

**MILLCREEK TOWNSHIP**

**Financial Statements**

**December 31, 2016**

**MILLCREEK TOWNSHIP**  
**Table of Contents**  
**December 31, 2016**

	Page
<b>Independent Auditors' Report</b>	4-6
<b>Management's Discussion and Analysis</b>	7-12
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	13
Statement of Activities	14-15
<b>Fund Financial Statements</b>	
Balance Sheet-Governmental Funds – December 31, 2016	16
Reconciliation of the Governmental Funds – Balance Sheet to the Statement of Net Position – December 31, 2016	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds – For the Year Ended December 31, 2016	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - For the Year Ended December 31, 2016	19
Statement of Net Position – Proprietary Fund – December 31, 2016	20
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – For the Year Ended December 31, 2016	21
Statement of Cash Flows – Proprietary Funds – For the Year Ended December 31, 2016	22
Statement of Fiduciary Net Position – Fiduciary Funds – December 31, 2016	23
Statement of Changes in Fiduciary Net Position – Fiduciary Funds For the Year Ended December 31, 2016	24
<b>Notes to the Financial Statements</b>	25-64
<b>Required Supplemental Information</b>	65
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Capital Projects Fund – For the Year Ended December 31, 2016	66
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual State Fund – For the Year Ended December 31, 2016	67
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Sinking Fund – For the Year Ended December 31, 2016	68

# MILLCREEK TOWNSHIP

## Table of Contents

December 31, 2016

(Continued)

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual General Fund – For the Year Ended December 31, 2016	69
Schedule of Changes in the Township’s Net Pension Liability and Related Ratios	70
Schedule of Contributions	71
Schedule of Investment Returns	72
Schedule of Pension Plans’ Funding Progress	73
Post-Employment Benefits Other Than Pension Benefits Schedule of Funding Progress	74
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75-76



---

FELIX & GLOEKLER, P. C.

---

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

### **Independent Auditors' Report**

To the Board of Supervisors  
Millcreek Township  
Erie, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, Pennsylvania, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Millcreek 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Millcreek Township Water Authority or Millcreek Township Sewer Authority discretely presented component units, which statements reflect total assets constituting 9 percent of total assets at December 31, 2016, and total revenues constituting 4 percent of total revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Millcreek Township Water Authority or Millcreek Township Sewer Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

**Independent Auditors' Report**  
**(Continued)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

**Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, Pennsylvania as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Independent Auditors' Report**  
**(Continued)**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2017 on our consideration of Millcreek Township, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Millcreek Township, Pennsylvania's internal control over financial reporting and compliance.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

May 23, 2017  
Erie, Pennsylvania

**MILLCREEK TOWNSHIP**  
**Management's Discussion and Analysis**  
**December 31, 2016**

The discussion and analysis of the Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the Township's performance as a whole; readers should also review the basic financial statements to enhance their understanding of Millcreek Township's financial performance.

**Overview of the Financial Statements**

This annual report consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

*Statement of Net Position and the Statement of Activities*

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

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

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

- *Governmental Activities* – Most of the Township's services are reported here including police, administration, and all departments with the exception of the Sewer Revenue Fund.
- *Business-Type Activities* – These services have a charge based upon the amount of usage. The Township charges fees to recoup the cost of the entire operations of our Sewer System as well as all capital expenses associated with the facility.
- *Component Units* – The Township includes the Sewer and Water Authorities in this report. Although legally separate, these component units are important because the Township guarantees their debt. Separately issued financial statements can be obtained for these component units by contacting the individual Authorities.

The government-wide financial statements can be found on pages 13 through 15 of this report.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** – Most of the Township’s activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Township’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in Statement of Net Position and the Statement of Activities) and the governmental funds is reconciled in the financial statements. The Township has five governmental funds: the General, State, Capital Projects, Sinking, and Community Development Block Grants (HUD).

**Proprietary funds** – When the Township charges customers for the services it provides, these services are generally reported in the proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**Notes to the financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Analysis** – The Township’s assets exceeded liabilities by \$115.5 million at the close of the most recent fiscal year. The largest portion of the Township’s net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. An additional portion of the Township’s net position represents resources that have been restricted by external parties.

Table 1 provides a summary of the Township’s statement of net position at December 31, 2016 and 2015.

	2016	2015	2016	2015	2016	2015
	Governmental	Governmental	Business-Type	Business-	2016	2015
	Activities	Activities	Activities	Type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
<b>Assets</b>						
Current and other assets	\$ 33,239,994	\$ 12,093,037	\$ 9,055,082	\$ 6,439,155	\$ 42,295,076	\$ 18,532,192
Capital assets	54,001,585	55,304,033	53,831,035	53,040,018	107,832,620	108,344,051
<b>Total Assets</b>	<b>87,241,579</b>	<b>67,397,070</b>	<b>62,886,117</b>	<b>59,479,173</b>	<b>150,127,696</b>	<b>126,876,243</b>
<b>Deferred Outflows of Resources</b>						
Deferred outflows – pensions	1,450,642	1,822,502	123,576	166,540	1,574,218	1,989,042
<b>Liabilities</b>						
Current liabilities and other liabilities	3,215,715	2,816,287	222,461	504,292	3,438,176	3,320,579
Long-term liabilities						
Due within one year	1,066,135	940,834	-	645,000	1,066,135	1,585,834
Due in more than one year	14,494,069	19,326,846	10,520,000	10,156,105	25,014,069	29,482,951
Net pension liability	6,159,818	6,468,657	550,884	591,105	6,710,702	7,059,762
<b>Total Liabilities</b>	<b>24,935,737</b>	<b>23,083,967</b>	<b>11,293,345</b>	<b>11,305,397</b>	<b>36,229,082</b>	<b>34,389,364</b>
<b>Net Position</b>						
Net Investment in capital assets	53,842,748	55,081,255	43,705,772	42,830,018	97,548,520	97,911,273
Restricted for:						
Road surface repairs	697,072	348,471	-	-	697,072	348,471
Tax appeals	96,663	-	-	-	96,663	-
Unrestricted (deficit)	9,120,001	(9,294,121)	8,010,576	5,510,298	17,130,577	(3,783,823)
<b>Total Net Position</b>	<b>\$ 63,756,484</b>	<b>\$ 46,135,605</b>	<b>\$ 51,716,348</b>	<b>\$ 48,340,316</b>	<b>\$115,472,832</b>	<b>\$ 94,475,921</b>

Table 2 provides a summary of the Township's Statement of Activities for the years ended December 31, 2016 and 2015.

	2016	2015	2016	2015	2016	2015
	Governmental	Governmental	Business-Type	Business-Type	2016	2015
	Activities	Activities	Activities	Activities	Total	Total
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 1,880,429	\$ 2,105,715	\$ 10,581,477	\$ 10,188,741	\$ 12,461,906	\$ 12,294,456
Operating grants and contributions	3,887,814	3,190,933	-	-	3,887,814	3,190,933
Capital grants and contributions	-	110,150	1,521,684	1,177,644	1,521,684	1,287,794
General Revenues:						
Property taxes	13,973,129	13,674,986	-	-	13,973,129	13,674,986
Income taxes	7,397,210	7,370,686	-	-	7,397,210	7,370,686
Other taxes	2,190,440	2,169,643	-	-	2,190,440	2,169,643
Investment earnings/(losses)	(30,814)	25,870	-	-	(30,814)	25,870
Other	344,813	449,566	-	-	344,813	312,159
<b>Total Revenues</b>	<b>29,643,021</b>	<b>28,960,142</b>	<b>12,103,161</b>	<b>11,366,385</b>	<b>41,746,182</b>	<b>40,326,527</b>
<b>Expenses:</b>						
General government	5,819,113	5,430,729	-	-	5,819,113	5,430,729
Public safety	15,583,837	15,903,044	-	-	15,583,837	15,903,044
Highways	7,633,007	7,609,957	-	-	7,633,007	7,609,957
Parks and recreation	1,093,564	1,189,067	-	-	1,093,564	1,189,067
Community	1,727,200	278,132	-	-	1,727,200	278,132
Interest	3,788	4,560	-	-	3,778	4,560
Sewer revenue fund	-	-	8,709,721	8,249,764	8,709,721	8,249,764
<b>Total Expenses</b>	<b>31,860,509</b>	<b>30,415,489</b>	<b>8,709,721</b>	<b>8,249,764</b>	<b>40,570,230</b>	<b>38,665,253</b>
<b>Excess (deficit) before transfers</b>	<b>(2,217,488)</b>	<b>(1,455,347)</b>	<b>3,393,440</b>	<b>3,116,621</b>	<b>1,175,952</b>	<b>1,661,274</b>
<b>Transfers</b>	<b>17,408</b>	<b>17,408</b>	<b>(17,408)</b>	<b>(17,408)</b>	<b>-</b>	<b>-</b>
<b>Transfer from Water Authority</b>	<b>19,820,959</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,820,959</b>	<b>-</b>
<b>Change in net position</b>	<b>17,620,879</b>	<b>(1,437,939)</b>	<b>3,376,032</b>	<b>3,099,213</b>	<b>20,996,911</b>	<b>1,661,274</b>
<b>Net Position, beginning</b>	<b>46,135,605</b>	<b>47,573,544</b>	<b>48,340,316</b>	<b>45,241,103</b>	<b>94,475,921</b>	<b>92,814,647</b>
<b>Net Position, ending</b>	<b>\$ 63,756,484</b>	<b>\$ 46,135,605</b>	<b>\$ 51,716,348</b>	<b>\$ 48,340,316</b>	<b>\$ 115,472,832</b>	<b>\$ 94,475,921</b>

## **Governmental Activities**

The Township's governmental activities net position increased by \$17,620,879 in 2016 compared to a \$1,437,939 decrease in 2015. Much of the increase can be attributed to the sale of the Water Authority assets to Erie Water Works. Revenues increased by \$682,869 or 2.4%. The increase is the result of increases in property taxes and income taxes. The expenses increased \$1,445,010 or 4.8% from the prior year. Most of the increase is due to an increase in community spending for the grant to Asbury Woods Partnership.

Several sources fund our Governmental Activities with the Township real estate tax being the largest contributor. The real estate tax rate of 3.5537 mills was approved in December 2015. The local income tax is the next largest source of revenue. The local income tax rate is 0.5% of earned income. The real estate taxes and the income tax comprise 72% of revenue sources. Funding from various government programs account for 13% of total revenues.

Public safety is the major activity of the Township constituting 49% of governmental activity expenses. The other major activity of the Township is maintaining streets. The highways expense accounts for 24% of the Township's expenses.

## **Business-Type Activities**

The net position from business-type activities increased \$3,376,032 in 2016 as compared to an increase of \$3,099,213 in 2015. The increase in 2015 is due to contributions to the sewer system from the Millcreek Township Sewer Authority. The Sewer Revenue Fund total expenses were \$8,709,721 and are 5.6% more than the prior year's total expenses of \$8,249,764. The increase can be attributed to an increase in sewer treatment and transportation costs.

## **The Township's Funds**

Information about the Township's major governmental funds begins on page 16. These funds use the modified accrual basis of accounting to record transactions. All Governmental funds had total revenues and other financing sources of \$29,703,282 and expenditures of \$28,703,667, resulting in an increase in combined fund balance of \$999,615. The increase in the general fund balance was greater than the budgeted increase primarily due to actual expenses being less than budget. The state fund balance increased as a result of greater state liquid fuels grant and less than budgeted expenditures for road repairs. The decrease in the sinking fund balance is due to the retirement of debt. The supplementary schedules on pages 65 through 69 show the detail of the variances with the final adjusted budgeted amounts.

