee contributions deposited in the pension fund during the year. State law requires that state aid be used first to fund the Plan, then employee contributions and finally general Township funds. The Township received state aid, which is recognized as revenue and expenses, in the amount of \$54,162 for the pensions for the year ended December 31, 2020.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Investments

Investment Policy: The Plan's investment policy has been delegated to the PASBMRT in regards to allocation to the invested Plan assets. The PSABMRT provides 2 investment options – the Balanced Fund and the Fixed Income Fund. The Balanced Fund's investment policy established the following target allocation across asset classes:

<u>Asset Class</u>	<u>Target Allocation</u>
US Large Cap Growth	12%
US Large Cap Value	12%
US Large Cap Core	13%
US Small & Mid Cap Equity	8%
International Equity	15%
Fixed Income	33%
Private Real Estate	7%
Cash	0%
Expected Real Rate of Return - 4.9%. Excludes an inflation expectation of 2.0%	
Long-term Expected Rate of Return, including inflation - 6.9%	

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2020, all plan assets were invested in the PSABMRT General Balanced Fund, which is not rated. However, the formal investment policy of the PSABMRT requires fixed income securities within the portfolio to be rated BBB or higher at the time of purchase, and requires any asset-backed or mortgage-backed securities within the portfolio to be rated AAA at the time of purchase.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. At December 31, 2020 the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

Interest Rate Risk: This is the risk that a change in interest rates will adversely affect the fair value of an investment. For the General Balanced Fund, the policy states shall be broadly diversified by maturity with a maximum effective maturity of any single security not to exceed 40 years.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Rate of Return: For the year ended December 31, 2020, the annual money-weighted rate of return on Plan investments, net of investment expense was 10.04 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The components of the net pension liability of participating entities at December 31, 2020 were as follows:

Total pension liability	\$ 1,243,522
Plan fiduciary net position	<u>(1,279,473)</u>
Net pension liability	<u>\$ (35,951)</u>
Plan fiduciary net position as a percentage of the total pension liability	 103%

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

Inflation	2.75%
Salary increases	5.00% (including inflation)
Investment rate of return	6.75%

Mortality rates were based on the RP-2014 Mortality Table with 50% Blue Collar Adjustment and projected improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration Trustee Report.

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 the Plan was measured as of December 31, 2020 and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Net Pension Liability (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>
US Large Cap Growth	12%
US Large Cap Value	12%
US Large Cap Core	13%
US Small & Mid Cap Equity	8%
International Equity	15%
Fixed Income	33%
Private Real Estate	7%
Cash	0%

Expected Real Rate of Return - 4.9%. Excludes an inflation expectation of 2.0%
Long-term Expected Rate of Return, including inflation - 6.9%

Discount Rate: The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive Plan members.

Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. 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.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<u>Non-Uniformed Defined Benefit Pension Plan</u>			
Balance at December 31, 2019	\$ 1,211,597	\$ 1,202,900	\$ 8,697
Changes for the year:			
Service cost	35,337	-	35,337
Interest	81,309	-	81,309
Change of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Change of assumptions	-	-	-
Contributions - employer	-	49,491	(49,491)
Contributions - employee	-	-	-
Net investment income	-	120,777	(120,777)
Benefit payments, including refunds of employee contributions	(84,721)	(84,721)	-
Administrative expense	-	(8,974)	8,974
Other changes	-	-	-
Net Changes	31,925	76,573	(44,648)
Balance at December 31, 2020	\$ 1,243,522	\$ 1,279,473	\$ (35,951)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of participating entities calculated using the discount rate of 6.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	\$ 106,976	\$ (35,951)	\$ (156,410)

Deferred Outflows and Inflows of Resources: For the year ended December 31, 2020, the Township recognized pension expense of \$18,269 for the Non-Uniformed Pension.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C Employee retirement pension plan (continued)

At December 31, 2020, the Township reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Non-Uniform Defined Benefit Pension</u>		
Differences between expected and actual experience	\$ -	\$ 139,940
Changes in assumptions	89,695	-
Difference between projected and actual earnings on pension plan investments	-	55,849
Total	<u>\$ 89,695</u>	<u>\$ 195,789</u>

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

Year Ended December 31:	<u>Non-Uniform</u>
2021	\$ (33,535)
2022	(20,386)
2023	(46,111)
2024	(25,901)
2025	(1,984)
Thereafter	21,823
Total	<u>\$ (106,094)</u>

Payable to the Pension Plan: For the year ended December 31, 2020, there was no amount payable for contributions to the pension plan.