## **Budget**

For the general fund, the original and final budgeted revenues were \$26,559,855. The actual revenues were \$461,507 greater than budget. The increase can be attributed to a better than expected collection rate on real estate taxes. Intergovernmental revenues were greater than budget due to delays in permitting for certain construction projects. The original and final budgeted expenditures were \$28,822,110. Actual expenditures were 8.1% less than projected. The decrease can be attributed to lower than expected costs mainly for streets.

## **Capital Assets**

At December 31, 2016, Millcreek Township had \$54,001,585 invested in capital assets in governmental activities and \$53,831,035 in business-type activities. The major additions in governmental activities in the current year were in highway equipment. The major additions in business-type activities were in the sewer system. Additional information regarding these changes in capital assets can be found in Note 3 of the financial statements.

## **Debt Administration**

As of January 1, 2016, the Township had total outstanding debt payable of \$10,432,778. During the year, the Township and its component units incurred new debt of \$7,900,000 and paid principal payments of \$7,653,941 resulting in an ending outstanding debt balance as December 31, 2016 of \$10,678,837. More detailed information about long-term liabilities is included in Note 7 to the financial statements.

## **Contacting the Township's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need more information, contact the Treasurer of Millcreek Township at 3608 West 26<sup>th</sup> Street, Erie, PA 16506.

The individual financial statements of Millcreek Township Sewer can be obtained by contacting the Millcreek Township Sewer Authority at 3608 West 26<sup>th</sup> Street, Erie, PA 16506. Because the Millcreek Township Water Authority was decommissioned, its financial statements can be obtained by contacting the Treasurer of Millcreek Township at 3608 West 26<sup>th</sup> Street, Erie, PA 16506.

**MILLCREEK TOWNSHIP**  
**Statement of Net Position**  
**December 31, 2016**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Sewer Authority	Water Authority
<b>Assets</b>					
Cash and cash equivalents	\$ 10,775,213	\$ 6,607,802	\$ 17,383,015	\$ 2,183,355	\$ -
Investments	9,261,244	-	9,261,244	-	-
Receivables					
Taxes receivable, net	2,669,111	-	2,669,111	-	-
Assessments receivable	66,408	-	66,408	1,030,097	-
Other accounts receivable	548,540	1,230,439	1,778,979	53,911	-
Due from other governments	360,109	227,800	587,909	-	-
Prepaid expenses	-	592,978	592,978	-	-
Internal balances	159,324	(159,324)	-	-	-
Inventories	213,403	-	213,403	-	-
Note receivable-Water Authority	9,000,000	-	9,000,000	-	-
Long-term receivable	89,979	160,650	250,629	-	-
Long-term lease rental receivable	-	-	-	10,520,000	-
Restricted cash and investments	96,663	-	96,663	1,059,139	-
Other assets	-	394,737	394,737	-	-
Capital assets, not being depreciated	3,746,175	-	3,746,175	-	-
Capital assets, net of accumulated depreciation	50,255,410	53,831,035	104,086,445	612,462	-
Total Assets	<u>87,241,579</u>	<u>62,886,117</u>	<u>150,127,696</u>	<u>15,458,964</u>	<u>-</u>
Deferred outflows of resources					
Deferred outflows-pensions	1,450,642	123,576	1,574,218	-	-
<b>Liabilities</b>					
Accounts payable	1,503,679	43,120	1,546,799	190,513	-
Accrued salaries and benefits	711,903	175,018	886,921	-	-
Payroll withholdings	2,660	-	2,660	-	-
Contractor deposits	880,091	-	880,091	70,000	-
Other liabilities	-	4,323	4,323	-	-
Unearned revenues	117,382	-	117,382	-	-
Non current liabilities					
Due within one year	1,066,135	-	1,066,135	760,000	-
Due in more than one year	14,494,069	-	14,494,069	10,405,534	-
Long term lease rental payable	-	10,520,000	10,520,000	-	-
Net pension liability	6,159,818	550,884	6,710,702	306,930	-
Total Liabilities	<u>24,935,737</u>	<u>11,293,345</u>	<u>36,229,082</u>	<u>11,732,977</u>	<u>-</u>
Deferred inflows of resources	-	-	-	1,540,711	-
<b>Net Position</b>					
Net investment in capital assets	53,842,748	43,705,772	97,548,520	612,462	-
Restricted for:					
Capital Activity and Debt Service	-	-	-	1,059,139	-
Road surface repairs	697,072	-	697,072	-	-
Tax appeals	96,663	-	96,663	-	-
Unrestricted (deficit)	9,120,001	8,010,576	17,130,577	513,675	-
Total Net Position	<u>\$ 63,756,484</u>	<u>\$ 51,716,348</u>	<u>\$ 115,472,832</u>	<u>\$ 2,185,276</u>	<u>\$ -</u>

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

**MILLCREEK TOWNSHIP**  
**Statement of Activities**  
**For the Year Ended December 31, 2016**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 5,819,113	\$ 1,524,676	\$ 1,318,933	\$ -
Public safety	15,583,837	194,956	507,533	-
Highways	7,633,007	-	1,834,919	-
Parks and recreation	1,093,564	-	-	-
Community	1,727,200	160,797	226,429	-
Interest on long-term debt	3,788	-	-	-
Total Governmental Activities	<u>31,860,509</u>	<u>1,880,429</u>	<u>3,887,814</u>	<u>-</u>
Business-Type Activities:				
Sewer Revenue Fund	<u>8,709,721</u>	<u>10,581,477</u>	<u>-</u>	<u>1,521,684</u>
Total Primary Government	<u>\$ 40,570,230</u>	<u>\$ 12,461,906</u>	<u>\$ 3,887,814</u>	<u>\$ 1,521,684</u>
Component Units:				
Water Authority	<u>\$ 474,428</u>	<u>\$ 1,568</u>	<u>\$ -</u>	<u>\$ -</u>
Sewer Authority	<u>\$ 2,292,977</u>	<u>\$ 8,534</u>	<u>\$ 763,573</u>	<u>\$ 1,382,173</u>

General Revenues:  
Property Taxes Levied for:  
  General Purposes  
  Capital Outlay  
Earned Income Taxes  
Other taxes  
Investment earnings  
Gain (loss) on disposal of assets  
Other income  
Transfer to Millcreek Township  
Transfers  
  Total General Revenues and Transfers

Change in net position

Net position - beginning

Net position - ending

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

Net (Expense)/Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business- Type Activities	Total	Sewer Authority	Water Authority
\$ (2,975,504)	\$ -	\$ (2,975,504)	\$ -	\$ -
(14,881,348)	-	(14,881,348)	-	-
(5,798,088)	-	(5,798,088)	-	-
(1,093,564)	-	(1,093,564)	-	-
(1,339,974)	-	(1,339,974)	-	-
(3,788)	-	(3,788)	-	-
<u>(26,092,266)</u>	<u>-</u>	<u>(26,092,266)</u>	<u>-</u>	<u>-</u>
-	3,393,440	3,393,440	-	-
<u>(26,092,266)</u>	<u>3,393,440</u>	<u>(22,698,826)</u>	<u>-</u>	<u>-</u>
				<u>(472,860)</u>
			<u>(138,697)</u>	
13,391,134	-	13,391,134	-	-
581,995	-	581,995	-	-
7,397,210	-	7,397,210	-	-
2,190,440	-	2,190,440	-	-
(30,814)	-	(30,814)	45,145	24,382
186,646	-	186,646	-	34,414
158,167	-	158,167	161,469	1,781
19,820,959	-	19,820,959	-	(19,820,959)
17,408	(17,408)	-	-	-
<u>43,713,145</u>	<u>(17,408)</u>	<u>43,695,737</u>	<u>206,614</u>	<u>(19,760,382)</u>
17,620,879	3,376,032	20,996,911	67,917	(20,233,242)
<u>46,135,605</u>	<u>48,340,316</u>	<u>94,475,921</u>	<u>2,117,359</u>	<u>20,233,242</u>
<u>\$ 63,756,484</u>	<u>\$ 51,716,348</u>	<u>\$ 115,472,832</u>	<u>\$ 2,185,276</u>	<u>\$ -</u>

# MILLCREEK TOWNSHIP

## Balance Sheet Governmental Funds December 31, 2016

	General Fund	Capital Projects Fund	State Fund Special Revenue Fund	Sinking Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 8,361,276	\$ 1,540,059	\$ 697,120	\$ 176,758	\$ 10,775,213
Restricted cash	96,663	-	-	-	96,663
Investments	9,261,244	-	-	-	9,261,244
Taxes receivable	2,669,111	-	-	-	2,669,111
Assessment receivables	66,408	-	-	-	66,408
Other accounts receivable	548,540	-	-	-	548,540
Due from other governments	360,109	-	-	-	360,109
Due from other funds	159,324	-	-	-	159,324
Note receivable	9,000,000	-	-	-	9,000,000
Inventories	213,403	-	-	-	213,403
Total Assets	\$ 30,736,078	\$ 1,540,059	\$ 697,120	\$ 176,758	\$ 33,150,015
<b>Liabilities</b>					
Accounts payable	\$ 1,503,631	\$ -	\$ 48	\$ -	\$ 1,503,679
Accrued salaries and benefits	711,903	-	-	-	711,903
Payroll withholdings	2,660	-	-	-	2,660
Contractor deposits	880,091	-	-	-	880,091
Unearned revenues	117,382	-	-	-	117,382
Total Liabilities	3,215,667	-	48	-	3,215,715
Deferred inflows of resources	626,776	-	-	-	626,776
<b>Fund Balances</b>					
Nonspendable	213,403	-	-	-	213,403
Restricted for:					
Road surface repairs	-	-	697,072	-	697,072
Tax Appeals	96,663	-	-	-	96,663
Assigned					
Debt Service	-	-	-	176,758	176,758
Traffic signals	28,853	-	-	-	28,853
Committed					
Capital projects	18,261,244	1,540,059	-	-	19,801,303
Subsequent years' budget	1,302,143	-	-	-	1,302,143
Unassigned	6,991,329	-	-	-	6,991,329
Total Fund Balances	26,893,635	1,540,059	697,072	176,758	29,307,524
Total Liabilities, Deferred inflows of resources, and Fund Balances	\$ 30,736,078	\$ 1,540,059	\$ 697,120	\$ 176,758	\$ 33,150,015

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

**MILLCREEK TOWNSHIP**  
**Reconciliation of the Governmental Funds-Balance Sheet**  
**to the Statement of Net Position**  
December 31, 2016

Differences in amounts reported for governmental activities in the Statement of Net Position:

Total Fund Balances - Governmental Funds	\$	29,307,524
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds		54,001,585
Long-term receivables are not available to pay current period expenditures and, therefore, are not reported in the governmental funds		89,979
Certain deferred inflows of resources are not available to pay current period expenditures and, therefore, are unearned in the funds-Unavailable revenue-Property taxes		626,776
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		1,450,642
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Loans payable	\$	(158,837)
Post-employment benefits		(13,899,879)
Compensated absences (sick and vacation pay)		(1,501,488)
Net pension liability		(6,159,818)
		(21,720,022)
Total Net Position - Governmental Activities	\$	63,756,484

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

**MILLCREEK TOWNSHIP**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2016**

	General Fund	Capital Projects Funds	State Fund Special Revenue Fund	Sinking Fund	HUD Program	Total Governmental Funds
<b>Revenues</b>						
Property and other taxes	\$ 23,021,637	\$ 581,995	\$ -	\$ -	\$ -	\$ 23,603,632
Licenses and permits	887,849	-	-	-	-	887,849
Fines	194,956	-	-	-	-	194,956
Intergovernmental	1,965,366	-	1,596,019	-	226,429	3,787,814
Charges for services	160,797	-	-	-	-	160,797
Special assessments	494,005	-	-	-	-	494,005
Rentals	142,822	-	-	-	-	142,822
Investment income (loss)	(37,661)	-	6,168	679	-	(30,814)
Other	191,591	-	-	-	-	191,591
Total Revenues	<u>27,021,362</u>	<u>581,995</u>	<u>1,602,187</u>	<u>679</u>	<u>226,429</u>	<u>29,432,652</u>
<b>Expenditures</b>						
General government	5,443,134	-	-	-	-	5,443,134
Public safety	13,491,046	-	-	-	-	13,491,046
Highways	5,727,715	-	1,253,586	-	-	6,981,301
Parks and recreation	1,023,449	-	-	-	-	1,023,449
Community	790,324	710,447	-	-	226,429	1,727,200
<b>Debt Service:</b>						
Principal	-	-	-	33,749	-	33,749
Interest and other charges	-	-	-	3,788	-	3,788
Total Operating Expenditures	<u>26,475,668</u>	<u>710,447</u>	<u>1,253,586</u>	<u>37,537</u>	<u>226,429</u>	<u>28,703,667</u>
Excess (deficiency) of revenues over expenditures	<u>545,694</u>	<u>(128,452)</u>	<u>348,601</u>	<u>(36,858)</u>	<u>-</u>	<u>728,985</u>
<b>Other Financing Sources</b>						
Sale of fixed assets	186,646	-	-	-	-	186,646
Refund of prior year's expenses	66,576	-	-	-	-	66,576
Transfers in (out)	17,408	-	-	-	-	17,408
Total other financing sources	<u>270,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,630</u>
<b>Special Items</b>						
Transfer from Water Authority	19,820,959	-	-	-	-	19,820,959
Net change in fund balances	20,637,283	(128,452)	348,601	(36,858)	-	20,820,574
Fund balances - beginning	<u>6,256,352</u>	<u>1,668,511</u>	<u>348,471</u>	<u>213,616</u>	<u>-</u>	<u>8,486,950</u>
Fund balances - ending	<u>\$ 26,893,635</u>	<u>\$ 1,540,059</u>	<u>\$ 697,072</u>	<u>\$ 176,758</u>	<u>\$ -</u>	<u>\$ 29,307,524</u>

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

**MILLCREEK TOWNSHIP**  
**Reconciliation of the Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance to the Statement of Activities**  
**For the Year Ended December 31, 2016**

Differences in amounts reported for governmental activities in the Statement of Activities:

Net Change in Fund Balances - Governmental Funds \$ 20,820,574

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 as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period

Depreciation Expense	\$ (2,594,006)	
Capital Outlays	<u>1,291,558</u>	(1,302,448)

Payments received for long-term receivables are included in income on the governmental funds and are reported on the statement of net position (30,192)

Certain activities reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds-Change in deferred taxes (42,853)

Deferred outflows are not reflected in the fund statements as they are related to future pension obligations (371,860)

Other post-employment benefits are reflected on the statement of net position, but are not considered a current expenditure for the fund statements (1,939,301)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt is reported as expenditures in governmental funds, however, they are reported as an addition or reduction of long-term liabilities in the statement of net position. In current year, these amounts are:

Loan payment	63,941	
Change in compensated absences	114,179	
Change in net pension liability	<u>308,839</u>	<u>486,959</u>

Total Change in Net Position - Governmental Activities \$ 17,620,879

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

# MILLCREEK TOWNSHIP

## Statement of Net Position

### Proprietary Fund

December 31, 2016

	<b>Business-type Activity- Sewer Revenue Fund</b>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 6,607,802
Accounts receivable	1,230,439
Due from other governments	227,800
Prepaid expenses	592,978
Total Current Assets	<u>8,659,019</u>
Non-Current Assets	
Other receivables	160,650
Other assets	394,737
Property and equipment, net	53,831,035
Total Non-Current Assets	<u>54,386,422</u>
 Total Assets	 <u>63,045,441</u>
 Deferred Outflows of Resources	
Deferred outflows-pensions	<u>123,576</u>
Liabilities:	
Current Liabilities	
Accounts payable	43,120
Accrued salaries and benefits	175,018
Due to other funds	159,324
Other liabilities	4,323
Current portion of lease rental payable	760,000
Total Current Liabilities	<u>1,141,785</u>
Long-Term Liabilities	
Lease rental payable	9,760,000
Net pension liability	550,884
Total Long-Term Liabilities	<u>10,310,884</u>
Total Liabilities	<u>11,452,669</u>
Net Position	
Net investment in capital assets	43,705,772
Unrestricted	8,010,576
 Total Net Position	 <u>\$ 51,716,348</u>

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

**MILLCREEK TOWNSHIP**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2016**

	<b>Business-type Activity- Sewer Revenue Fund</b>
Operating Revenues	
Charges for services	\$ 10,555,171
Operating Expenses	
Sewer treatment and transportation	4,101,923
Inspection and maintenance wages	969,996
Payroll taxes	74,225
Insurance	386,832
Repairs and maintenance	612,325
Management contracted services	757,569
Vehicle operating expense	37,152
Retirement	89,043
Utilities	161,858
Miscellaneous expenses	11,522
Administrative expenses	121,304
Depreciation	1,069,596
Total Operating Expenses	8,393,345
Operating Income (Loss)	2,161,826
Non Operating Revenue and (Expenses)	
Penalty and interest income	26,306
Interest expense	(316,376)
Total Non Operating Revenues and (Expenses)	(290,070)
Income (Loss) Before Contributions and Transfers	1,871,756
Transfers out	(17,408)
Contributions - Sewer Authority	1,521,684
Change in Net Position	3,376,032
Total Net Position - Beginning	48,340,316
Total Net Position - Ending	\$ 51,716,348

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

**MILLCREEK TOWNSHIP**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2016**

	<b>Business-type Activity- Sewer Revenue Fund</b>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash received from customers	\$ 9,472,491
Payments to suppliers for goods and services	(6,747,493)
Payments to employees for salaries and benefits	(1,115,371)
Net Cash Provided by Operating Activities	<u>1,609,627</u>
Cash Flows From Non-Capital Financing Activities:	
Transfers out	<u>(17,408)</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of capital assets	(338,929)
Interest paid on debt	(316,376)
Reduction - lease rental payment	(84,737)
Net Cash Used for Capital and Related Financing Activities	<u>(740,042)</u>
Cash Flows from Investing Activities:	
Penalty and interest income	<u>26,306</u>
Net Increase (Decrease) in Cash and Cash Equivalents	878,483
Cash and Cash Equivalents at Beginning of Year	5,729,319
Cash and Cash Equivalents at End of Year	<u>\$ 6,607,802</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating Income	<u>\$ 2,161,826</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	1,069,596
Changes in Assets and Liabilities:	
(Increase) decrease in receivables	(797,594)
(Increase) decrease in prepaid expenses	(560,263)
(Increase) decrease in deferred outflows-pensions	42,964
Increase (decrease) in accounts payable	3,255
Increase (decrease) in due to other funds	15,150
Increase (decrease) in other liabilities	(285,086)
Increase (decrease) in net pension liability	(40,221)
Total Adjustments	<u>(552,199)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,609,627</u>
Noncash Transactions	
Contributed Assets	<u>\$ 1,521,684</u>

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

**MILLCREEK TOWNSHIP**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2016**

	Trust Funds		Agency Funds			Total (Memorandum Only)
	Pension Trust	Deferred Compensation	Earned Income Tax Escrow	Escheats Escrow	Perform. & Surety Bond	
Assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 638,398	\$ 3,610	\$ 721,844	\$ 1,363,852
Accrued interest receivable	115,823	-	-	-	-	115,823
Accounts receivable	-	-	224,852	-	-	224,852
Investments at fair value	-	4,782,304	-	-	-	4,782,304
Pension trust	63,822,455	-	-	-	-	63,822,455
<b>Total Assets</b>	<b>63,938,278</b>	<b>4,782,304</b>	<b>863,250</b>	<b>3,610</b>	<b>721,844</b>	<b>70,309,286</b>
Liabilities:						
Earned income tax escrow liability	-	-	863,250	-	-	863,250
Accounts payable	-	-	-	-	42,338	42,338
Contractor deposits	-	-	-	-	679,506	679,506
Amount due escheat	-	-	-	3,610	-	3,610
Future compensation due to employees	-	4,782,304	-	-	-	4,782,304
<b>Total Liabilities</b>	<b>-</b>	<b>4,782,304</b>	<b>863,250</b>	<b>3,610</b>	<b>721,844</b>	<b>6,371,008</b>
Net Position						
Net Position held in trust for benefits	63,938,278	-	-	-	-	63,938,278
<b>Total Net Position</b>	<b>\$ 63,938,278</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,938,278</b>

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

**MILLCREEK TOWNSHIP**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For The Year Ended December 31, 2016**

	<u>Pension Funds</u>
Additions:	
Contributions - Commonwealth of Pennsylvania	\$ 1,001,794
Contributions - Millcreek Township	1,517,063
Contributions - Employees	490,072
Total Contributions	3,008,929
Investment Income:	
Investment earnings	1,204,046
Net increase/(decrease) in fair value of investments	3,123,793
Total Investment Income	4,327,839
Total Additions	7,336,768
Deductions:	
Benefit payments	3,202,959
Contract administration and actuarial services	168,181
Total Deductions	3,371,140
Change in Net Position	3,965,628
Total Net Position - Beginning	59,972,650
Total Net Position - Ending	\$ 63,938,278

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

**MILLCREEK TOWNSHIP**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Millcreek Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

Millcreek Township is a Second-Class Township. It was organized in 1803 under the laws of the Commonwealth of Pennsylvania. The Township is governed by three elected supervisors, which serve a six-year term. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

Discretely Presented Component Units

***Millcreek Township Sewer Authority*** – The Millcreek Township Sewer Authority, which is a financing Authority, constructs, alters and improves the sewer system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Sewer Authority.

***Millcreek Township Water Authority*** – The Millcreek Township Water Authority, which is an operating Authority, constructs, alters, improves and operates the water system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Water Authority. On December 18, 2015, the assets of the Water Authority were sold to the Erie City Water Authority. As of June 30, 2016, all assets of the Millcreek Township Water Authority were transferred to Millcreek Township.

Complete financial statements for each of the individual component units may be obtained at the administrative offices of the entities.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Basis of Presentation – Government-Wide Financial Statements

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

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

### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The Township reports the following Governmental Funds:

**General Fund** – The General Fund accounts for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** – The Special Revenue Fund is used to account for the charges for proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purpose. The State Highway Aid Fund is the only fund in this group.

**Sinking Fund** – The Sinking Fund is used to account for the payment of general long-term debt principal, interest and related costs.

**Capital Projects Funds** – The Capital Projects Funds accounts for property taxes collected to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

The Township reports the following Proprietary Fund:

**Sewer Revenue Fund** – This is the only enterprise fund of the Township and it accounts for the operations of the sewer system.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues from non-operating items. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenue of the Township's enterprise fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

The Township also reports the following Fiduciary Fund Types:

***Trust Funds*** – Trust funds are used to account for assets held by the Township under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the Township's own programs. The Township has a Pension Trust Fund and a Deferred Compensation Fund.

***Agency Funds*** – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township has three agency funds to account for assets held as an agent for individuals and/or other governmental units.

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

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

### E. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 are recognized 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 reported only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

### F. Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund, Capital Project Fund, State Fund, and Sinking Fund on a modified accrual basis of accounting. Adoption of the budget by the Township Supervisors constitutes appropriations for the expenditures for the fiscal year. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are appropriated in the next year.