Description of Defined-Contribution Plan

Effective January 1, 2017, the Township created a defined contribution pension plan. The Pension Plan is a money purchase plan which covers all non-uniform employees employed by the Township and work 35 hours or more per week and are not covered by any other retirement plans to which the Township makes contributions.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

IV. Other information (Continued)

C. Employee retirement pension plan (continued)

Description of Defined-Contribution Plan (continued)

During 2020, there were 8 active participants in the plan. Participants are 20% vested after three years of service, and the vesting increases 20% for each additional year. After seven years of service, the person is fully vested. The 2020 contribution to the plan was 5% of each participant's base salary and was funded by the Township. The Plan is managed by an outside trustee appointed by the Township. For 2020, the township contributed \$19,399 to the plan. The participants are not required but may make voluntary contributions.

The Non-Uniform Pension Plan's funding policy is based on a set rate and benefits are a function of accumulated assets. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Pension Fund.

This plan is part of the Non-Uniformed Employees' Pension Plan. It is reported as a Pension Trust Fund in the accompanying financial statements. Pension Plan Financial Statements are prepared using the accrual basis of accounting. Employee and Employer contributions are recognized as revenue in the period in which employee services are performed. Investment are reported at fair value and investment income is recognized when earned. Gains and losses on sales and exchanges are recognized on the transaction date. The net appreciation/(depreciation) in fair value of investments is recorded as and increase/(decrease) to investment income.

A \$21,316 prior period adjustment was made to properly state opening state net position.

D. Escrow cash deposits and investments

The Township acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Township and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Township. At December 31, 2020, \$355,371 represents the balance of these monies held in escrow.

REQUIRED SUPPLEMENTAL INFORMATION

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniformed Defined Benefit Pension Plan

DECEMBER 31, 2020

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability				
Service cost	\$ 35,337	\$ 33,654	\$ 54,019	\$ 51,271
Interest	81,309	79,090	85,510	81,082
Changes of benefit terms	-	-	1,422	-
Differences between expected and actual experience	-	(139,807)	-	(46,304)
Changes of assumptions	-	-	-	132,923
Benefit payments, including refunds of employee contributions	(84,721)	(77,145)	(71,861)	(70,033)
Net change in total pension liability	31,925	(104,208)	69,090	148,939
Total pension liability - beginning	1,211,597	1,315,805	1,246,715	1,097,776
Total pension liability - ending (a)	<u>\$ 1,243,522</u>	<u>\$ 1,211,597</u>	<u>\$ 1,315,805</u>	<u>\$ 1,246,715</u>
Plan fiduciary net position				
Contributions - employer	\$ 49,491	\$ 51,205	\$ 55,699	\$ 51,306
Contributions - employee	-	-	-	-
Net investment income	120,777	171,032	(53,165)	134,278
Benefit payments, including refunds of employee contributions	(84,721)	(77,145)	(71,861)	(70,033)
Administrative expense	(8,974)	(8,861)	(8,411)	(16,242)
Other	-	-	-	-
Net change in plan fiduciary net position	76,573	136,231	(77,738)	99,309
Plan fiduciary net position - beginning	1,202,900	1,066,669	1,144,407	1,045,098
Plan fiduciary net position - ending (b)	<u>\$ 1,279,473</u>	<u>\$ 1,202,900</u>	<u>\$ 1,066,669</u>	<u>\$ 1,144,407</u>
Township's net pension liability - ending (a)-(b)	<u>\$ (35,951)</u>	<u>\$ 8,697</u>	<u>\$ 249,136</u>	<u>\$ 102,308</u>
Plan fiduciary net position as a percentage of the total pension liability	102.9%	99.3%	81.1%	91.8%
Covered-employee payroll	\$ 274,541	\$ 300,349	\$ 339,640	\$ 327,069
Township's net pension liability as a percentage of covered-employee payroll	-13.1%	2.9%	73.4%	31.3%
Annual money-weighted rate of return, net of investment expense	10.04%	16.01%	-4.76%	13.24%