### G. Use of Estimates

The preparation of general purpose financial statements, in conformity with accounting principles generally accepted in the United States of America, 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.

### H. Other Accounting Policies

#### Deposits and Investments

Cash and cash equivalents include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

Investments are stated at their fair value as reported by the investment manager. The Township is permitted to invest in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The deposit policy of the Township adheres to state statutes and prudent business practice.

### Inventories and Prepaid Items

Inventory of materials and supplies is priced at cost. Inventory shown in the General Fund consists of expendable supplies held for consumption. The amount thereof has been recorded as an asset, offset by an equity account of an equal amount. The cost of such inventory has been recorded as an expenditure at the time individual inventory items were purchased.

Payments made to vendors for services that will benefit future periods are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which it was consumed.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,500 for equipment, improvements and infrastructure, and 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 estimated fair value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the component units are generally reported using the same policy as the Township.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight-line method over the estimated useful lives as follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	5-50 years	25 years
Equipment	3-25 years	5-10 years
Vehicles	3-7 years	3-7 years
Furniture and Fixtures	7-10 years	7-10 years
Infrastructure	10-99 years	25-99 years

The sewer system that was constructed by the Millcreek Township Sewer Authority is carried as an asset of the Sewer Revenue Fund of Millcreek Township. The sewer system that was constructed by Millcreek Township is carried at the fair market value of this system as of May 1, 1958. The sewer lines that were installed by private developers are carried at the amount these lines would have cost if they were constructed by the Authority. The appraisal values were determined by the Authority’s consulting engineers.

The valuation of the sewer system as of December 31, 2016 and 2015 is comprised of the following:

	<u>2016</u>	<u>2015</u>
Sewer system originally constructed by Township at appraised value	\$ 1,241,299	\$ 1,241,299
Sewer lines installed by private developers at appraised value	24,142,262	24,142,262
Sewer system improvements constructed by Sewer Authority at cost	50,373,323	50,373,323
Sewer system additions – Sewer Revenue Fund	2,142,603	620,919
	<u>\$ 77,899,487</u>	<u>\$ 76,377,803</u>

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is related to actuarial calculations related to the Net Pension Liability that are amortized over the actuarial determined periods. (see Note 8 for further information).

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the balance sheet/statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows, represents an acquisition of fund balance or net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Township has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The Sewer Authority reports deferred revenue from lease rentals and the Summit Sewer Authority. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

### Net Position Flow Assumption

The government-wide and proprietary funds financial statements utilize a net position presentation. Net Position is categorized as follows:

- 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 in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Township reports \$697,072 of net position restricted for road surface repairs and \$96,663 for tax appeals as of December 31, 2016. The sewer authority reports \$1,059,139 restricted for certain debt service payments and improvements and extensions to the sewer system.
- Unrestricted Net Position – This category represents Net Position of the Township not restricted for any project or other purpose.

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the government fund financial statements a flow consumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing Supervisors are the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The Township has funds committed for capital projects and subsequent years' budget.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the Treasurer to assign fund balance. 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. The Township has certain funds assigned for debt service and traffic signals.

### Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the Township's termination policy.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Township’s vacation, compensated time and sick pay policy in effect during 2016 is as follows:

***Vacation:***

General Employees:

1-5 years service	2 weeks annual vacation
5-10 years service	3 weeks annual vacation
Over 10 years service	3 weeks plus one day for each year service over 10 years

Vacation carryover        Maximum 10 days

No vacation during first year of employment

Police:

Same provisions as general employees except vacation carryover is a maximum of 45 days.

***Compensated Time:***

All Township employees except streets and garage employees can elect to accumulate overtime worked instead of being paid. This accumulated overtime can be taken as vacation. Streets and garage employees can only elect compensated time for overtime worked on holidays. The compensated time can be carried over indefinitely by all employees except management employees. Police employees can accumulate up to 60 hours. General employees can accrue up to the FSLA limit of 240 hours.

***Sick Pay:***

General Employees:

Sick days	Hired before 1-1-96 – 15 days per year – none in 1 <sup>st</sup> year of employment
	Hired after 1-1-96 – 10 days per year – none in 1 <sup>st</sup> year of employment

Maximum accumulation	165 days payable at rate of 1 hour for 1 <sup>st</sup> 50 days, 2 hours for next 50 days and 3 hours for all days over 100 up to maximum of 165 days. Payable upon termination if eligible for retirement.
----------------------	--

Police:

Sick days	15 days per year after 1 <sup>st</sup> year of employment; 5 days during 1 <sup>st</sup> year of employment
-----------	---

Maximum accumulation	220 days payable at rate of 1/3 of each day accumulated. Payable upon termination if eligible for retirement. Effective in 2000, after reaching the maximum accumulation of 220 sick days, one day for each three days not used of the annual fifteen sick days allowed will be paid or time off taken during the following year.
----------------------	---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Long-Term Debt and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

### Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

### Program Revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

### Revenues and Rate Structures

Revenues from water and wastewater services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

### Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Position when earned. Contributions include system improvements constructed by private developers and by Millcreek Township Sewer Authority.

### Future Pronouncement

The Township will adopt GASB 75, accounting and financial reporting for post-employment benefits other than pensions for the year ended December 31, 2018. The objective is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions.

## NOTE 2 – CASH AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investment authorized for governmental funds, fiduciary fund investments may also be made in other investments consistent with sound business practice.

The deposit and investment policy of the Township adheres to state statutes and prudent business practice. Deposits of the governmental funds are maintained in demand deposits. The deposits and investments of the pension trust funds and the deferred compensation trust fund are administered by the investment managers and are held separately from those of the other municipal funds.

### Primary Government:

#### Deposits

At December 31, 2016, the Township's deposits, excluding the pension trust fund and discretely presented component units are as follows:

	<u>Bank</u>	<u>Book</u>
Governmental activities:		
Cash and cash equivalents	\$ 11,083,518	\$ 10,775,213
Restricted cash	<u>96,663</u>	<u>96,663</u>
Total Governmental activities	<u>11,180,181</u>	<u>10,871,876</u>
Business-type activities:		
Cash and cash equivalents	<u>6,610,314</u>	<u>6,607,802</u>
Total Primary Government	<u>\$ 17,790,495</u>	<u>\$ 17,479,678</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government’s deposits may not be returned to it. Millcreek Township does not have a policy for custodial credit risk. As of December 31, 2016, \$17,003,159 of Millcreek Township’s bank balance was exposed to custodial credit risk. The balance was insured by assets pledged by the trust bank, but not in the Township’s name. The depositories secure the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of 1971. \$787,336 of the bank balance was covered by federal depository insurance.

Investments

As of December 31, 2016, the Township had the following investments:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
<u>Governmental Activities</u>					
Debt securities:					
Tax municipal bonds	\$ 1,388,271	\$ -	\$ 728,394	\$ 609,877	\$ -
Total debt securities	1,388,271	-	728,394	609,877	-
Federal Treasury Obligations	86,074				
Certificate of deposit	7,786,899				
Total	<u>\$ 9,261,244</u>				

The fair value at the end of the period of the primary government investments is as follows:

	Level I	Level II	Level III	Total
Tax Municipal Bonds	\$ -	\$ 1,388,271	\$ -	\$ 1,388,271
Federal Treasury Obligation	-	86,074	-	86,074
Certificate of Deposit	7,786,899	-	-	7,786,899
	<u>\$ 7,786,899</u>	<u>\$ 1,474,345</u>	<u>\$ -</u>	<u>\$ 9,261,244</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The valuation technique used in determining the above fair value are recently executed transactions, market price quotations and pricing models that factor in where applicable interest rates, bond, or CD spread volatility. No significant changes in the valuation technique were used as of December 31, 2016.

The following is a description of the Township’s investment risks:

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Township will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The Township does not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2016, the Township’s entire investment balance of \$9,261,244 (bank and book balance) was exposed to custodial credit risk. All of the Township’s investments were uninsured and held by the counterparty, but not in the Township’s name. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up to \$250,000 in cash, in the event the counterparty fails, owing the Township cash and securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

**Concentration of Credit Risk** – The Township’s investment policy is to invest in U.S. Government or federal agency securities for which there is no limit to the investment amount.

**Interest Rate Risk** – The Township does not have a formal policy. Investments are made at the discretion of the Township, as long as such investments are made at approved financial institutions and are fully collateralized by securities with a fair value equal to or exceeding the cost of the investment. Investments must be made in accordance with the Commonwealth of Pennsylvania’s Act 72.

**Credit Risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk.

As of December 31, 2016, the County’s investments in debt securities have following ratings from Standard and Poor’s:

Credit Quality Distribution for Securities with Credit Exposure  
as a Percentage of Total Township Debt Securities

<u>Standard and Poor’s Rating</u>	<u>Percentage of Total County Debt Securities</u>
AAA	82.7%
A	15.1%
BBB	2.2%
	<hr style="border-top: 1px solid black;"/>
	100.0%

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Pension Trust Fund

The Pension Trust is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Pension Trust’s target asset allocation is as follows:

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>
Large cap core equity	25-45%	35%
Small cap core equity	5-15%	10%
Foreign equity	5-15%	10%
Fixed income	30-50%	40%
Private real estate	0-10%	5%

The maximum equity exposure for the total plan will be 65%.

As of December 31, 2016, the Township had the following cash, cash equivalents, and investments in its Pension Trust Fund:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investments Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt securities:					
U.S. Treasuries	\$ 5,033,720	\$ -	\$ 3,529,883	\$ 1,503,837	\$ -
U.S. Agencies	6,721,716	-	106,275	690,575	5,924,866
Corporate debt	6,221,096	523,116	3,931,274	1,766,706	-
Mortgage and asset backed securities	2,272,490	40,452	2,221,379	-	10,659
Other fixed income	<u>227,164</u>	<u>-</u>	<u>159,788</u>	<u>67,376</u>	<u>-</u>
Total debt securities	\$ 20,476,186	\$ 563,568	\$ 9,948,599	\$ 4,028,494	\$ 5,935,525
Private equity fund	2,414,616				
Multi-employer property trust	4,698,456				
Mutual funds - equity	16,022,008				
Equities	16,824,028				
Money market	<u>3,387,161</u>				
Total	<u>\$ 63,822,455</u>				

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The following is a description of the Pension Trust Fund’s deposit and investment risks:

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Pension Trust Fund will not be able to recover the value of its deposits or investments or collateral securities that are in the possession of an outside party. The Pension Trust Fund does/not have a formal deposit investment policy for custodial credit risk. As of December 31, 2016, the Township’s entire pension cash, cash equivalents, and investment balance of \$63,822,455 (bank and book balance) was exposed to custodial credit risk. All of the Township’s Pension Trust Fund investments were uninsured and held by the counterparty, but not in the Township’s name. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance including up to \$250,000 in cash, in the event the counterparty fails, owing the Township’s cash and securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit ratings of the plan’s investments (excluding obligations explicitly guaranteed by the U.S. Government) are indicated on the table below.

<u>Investment Type</u>	<u>Credit Rating</u>
Liquidity Funds	N/A
Corporate Debt	AAA
Corporate Debt	AA
Corporate Debt	A
Corporate Debt	BAA
Mortgage & Asset Backed Securities	AAA
Mortgage & Asset Backed Securities	N/A
Other Fixed Income	AAA
Other Fixed Income	AA

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2016, the Trust had the following 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. (\$63,938,278 x 5% = \$3,196,914)

Multi-Employer Property Trust	<u>\$4,698,456</u>
-------------------------------	--------------------

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The Township has no investment policy for interest rate risk other than the 50 percent limit on fixed income securities.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The fair value at the end of the period of the pension trust fund investments is as follows:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Debt securities	\$ -	\$ 20,476,186	\$ -	\$ 20,476,186
Private equity fund	-	2,414,616	-	2,414,616
Multi-employer property trust	-	4,698,456	-	4,698,456
Mutual funds- equity	-	16,022,008		16,022,008
Equities	<u>16,824,028</u>			<u>16,824,028</u>
	<u>\$ 16,824,028</u>	<u>\$ 43,611,266</u>	<u>\$ -</u>	<u>\$ 60,435,294</u>

The valuation technique used in the determining the above fair value are recently executed transactions, market price quotations and pricing models that factor in where applicable interest rates, bond, or CD spread volatility. No significant changes in the valuation technique were used as of December 31, 2016.

Deferred Compensation Fund

The fund provides benefits through investments in annuity contracts. The contracts are in the name of the employees and are managed by Valic, Nationwide, and AxA Equitable.

Millcreek township Sewer Authority – Component Unit

Cash – Deposits – Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (balance sheet) amounts were \$3,242,494 and \$3,238,660 for December 31, 2016 and 2015, respectively. The bank balances were \$3,260,664 and \$3,276,784 for December 31, 2016 and 2015, respectively.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. Millcreek Township Sewer Authority does not have a policy for custodial credit risk. As of December 31, 2016, \$2,510,664 of the Authority’s balance of \$3,260,664 was exposed to custodial credit risk. \$750,000 of the bank balance was covered by federal depository insurance. The balance was insured by assets pledged by the i trust bank, but not in the Authority’s name. The depositories secure the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of the 1971.

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures regarding deposits and investments:

Deposits	\$ 2,722,853
Investments	<u>519,641</u>
Total	<u><u>\$ 3,242,494</u></u>

Balance sheet amounts:

Cash and cash equivalents:

Unrestricted	\$ 2,183,355
Restricted	<u>539,498</u>
Total cash and cash equivalents	<u><u>\$ 2,722,853</u></u>

Investments:

Restricted	<u>\$ 519,641</u>
Total investments	<u><u>519,641</u></u>
	<u><u>\$ 3,242,494</u></u>

The restricted deposits and investments consist of deposits held in trust funds for payment of bond debt and improvements to the sewer system and for deferred compensation plan.

The investments in cash and cash equivalents, short-term investments, and certain domestic and international equities are valued based on quoted market prices, and therefore classified within Level 1 of the fair value hierarchy.

Investments – Investments at December 31, 2016, consisted of restricted investments with a fair market value of \$519,641, These investments are the deferred compensation plan.

Interest Rate Risk – The Millcreek Township Sewer Authority 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 – The deposits and investment policies of the Millcreek Township Sewer Authority adhere to the provisions of the Trust Indenture.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. As of December 31, 2016, all the investments were restricted investments for deferred compensation.

Custodial Credit Risk – For an investment, custodial risk the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority has no investment subject to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

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

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
<b>Government Activities</b>				
Capital assets not depreciable:				
Land	\$ 3,746,175	\$ -	\$ -	\$ 3,746,175
Total Capital Assets Not Depreciated	<u>3,746,175</u>	<u>-</u>	<u>-</u>	<u>3,746,175</u>
Capital assets depreciable:				
Building and improvements	9,903,077	52,999	-	9,956,076
Infrastructure	71,950,026	-	-	71,950,026
Equipment	5,062,601	561,069	-	5,623,670
Vehicles	5,224,715	677,490	(38,350)	5,863,855
Total Capital Assets Depreciated	<u>92,140,419</u>	<u>1,291,558</u>	<u>(38,350)</u>	<u>93,393,627</u>
Less accumulated depreciation:				
Building and improvements	(5,976,997)	(276,530)	-	(6,253,527)
Infrastructure	(27,304,128)	(1,998,410)	-	(29,302,538)
Equipment	(4,137,720)	(156,197)	-	(4,293,917)
Vehicles	(3,163,716)	(162,869)	38,350	(3,288,235)
Total Accumulated Depreciation	<u>(40,582,561)</u>	<u>(2,594,006)</u>	<u>38,350</u>	<u>(43,138,217)</u>
Total Capital Assets, Depreciable, Net	<u>51,557,858</u>	<u>(1,302,448)</u>	<u>-</u>	<u>50,255,410</u>
Governmental Activities Capital Assets, Net	<u>\$ 55,304,033</u>	<u>\$(1,302,448)</u>	<u>\$ -</u>	<u>\$ 54,001,585</u>
	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
<b>Business-Type Activities</b>				
Capital assets depreciable:				
Sewer System	\$ 76,377,803	\$ 1,521,684	\$ -	\$ 77,899,487
Operating equipment	442,020	186,842	(24,931)	603,931
Office equipment	97,655	38,633	-	136,288
Vehicles	689,941	101,338	-	791,279
Building	204,259	12,116	-	216,375
Total Capital Assets Depreciated	<u>77,811,678</u>	<u>1,860,613</u>	<u>(24,931)</u>	<u>79,647,360</u>
Less accumulated depreciation	<u>(24,771,660)</u>	<u>(1,069,596)</u>	<u>24,931</u>	<u>(25,816,325)</u>
Total Capital Assets, Depreciable, Net	<u>\$ 53,040,018</u>	<u>\$ 791,017</u>	<u>\$ -</u>	<u>\$ 53,831,035</u>

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General Government	\$ 363,161
Public Safety	1,167,303
Highways	933,842
Parks and Recreation	<u>129,700</u>
	<u>\$ 2,594,006</u>

Business-Type Activities:

Sewer Revenue Fund	<u>\$ 1,069,596</u>
--------------------	---------------------

Capital asset activity for the discretely presented component units are as follows:

Millcreek Township Sewer Authority:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Dispositon</u>	<u>Balance 12/31/2016</u>
Operating Equipment	\$ 757,123	\$ 4,354	\$ -	\$ 761,477
Office Equipment	<u>171,377</u>	<u>93,030</u>	<u>-</u>	<u>264,407</u>
Total Property	928,500	97,384	-	1,025,884
Accumulated Depreciation	<u>(344,078)</u>	<u>(69,344)</u>	<u>-</u>	<u>(413,422)</u>
Net Property and Equipment	<u>\$ 584,422</u>	<u>\$ 28,040</u>	<u>\$ -</u>	<u>\$ 612,462</u>

NOTE 4 – TAXES LEVIED AND RECEIVABLE

A. Real Estate Taxes

Based upon assessed valuations provided by the County, the Township, through the elected tax collector, bills and collects its real estate taxes. The schedule for real estate taxes which were levied for 2016 is as follows:

March 1	levy date
March 1 – April 30	2% discount period
May 1 – June 30	face payment period
July 1 – Settlement Date	5% penalty period
Settlement Date	lien date

The Township tax rate for all purposes in 2016 was 3.5537 mills (\$35.537 per \$1,000 assessed valuation) which consisted of the following:

	<u>Mills</u>
General Purposes	3.3729
Permanent Public Improvements	<u>0.1808</u>
	<u>3.5537</u>

Real estate taxes receivable of \$654,573 as of December 31, 2016 has been determined from records supplied by the elected tax collector and the Erie County Tax Claims Office. The amount of real estate taxes receivable so determined has been recorded on the balance sheet as an asset, offset by unavailable revenue of \$560,368 which represents real estate taxes which will not be available to pay current liabilities.

B. Earned Income Taxes

The Township’s tax rate on earned income in 2016 was .5%.

The amount of earned income taxes receivable as of December 31, 2016 is \$1,688,107. This is the amount of Earned Income Tax, which will be available to pay current liabilities, and consists of claims for resident taxes outstanding at December 31, 2016.

C. Other Taxes

Other taxes include realty transfer tax and local service tax. The Township’s tax rate on these in 2016 is as follows:

<u>Tax</u>	<u>Rate</u>
Realty Transfer Tax	.5%
Local Services Tax	\$52 (\$47 to the Township and \$5 to the School District)

The amount of other taxes receivable as of December 31, 2016 is \$326,431. This is the amount that will be available to pay current liabilities.

NOTE 5 – ASSESSMENT RECEIVABLE

Water and street light assessments receivable in the amount of \$66,408 as of December 31, 2016 have been determined from records maintained by the Township Lien Department. The amount of assessments so determined has been recorded on the balance sheet of the General Fund as an asset, offset by deferred revenue in the fund financial statements of \$66,408 which represents assessments, which will not be available to pay current liabilities.

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The individual interfund receivables and payables of the Township as of December 31, 2016 are shown as follows:

Due to General Fund:  
 Sewer Revenue Fund                      \$159,324

Operating transfers in the amount of \$17,408 were made by the Sewer Revenue Fund to the Township’s general fund during the years ended December 31, 2016 and 2015, respectively. The 2016 and 2015 transfers for the reimbursement of the Township’s general fund for the sanitary sewer system related debt service.

NOTE 7 – LONG TERM DEBT

The original loan date, interest rate and original issuance amount for each of the Township’s loans are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
Governmental Activities:			
Pennvest	1998	1.56 – 3.07%	\$ 571,447
Kearsarge Fire Department Loan	2009	4.19%	\$ 283,000
Component Units:			
Millcreek Township Sewer Authority Refunding Bonds	2011	1.00 – 4.50%	\$ 13,150,000
Millcreek Township Sewer Authority Refunding Bonds	2016	2.60-4.50%	\$ 7,900,000

NOTE 7 – LONG TERM DEBT (CONTINUED)

A schedule of changes in long-term debt of the Township during 2016 is as follows:

	Balance 1/1/2016	Additions	Payments	Balance 12/31/2016	Due in One Year
Governmental Activities:					
Pennvest	\$ 102,607	\$ -	\$ (33,749)	\$ 68,858	\$ 34,539
Kearsarge Fire Dept. Loan	120,171	-	(30,192)	89,979	31,596
Total Bonds and Notes	222,778	-	(63,941)	158,837	66,135
Compensated absences	1,615,667	894,429	(1,008,608)	1,501,488	1,000,000
OPEB (Note 10)	11,960,578	3,058,794	(1,119,493)	13,899,879	-
Total Governmental Debt	<u>\$13,799,023</u>	<u>\$ 3,953,223</u>	<u>\$(2,192,042)</u>	<u>\$15,560,204</u>	<u>\$ 1,066,135</u>

The liability for compensated absences and OPEB is normally liquidated by the general fund, depending on what department the employee is assigned.

	Balance 1/1/2016	Additions	Payments	Balance 12/31/2016	Due in One Year
Component Units:					
Millcreek Township Sewer Authority					
Refunding Bonds, Series 2011	\$10,210,000	\$ -	\$ 7,590,000	\$ 2,620,000	\$ 660,000
Refunding Bonds, Series 2016	-	7,900,000	-	7,900,000	100,000
	10,210,000	7,900,000	7,590,000	10,520,000	760,000
OPEB (Note 10)	112,202	13,691	-	125,893	-
Deferred Compensation (Note 11)	487,622	32,019	-	519,641	-
Total Sewer Authority Debt	<u>\$10,809,824</u>	<u>\$ 7,945,710</u>	<u>\$ 7,590,000</u>	<u>\$11,165,534</u>	<u>\$ 760,000</u>

The Township borrowed \$283,000 from First National Bank on a general obligation note dated October 6, 2009 to provide funds for the Kearsarge Fire Department to purchase equipment. The Fire Department is obligated to make all debt service payments on this loan. This loan is payable in 120 monthly payments of \$2,890 including interest at 4.19%. The balance of the loan at December 31, 2016 was \$89,979.