Notes to Schedule:

Assumption Changes - In 2017, the interest rate assumption was lowered from 7.5% to 7.25%, the mortality assumption was changed from 1994 Uninsured Pensioner Mortality Table to Blue Collar RP-2000 projected with mortality improvements using 75% of Scale AA, and the pre-retirement death benefit is valued assuming 100% of the participants are married with female spouse 3 years younger

Benefit change - In 2017, the pre-retirement death benefit was amended and a defined contribution plan was created for participants hired on or after 1/1/2017.

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.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$	46,863	\$ 44,631	\$ 77,873
	75,538	70,045	127,810
	-	-	-
	-	(27,499)	-
	-	-	-
	<u>(38,668)</u>	<u>(43,520)</u>	<u>(52,739)</u>
	83,733	43,657	152,944
	<u>1,014,043</u>	<u>970,386</u>	<u>817,442</u>
\$	<u>1,097,776</u>	\$ <u>1,014,043</u>	\$ <u>970,386</u>

\$	56,870	\$ 54,892	\$ 54,249
	-	-	-
	45,890	(6,832)	48,764
	(38,668)	(43,520)	(29,606)
	(11,167)	(13,738)	(1,475)
	-	-	-
	<u>52,925</u>	<u>(9,198)</u>	<u>71,932</u>
	992,173	1,001,371	929,439
\$	<u>1,045,098</u>	\$ <u>992,173</u>	\$ <u>1,001,371</u>

\$	<u>52,678</u>	\$ <u>21,870</u>	\$ <u>(30,985)</u>
----	---------------	------------------	--------------------

	95.2%	97.8%	103.2%
\$	630,663	\$ 674,180	\$ 587,864

	8.4%	3.2%	-5.3%
--	------	------	-------

	4.67%	-0.69%	6.13%
--	-------	--------	-------

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniformed Pension Plan

DECEMBER 31, 2020

SCHEDULE OF CONTRIBUTIONS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 49,491	\$ 49,557	\$ 52,571	\$ 49,494	\$ 51,984	\$ 50,845
Contributions in relation to the actuarially determined contribution	<u>49,491</u>	<u>51,205</u>	<u>55,699</u>	<u>51,306</u>	<u>56,870</u>	<u>54,892</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,648)</u>	<u>\$ (3,128)</u>	<u>\$ (1,812)</u>	<u>\$ (4,886)</u>	<u>\$ (4,047)</u>
Covered-employee payroll	\$ 274,541	\$ 300,349	\$ 339,640	\$ 327,069	\$ 630,663	\$ 674,180
Contributions as a percentage of covered-employee payroll	18.0%	17.0%	16.4%	15.7%	9.0%	8.1%

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	1/1/2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar - open
Remaining amortization period	13 years
Asset valuation method	5 Year Smoothing
Inflation	2.75%
Salary increases	5% (including inflation)
Investment rate of return	6.75% (net of investment expenses not funded through the MMO, and including inflation)
Retirement age	The latest of age 65, the completion of 5 years of participation or attained age.
Mortality	RP-2014 Combined Mortality Table and projected improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report

Benefit Changes: Effective 1/1/17, the pre-retirement death benefit provisions was amended so that the spouse of a married participant or the beneficiary of single participant may elect a survivor benefit of either the actuarially reduced joint and a 50% survivor annuity or the actuarially reduced 10-years certain and continuous optional form.

Also, a defined contribution plan was created for eligible participants hired on or after 1/1/17.

Assumption Changes: Interest rate lowered from 7.25% to 6.75%, mortality updated from RP-2000 Combined Health Mortality with Blue Collar adj. and 75% scale AA to RP-2014 mortality with 50% Blue Collar adjustment and projected improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.

(1) - covered employee payroll taken from 1/1/2011 through 1/1/2013 actuarial valuations

This schedule is presented to illustrate the requirement to show information for 10 years.