All debt, except the Kearsarge Fire Department debt, is secured by the full faith credit of the Township. The General Obligation Note, Pennvest loan, and renovation loans are to be repaid from general property taxes levied on all property located within the Township. The Fire Department loan is secured by the vehicle purchased. A long-term receivable equivalent to the balance of the Fire Department debt is recorded on the government-wide financial statements at December 31, 2016.

NOTE 7 – LONG TERM DEBT (CONTINUED)

The annual debt service requirements to maturity, including principal and interest, on bonds and notes payable as of December 31, 2016 are as follows:

Year Ending December 31,	Primary Government			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 66,135	\$ 4,246	\$ 70,381	\$ 760,000	\$ 460,941	\$ 1,220,941
2018	67,160	2,193	69,353	765,000	471,209	1,236,209
2019	25,542	446	25,988	785,000	468,509	1,253,509
2020	-	-	-	815,000	434,269	1,249,269
2021	-	-	-	840,000	393,206	1,233,206
2022-2026	-	-	-	4,575,000	1,358,913	5,933,913
2027-2028	-	-	-	1,980,000	1,176,325	3,156,325
	<u>\$ 158,837</u>	<u>\$ 6,885</u>	<u>\$ 165,722</u>	<u>\$ 10,520,000</u>	<u>\$ 4,763,372</u>	<u>\$ 15,283,372</u>

NOTE 8 – PENSION PLANS

A. Plan Descriptions

The Township sponsors two contributory single employer defined benefit pension plans through Mockenhaupt Benefits Group covering substantially all full-time employees. The Plan is governed by the Board of Supervisors of the Township of Millcreek which consists of three elected individuals. The Board of Supervisors may amend plan provisions, and are responsible for the management of Plan assets. The Board of Supervisors has delegated the authority to manage certain Plan assets to Morrison Fiduciary Advisors, Inc. Eligibility for participation in the Police Pension Plan and the General Employees' Pension Plan occurs at date of hire. 100% vesting occurs in the Police Pension Plan after completion of twelve years of service. 100% vesting occurs in the General Employees' Pension Plan upon termination if ineligible for any other benefit from the Plan for participants hired before January 1, 1991. For participants hired on or after January 1, 1991, 100% vesting occurs after completion of ten years of service. Normal retirement under the Police Pension Plan is age 50 and completion of 25 years of service. Participants hired prior to December, 1965 may retire upon attainment of age 60 and completion of 20 years of service if earlier. Normal retirement under the General Employees' Pension Plan is age 62 and the completion of 10 years of service. A separate financial report is not issued. The financial statements of the Plan are included in the financial statements of the Township.

At December 31, 2016 participants in the Plans are as follows:

	Police	General Employees
Active employees	58	115
Retirees and beneficiaries currently receiving benefits	54	66
Terminated employees entitled to benefits but not yet receiving them	0	6
	<u>112</u>	<u>187</u>

## NOTE 8 – PENSION PLANS (CONTINUED)

### B. Summary of Significant Accounting Policies

#### Basis of Accounting

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

### C. Benefits

The Police Pension Plan provides for a monthly benefit for normal retirement equal to 50% of the average monthly salary averaged over the final 36 months of employment, plus a service increment of \$20 per year of service in excess of 25 years, up to a maximum increment of \$100 per month. In addition, a retiree will receive a cost of living adjustment on each October 1. The total of all increases may not exceed 30% of the retiree's original benefit nor may the sum of the retiree's benefit and all increases exceed 75% of salary used to compute the original benefit. The Plan offers a Deferred Retirement Option Program (DROP) benefit. The retiree's normal retirement as of the date of participation in the program is credited to a DROP account along with compounded interest on the discount rate for 6-month Treasury Bills on the last day of the prior year.

The General Employees' Pension Plan provides for a monthly benefit equal to 2.5625% of final monthly average salary multiplied by the number of years of service, up to a maximum of 20 years. In addition, a retiree will receive a cost of living adjustment equal to one half the percentage change in the consumer price index, up to a maximum of 15% of the retiree's original benefit.

### D. Contributions

Employee contributions are governed by municipal employees and police association collective bargaining agreements. Covered employees, under the General Employees' Pension Plan, were required to contribute 4% of monthly compensation to the Plan. All general employees with 20 years of service were required to contribute 2% of compensation to the Plan. Covered employees, under the Police Pension Plan, were required to contribute 5% of monthly compensation to the Plan. The Township is required to contribute the remaining amounts necessary, as determined by the actuary.

The Plans have been established by Township ordinance with the authority for municipal contributions required by Act 205 of the Pennsylvania Legislature.

NOTE 8 – PENSION PLANS (CONTINUED)

E. Net Pension Liability

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

Total Pension Liability	\$ 70,854,260
Plan Fiduciary Net Position	<u>(63,836,628)</u>
Township’s net pension liability	<u>\$ 7,017,632</u>
Net pension liability as a percentage of the total pension liability	9.90%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Mortality: RP-2000 Combined Healthy Mortality Table (with Blue Collar Adjustment for Police), with rates set forward 5 years for disabled lives. Rates are projected to improve with 100% of scale AA.

	<u>Police</u>	<u>Employees</u>
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	10 years	7 years
Asset valuation method	4-year smoothing	4-year smoothing
Inflation	3.0%	3.0%
Salary Increases	5.0%	4.5%
	Including inflation	Including inflation

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

NOTE 8 – PENSION PLANS (CONTINUED)

Expected Long-Term Rate of Return: 7.5%, applied to all periods

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of returns (expected returns, net of inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Long Term Expected Real ROR
Large cap core equity	6.3%
Small cap core equity	6.3%
Foreign equity	6.3%
Fixed income	2.0%
Private real estate	4.5%

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2015	\$ 67,502,694	\$ 59,981,754	\$ 7,520,940
Changes for the year:			
Service cost	1,615,017	-	1,615,017
Interest	5,061,400	-	5,061,400
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	2,518,517	(2,518,517)
Contributions - employee	-	484,708	(484,708)
Net investment income	-	4,344,682	(4,344,682)
Benefit payments and refunds of employee contributions	(3,324,851)	(3,324,851)	-
Administrative expense	-	(168,182)	168,182
Other charges	-	-	-
Net changes	3,351,566	3,854,874	(503,308)
Balances at December 31, 2016	\$ 70,854,260	\$ 63,836,628	\$ 7,017,632

NOTE 8 – PENSION PLANS (CONTINUED)

**Sensitivity of the net pension liability to changes in the discount rate**

The following shows the effect of a 1% change in the discount rate on the net pension liability:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Township's net pension liability	<u>\$ 15,103,549</u>	<u>\$ 7,017,632</u>	<u>\$ 150,083</u>

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2016 the Township recognized pension expense of \$2,562,532. At December 31, 2016, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (848,570)
Changes in assumptions	131,998
Net difference between projected and actual earnings on pension plan investments	<u>2,290,790</u>
Total	<u>\$ 1,574,218</u>

NOTE 8 – PENSION PLANS (CONTINUED)

Amounts reported as deferred outflows of resources (+) and deferred inflows (-) of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 617,945
2018	617,945
2019	617,945
2020	(126,822)
2021	(135,495)
Thereafter	<u>(17,300)</u>
	<u>\$ 1,574,218</u>

**Payable to the Pension Plan**

At December 31, 2016, the Township did not owe anything to the Plan.

**Reconciliation to the Financial Statements**

	<u>Net Pension Liability</u>	<u>Deferred Outflows - Pensions</u>
Governmental Activities	\$ 6,159,818	\$ 1,450,642
Business-type Activities	<u>550,884</u>	<u>123,576</u>
Total Primary Government	6,710,702	1,574,218
Component Unit - Sewer Authority	306,930	-
Component Unit - Water Authority	<u>-</u>	<u>-</u>
	<u>\$ 7,017,632</u>	<u>\$ 1,574,218</u>

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Township sponsors two single employer defined benefit healthcare plans. The Police Plan provides lifetime medical, prescription drug, dental and vision insurance for eligible retirees and their spouses through the Township’s group health insurance plan, which covers both active and retired members. Police retirees are also provided a \$10,000 life insurance benefit until age 70 then \$5,000 thereafter. The General Employee Plan provides medical and prescription drug coverage expenses for the retiree and dependents from the retiree’s age 62 until Medicare eligibility assumed to be age 65. General Employees retirees are provided \$20,000 of life insurance until age 70, then \$5,000 thereafter. The Police and General Employee Retiree Health Plans do not issue a publicly available financial report.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Funding Policy

Contribution requirements are negotiated between the Township and union representatives. GASB does not mandate the prefunding of postemployment benefits liability. Currently the employees pay \$40 per pay towards the cost of the healthcare plans. The Plan is financed on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Township’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the normal cost and an amortization payment towards unfunded actuarial accrued liability. GASB requires that the period of amortization be at most 30 years, which is the period used by the Township. The following table shows the components of the Township’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Township’s net OPEB obligation to the Retiree Healthcare Plans:

	<u>Millcreek Township</u>	<u>Sewer Authority</u>
Normal cost	\$ 1,028,807	\$ 13,691
Amortization of unfunded liability	2,226,440	-
Annual required contribution	<u>\$ 3,255,247</u>	<u>\$ 13,691</u>
Annual required contribution	\$ 3,255,247	\$ 13,691
Interest	539,326	-
Adjustment to ARC	<u>(735,779)</u>	-
Annual OPEB cost	3,058,794	13,691
Projected contributions made	<u>(1,119,493)</u>	-
Increase in Net OPEB Obligation	1,939,301	13,691
Net OPEB Obligation – beginning of year	<u>11,960,578</u>	<u>112,202</u>
Net OPEB Obligation – end of year	<u>\$ 13,899,879</u>	<u>\$ 125,893</u>

<u>Year Ended</u>	<u>Annual OPEB cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 2,560,310	\$ 1,034,255	40.4%	\$ 9,990,063
2015	3,092,970	1,032,455	33.4%	11,960,578
2016	3,058,794	1,119,493	36.6%	13,899,879

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Funded Status and Funding Progress

As of December 31, 2014, the actuarial accrued liability for benefits was \$36,438,257, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,990,255, and the ratio of unfunded actuarial accrued liability to the covered payroll was 304%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

Actuarial valuation date	1/1/2016
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Interest rate	4.5%

Retiring age for active employees:

Age	Police (Years of Service)		Age	General Rate
	25	26 or more		
50	40%	40%	55-59	2%
51-54	40%	20%	60-61	10%
55-59	50%	25%	62	40%
60 and over	100%	100%	66-69	20%
			70+	100%

Mortality: Police: RP-2000 Combined Healthy Mortality Table, with blue collar adjustment, with rates set forward 5 years.  
Non-Police: RP-2000 Combined Healthy Mortality Table, with rates set forward 5 years.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Coverage Level: Future retirees: 90% males elect husband/wife coverage and 10% elect individual coverage; 60% of females elect husband/wife coverage and 40% elect individual coverage. Current retirees with family coverage are assumed to have two children who remain on the coverage for three years. Female spouses are assumed to be three years younger than male spouse.

Withdrawal from Service: Police: Table T-1 from Actuary’s Pension Handbook  
 Non-Police: Table T-2, from Actuary’s Pension Handbook

Healthcare Cost Trend Rate

The expected rate of increase in healthcare insurance premiums was based on projections by Mockenhaupt Benefits Group.

For many benefits, age tends to be a significant factor in average claims cost per person. The average amount of retiree claims will tend to be slightly higher than the average amount of active claims. The average will be higher than if only active employees were covered but lower than if only retirees were covered. Therefore, the rates include an implicit subsidy for the retirees. GASB #45 requires recognition of this subsidy where significant. Age is a significant factor in the cost of medical care and prescription drug coverage for Millcreek Township. Accordingly, age-adjusted per person costs have been estimated. Assumed rates drop at age 65 to reflect that Medicare is assumed to be primary. The following table represents the cost of the PPO medical coverage:

Age Group	Age-Adjusted Annual Cost
Children	\$ 3,657
45	7,156
50	8,417
55	9,901
60	11,816
64	13,299

NOTE 10 – PUBLIC EMPLOYEES DEFERRED COMPENSATION FUND

The Township maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees and eligible former employees. The assets of the Plan are held by insurance carriers and remain the property of the Township until they become due and payable to the Plan participants under the terms of the Plan. The Township has recorded the assets of the Plan and the corresponding liability in the combined balance sheets. The carrying value of the Plan’s assets and corresponding liability to participants amounted to \$4,782,304 and \$4,730,509 at December 31, 2016 and 2015, respectively. The employee contributions are based on Internal Revenue Code limits. The employer contributions are discretionary and there were none noted during the current year. Except as otherwise provided, amount in participant account shall be distributable upon attainment of age 70 ½ or severance from employment.

## NOTE 10 – PUBLIC EMPLOYEES DEFERRED COMPENSATION FUND

The Sewer Authority maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees. The assets of the Plan are held by insurance carriers and remain the property of the Sewer Authority until they become due and payable to the Plan participants under the terms of the Plan. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$519,641 and \$487,622 at December 31, 2016 and 2015, respectively.

## NOTE 11 – COMPONENT UNIT AGREEMENTS

### A. Lease Rentals Payable in Future Years

The Township entered into a lease dated December 1, 1992 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1992, Guarantee Sewer Revenue Bonds dated December 15, 1992 in the principal amount of \$5,000,000, which were issued for the purpose of constructing Sewer System improvements.

The Township entered into the First Supplemental Agreement of Lease dated as of November 15, 1993 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1993 Guaranteed Sewer Refunding Bonds in the principal amount of \$5,230,000, which were dated as of November 15, 1993. All of the provisions of the agreement of lease between the Sewer Authority and the Township dated December 1, 1992 are ratified and reaffirmed by the Lease dated as of November 15, 1993 and all the provisions thereof apply as well to the 1993 bonds.

The Township entered into the Second Supplemental Agreement of Lease dated as of April 15, 1997 with the Sewer Authority in connection with the Authority's issuance of 1997 Guaranteed Sewer Revenue Bonds in the principal amount of \$4,000,000, which were dated as of April 15, 1997. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992 and November 15, 1993 are ratified and reaffirmed by the lease dated April 15, 1997 and all the provisions thereof apply as well to the 1997 bonds.

The Township entered into the Third Supplemental Agreement of Lease dated as of June 1, 1998 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 1998 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,525,000, which were dated as of June 1, 1998. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993 and April 15, 1997 are ratified and reaffirmed by the lease dated June 1, 1998 and all the provisions thereof apply as well to the 1998 bonds.

The Township entered into the Fourth Supplemental Agreement of Lease dated as of July 15, 2002 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2002 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,700,000, which were dated as of July 15, 2002. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, and June 1, 1998 are ratified and reaffirmed by the lease dated July 15, 2002 and all the provisions thereof apply as well to the 2002 bonds.

NOTE 11 – COMPONENT UNIT AGREEMENTS (CONTINUED)

The Township entered into the Fifth Supplemental Agreement of Lease dated as of October 15, 2004 with the Millcreek Township Sewer Authority in connection with the Authority’s issuance of 2004 Guaranteed Sewer Revenue Bonds Series A and B in the principal amount of \$9,895,000, which were dated as of October 15, 2004. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, and July 15, 2002 are ratified and reaffirmed by the lease dated October 15, 2004 and all the provisions thereof apply as well to the 2004 bonds.

Millcreek Township entered into the Sixth Supplemental Agreement of Lease dated October 23, 2009 with the Millcreek Township Sewer Authority in connection with the Authority’s issuance of 2009 Guaranteed Sewer Revenue Note in the principal amount of \$700,000, which were dated as of October 23, 2009. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002 and October 15, 2004 are ratified and reaffirmed by the lease dated October 23, 2009 and all of the provisions thereof apply as well to the 2009 note.

Millcreek Township entered into the Seventh Supplemental Agreement of Lease dated as of June 15, 2011 with the Millcreek Township Sewer Authority in connection with the Authority’s issuance of 2011 Guaranteed Sewer Revenue Bonds in the principal amount of \$13,150,000, which were dated as of June 1, 2011. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002, October 15, 2004 and October 23, 2009 are ratified and reaffirmed by the lease dated June 1, 2011 and all of the provisions thereof apply as well to the 2011 bonds.

The Township, lessee, is obligated to pay minimum annual lease rentals to the Millcreek Township Sewer Authority, lessor, in an amount equal to the annual debt service requirements of the outstanding bond issues.

The following schedule sets forth the remaining minimum annual lease rental payments required to be made by the Township to the Authority under the lease agreements:

Year	Series of 2011 and 2016		Total
	Principal	Interest	
2017	\$ 760,000	\$ 460,941	\$ 1,220,941
2018	765,000	471,209	1,236,209
2019	785,000	468,569	1,253,569
2020	815,000	434,269	1,249,269
2021	840,000	393,206	1,233,206
2022-2026	4,575,000	1,358,903	5,933,903
2027-2028	1,980,000	1,176,325	3,156,325
	<u>\$ 10,520,000</u>	<u>\$ 4,763,422</u>	<u>\$ 15,283,422</u>

## NOTE 11 – COMPONENT UNIT AGREEMENTS (CONTINUED)

The outstanding \$10,520,000 principal amount of the Millcreek Township Sewer Authority, Series 2011 and 2016 Guaranteed Sewer Revenue Refunding Bonds are shown as a liability of the Sewer Revenue Fund of Millcreek Township at December 31, 2016 as lease rentals payable. The current maturities of the bonds are classified as current liabilities of the Sewer Revenue Fund.

### B. Sewer System Management Agreement

The Township and the Sewer Authority entered into a Sewer System Management Agreement dated November 15, 1990. This agreement was modified by the parties effective September 21, 2004 in connection with the agreement of lease entered into by the Township and Sewer Authority.

The Agreement provides, in part, that the Sewer Authority will continue to be responsible for planning, designing, financing and constructing all major renewals and replacements and new sewer extensions to the sanitary sewer system of Millcreek Township.

The Agreement also provides, in part, that the Township will continue to operate and maintain the sewer system and collect sewer use revenues for the sewer system.

The Agreement also provides that the Township will pay to the Sewer Authority an annual amount equal to one percent (1%) of the valuation of the sewer system as annually reported by the Sewer Revenue Fund. These funds shall be used for costs related to repairs and improvements to the sewer system. In accordance with this provision, the Sewer Revenue Fund of Millcreek Township paid \$757,569 and \$747,649 to the Sewer Authority during the years 2016 and 2015, respectively. During the year ended December 31, 2017, the Sewer Revenue Fund of Millcreek Township will pay \$760,194 to the Sewer Authority.

This Agreement further provides that the Township is responsible for maintaining the Sewer Authority's Construction and Administrative fund at a balance of \$2,700,500 as adjusted annually by the Engineering News Record Construction Cost Index for Twenty Cities. The Township is required to replenish any deficiencies in this Fund within twenty-four months' notice to the Township by the Authority. A deficiency existed in this Fund at December 31, 2016.

### Operating Expenditures

The Sewer Authority and Water Authority pay reimbursements to the Township for employee benefits, rent, and miscellaneous expenses. The total amount paid as reimbursements during the year ended December 31, 2016 and 2015 was \$253,720 and \$478,245, respectively.

The Water Authority pays monthly reimbursements to the Sewer Authority for salaries and office expenses. The total amount paid as reimbursements during the year ended December 31, 2016 was \$8,644.

## NOTE 12 – COMPONENT UNITS

The following presents condensed balance sheets for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained at their administrative office. The Water Authority was terminated on May 31, 2016, thus the information presented is through the six-month period ended June 30, 2016.

	Water Authority	Sewer Authority	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ -	\$ 2,183,355	\$ 2,183,355
Restricted cash and investments	-	1,059,139	1,059,139
Assessments receivable	-	1,030,097	1,030,097
Other accounts receivable	-	53,911	53,911
Long-term lease rentals receivable	-	10,520,000	10,520,000
Property and equipment - net	-	612,462	612,462
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 15,458,964</b>	<b>\$ 15,458,964</b>
<b>Liabilities and Fund Equities:</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 190,513	\$ 190,513
Project deposits	-	70,000	70,000
Current portion of long-term debt	-	760,000	760,000
Long-term debt payable in future years	-	10,405,534	10,405,534
Net pension liability	-	306,930	306,930
<b>Total Liabilities</b>	<b>-</b>	<b>11,732,977</b>	<b>11,732,977</b>
Deferred Inflows of Resources	-	1,540,711	1,540,711
<b>Net Position</b>			
Invested in Capital Assets	-	612,462	612,462
Restricted	-	1,059,139	1,059,139
Unrestricted	-	513,675	513,675
<b>Total Net Position</b>	<b>-</b>	<b>2,185,276</b>	<b>2,185,276</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ -</b>	<b>\$ 15,458,964</b>	<b>\$ 15,458,964</b>

NOTE 12 – COMPONENT UNITS (CONTINUED)

	Water Authority	Sewer Authority	Total
Operating Revenue	\$ 1,568	772,107	\$ 773,675
Operating Expenses	<u>(474,428)</u>	<u>(2,292,977)</u>	<u>(2,767,405)</u>
Operating Income (Loss)	(472,860)	(1,520,870)	(1,993,730)
Non-Operating Revenue (Expense)	<u>(19,760,382)</u>	<u>206,614</u>	<u>(19,553,768)</u>
Change in Net Position, Before Capital Contributions	(20,233,242)	(1,314,256)	(21,547,498)
Capital Contributions	<u>-</u>	<u>1,382,173</u>	<u>1,382,173</u>
Change in Net Position	(20,233,242)	67,917	(20,165,325)
Net Position, Beginning	<u>20,233,242</u>	<u>2,117,359</u>	<u>22,350,601</u>
Net Position, Ending	<u><u>\$ -</u></u>	<u><u>2,185,276</u></u>	<u><u>\$ 2,185,276</u></u>

NOTE 13 – COMMUNITY DEVELOPMENT BLOCK GRANT

Millcreek Township is the grantee of a U.S. Department of Housing and Urban Development Community Block Grant (CDBG), which is being used to fund various approved projects. The grant is being administered by Erie County. Grant revenue and expenditures in the amount of \$226,429 are included in the revenue and expenditures of Millcreek Township.

NOTE 14 – OTHER INFORMATION

A. Lease Commitments

The Millcreek Township Sewer and Water Authorities lease their office from Millcreek Township on a month to month basis. Under the terms of the current lease the Authorities are required to pay \$61,124 annually in rent. The Authorities are also required to pay a utility fee of \$7,054 annually, which is adjusted every three years. The Authorities are allocating the cost of this as 2/3 for Millcreek Township Sewer Authority and 1/3 for the Millcreek Township Water Authority. The total lease payments made by the Sewer Authority for the years ended December 31, 2016 and 2015 were \$46,576 per year. The total lease payments made by the Water Authority for the period ended June 30, 2016 and 2015 were \$7,763 and \$15,525, respectively.

In September 2013, the Township entered into a lease agreement to pay a non-profit organization's lease payments through August 2016. The annual costs of the lease are \$102,096.

NOTE 14 – OTHER INFORMATION (CONTINUED)

B. Risk Management

The Township’s Employee Health Benefit Plan is a modified self-insurance program for insuring hospitalization and medical costs. The Township is limited to losses of \$85,000 annually per covered person. The Township is further limited by an aggregate stop loss of \$4,490,965 for the year ended December 31, 2016. The Plan covers all full-time employees and eligible dependents.

The claims liability of \$147,153 is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, which requires that an asset or liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability had been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability is as follows:

Claims liability, 12/31/14	\$ 169,382
2015 claims	3,460,367
2015 claim payments and administration	<u>(3,482,596)</u>
Claims liability, 12/31/15	147,153
Current year claims	3,388,190
Current year claims payments and administration	<u>(3,420,053)</u>
Claims liability, 12/31/16	<u>\$ 115,290</u>

Future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonable estimated. Thus, the financial statements do not reflect a contingent liability for any unasserted claims.

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; and natural disasters. The Authority is insured through commercial insurance for risk of loss. Millcreek Township did not have settled claims that exceeded the Authority’s commercial insurance coverage in any of the past three years.

The Authority’s deductibles and maximum coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General Liability	\$ 1,000	\$ 2,000,000
Building/Equipment	1,000	41,465,698
Automobile	500/1,000	1,000,000

NOTE 14 – OTHER INFORMATION (CONTINUED)

C. Commitments and Contingencies

1. Grant Programs

The Township participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

2. Contingent Liabilities

There are various claims and suits pending against the Township that arise in the normal course of the Township's activities. In the opinion of counsel and Township management, the ultimate disposition of these various claims and suits will have no material effect on the financial position of the Township.

D. Sewer Joint Transportation Agreements

Summit Township Sewer Authority

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Summit Township Sewer Authority in 1994. Under the terms of this agreement the Summit Township Sewer Authority was reimbursing the Millcreek Township Sewer Authority for its share of the costs of three projects completed by the Millcreek Township Sewer Authority as follows:

Beaver Run Project – Payable in 80 quarterly installments of \$2,678 ending October 15, 2015.

Glenwood Park Avenue Relief Sewer and Pumping Station Modifications – Payable in 80 quarterly installments of \$13,071 ending July 15, 2018.

Pitt/Manor Project – Payable in 80 quarterly installments of \$9,183 ending January 16, 2021.

ORF Project – Payable in 36 semiannual installments ranging from \$13,973 to \$171,861 ending August 1, 2022.

In 2011, Summit Township Sewer Authority paid its share of the remaining balance due on all debt service, totaling \$1,804,554. This amount has been put in deferred revenue to offset future debt service payments. The amount is being recognized based on the original debt service schedule. The balance remaining at December 31, 2016 was \$1,073,123.

Fairview Township Sewer Authority

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Fairview Township Sewer Authority in 1996. Under the terms of this agreement the Fairview Township Sewer Authority is reimbursing the Millcreek Township Sewer Authority for its share of the costs of two projects completed by the Millcreek Township Sewer Authority as follows:

Pitt/Manor Project – Payable in 80 quarterly installments of \$6,336 ending January 16, 2021.

NOTE 14 – OTHER INFORMATION (CONTINUED)

During the years ended December 31, 2016 and 2015, the Fairview Township Sewer Authority reimbursed the Millcreek Township Sewer Authority \$25,342 and \$27,968, respectively, for these projects.

E. Sewage Treatment Charges

The Sewer Revenue Fund pays its sewage treatment charges throughout the year based on an annual estimate determined by the City of Erie. At the conclusion of the year, the City of Erie prepares an annual statement of actual sewage treatment charges. The difference between the estimated and actual operations charges represents either a liability payable to the City of Erie, or a credit due the Sewer Revenue Fund, to be applied against the estimated charges for the succeeding year. The excess of estimated payments over actual sewage treatment charges for 2016 was \$34,144. The estimated 2017 sewage treatment charges are \$3,344,965. The 2016 sewage treatment charges are summarized as follows:

	<u>2016</u>
Operations	\$ 3,048,100
Act 537 Debt Service	<u>845,548</u>
	<u>\$ 3,893,648</u>

F. Sewage Transportation Charges

The Sewer Revenue Fund pays sewage transportation charges to the City of Erie based on an agreement concluded in 1992 between Millcreek Township and the City of Erie which was effective September 1, 1991. Sewage Transportation charges in the amount of \$208,275 has been charged to Sewer Revenue Fund operations for the year ended December 31, 2016. The excess of estimated payments over actual regular and special sewage transportation charges was \$6,055. The estimated 2017 sewage transportation charges are \$226,378.

NOTE 15 – CONTRACTS AND COMMITMENTS

The Township has entered into labor agreements with bargaining units and contracts expire as follows:

<u>Bargaining Unit</u>	<u>Contract Expires</u>
The American Federation of State, County, and Municipal Employees	December 31, 2016
Millcreek Township Police Association	December 31, 2015

The agreement between the Township and the Millcreek Township Police Association expired on December 31, 2015. The December 31, 2015 agreement will remain in effect until a new agreement is reached. The Township and Police Association are currently in negotiations.

## NOTE 16 – CONTINGENCIES

Grants – Amounts received or receivable from government agencies are subject to audit and adjustment by those agencies. The Millcreek Township Sewer Authority has never experienced noncompliance and has never been subject to adjustments or refunds as a result of such audits.

The Township has litigation regarding a condemnation of an easement of property owned by the Angela Cres Trust. The Trust submitted to Court of Common Pleas a claim of over \$3 million for counsel fees and expenses said to have been incurred in the 2005 condemnation action. On December 16, 2014 and August 19, 2015 settlements of \$517,868 and \$164,000, respectively, were awarded to the trust, which is recorded as a liability on the General Fund and Governmental Activities. The trust has continued legal action for additional costs of the condemnation. This claim is being aggressively defended and is in the midst of mediation.

## NOTE 17 – RETENTION AGREEMENT

The Millcreek Township Water Authority has entered into a retention agreement with the employees that will lose their jobs due to the sale of the assets of the Authority. As stated in the agreement, employees will be paid 6 months' salary plus \$1,000 for each year of service. Employees will also be entitled to six months of health insurance benefits and unemployment compensation. As of December 31, 2014, \$423,209 has been transferred to the Millcreek Township Sewer Authority to be held until the execution of the retention agreement occurs. In March of 2015, an additional \$10,611 was transferred to the Sewer Authority to adjust for an increase in wages. A liability exists on the books of the Sewer Authority. For this agreement, the Sewer Authority essentially exists as a pass-through for the monies. The sale of the Millcreek Township Water Authority's assets to Erie was completed on December 18, 2015. During the first six months of 2016, retention payment and Cobra payments for those employees that were released were paid. There is no additional liability for the Millcreek Township Water Authority as of June 30, 2016.

## NOTE 18 – SUBSEQUENT EVENTS

These financial statements considered subsequent events through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.

## **Required Supplementary Information**

**MILLCREEK TOWNSHIP**

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
Capital Projects Fund**

For the Year Ended December 31, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	<u>\$ 581,995</u>	<u>\$ 581,995</u>	<u>\$ 581,995</u>	<u>\$ -</u>
Expenditures:				
Community	<u>701,973</u>	<u>701,973</u>	<u>710,447</u>	<u>(8,474)</u>
Excess of Revenues Over (Under) Expenditures	<u>(119,978)</u>	<u>(119,978)</u>	<u>(128,452)</u>	<u>(8,474)</u>
Net Change in Fund Balance	<u><u>\$ (119,978)</u></u>	<u><u>\$ (119,978)</u></u>	<u>(128,452)</u>	<u><u>\$ (8,474)</u></u>
Fund Balance - Beginning of Year			<u>1,668,511</u>	
Fund Balance - End of Year			<u><u>\$ 1,540,059</u></u>	

**MILLCREEK TOWNSHIP**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**State Fund**  
**For the Year Ended December 31, 2016**

	<u>Budget Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 1,539,640	\$ 1,539,640	\$ 1,596,019	\$ 56,379
Investment earnings	-	-	6,168	6,168
 Total Revenues	 1,539,640	 1,539,640	 1,602,187	 62,547
Expenditures:				
Highways	1,539,640	1,539,640	1,253,586	286,054
 Excess of Revenues Over (Under) Expenditures	 -	 -	 348,601	 348,601
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	348,601	<u>\$ 348,601</u>
 Fund Balance - Beginning of Year			 <u>348,471</u>	
Fund Balance - End of Year			<u>\$ 697,072</u>	

**MILLCREEK TOWNSHIP**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual Sinking Fund**  
**For the Year Ended December 31, 2016**

	Budget Amounts		Actual	Variance
	Original	Final		With Final Budget Favorable
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	679	679
Total Revenues	-	-	679	679
Expenditures:				
Debt service	37,537	37,537	37,537	-
Excess of Revenues Over (Under) Expenditures	(37,537)	(37,537)	(36,858)	679
Net Change in Fund Balance	<u>\$ (37,537)</u>	<u>\$ (37,537)</u>	(36,858)	<u>\$ 679</u>
Fund Balance - Beginning of Year			<u>213,616</u>	
Fund Balance - End of Year			<u>\$ 176,758</u>	

**MILLCREEK TOWNSHIP**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2016**

	Budget Amounts		Actual	Variance With
	Original Budget	Final		Final Budget
				Favorable (Unfavorable)
<b>Revenues:</b>				
Property and other taxes	\$ 22,458,735	\$ 22,458,735	\$ 23,021,637	\$ 562,902
Licenses and permits	941,000	941,000	887,849	(53,151)
Fines	200,000	200,000	194,956	(5,044)
Intergovernmental	1,849,265	1,849,265	1,965,366	116,101
Charges for services	180,000	180,000	160,797	(19,203)
Special assessments	575,000	575,000	494,005	(80,995)
Rentals	145,000	145,000	142,822	(2,178)
Investment income	22,750	22,750	(37,661)	(60,411)
Other	188,105	188,105	191,591	3,486
<b>Total Revenues</b>	<b>26,559,855</b>	<b>26,559,855</b>	<b>27,021,362</b>	<b>461,507</b>
<b>Expenditures:</b>				
General government	5,929,243	5,929,243	5,443,134	486,109
Public safety	13,722,879	13,722,879	13,491,046	231,833
Highways	7,497,178	7,497,178	5,727,715	1,769,463
Parks and recreation	1,183,810	1,183,810	1,023,449	160,361
Community	489,000	489,000	790,324	(301,324)
<b>Total Expenditures</b>	<b>28,822,110</b>	<b>28,822,110</b>	<b>26,475,668</b>	<b>2,346,442</b>
Excess of Revenues Over (Under) Expenditures	(2,262,255)	(2,262,255)	545,694	2,807,949
<b>Other Financing Sources:</b>				
Sale of fixed assets	67,000	67,000	186,646	119,646
Refund of prior year's expenses	1,200	1,200	66,576	65,376
Transfers in	17,410	17,410	17,408	(2)
<b>Total Financing Sources</b>	<b>85,610</b>	<b>85,610</b>	<b>270,630</b>	<b>185,020</b>
<b>Special Items:</b>				
Transfer-Water Authority	-	-	19,820,959	19,820,959
<b>Net Change in Fund Balance</b>	<b>\$ (2,176,645)</b>	<b>\$ (2,176,645)</b>	<b>20,637,283</b>	<b>\$ 22,813,928</b>
Fund Balance, Beginning of Year			6,256,352	
Fund Balance, End of Year			<u>\$ 26,893,635</u>	

The notes to the required supplementary information are an integral part of this schedule.

**MILLCREEK TOWNSHIP**  
**Pension Plan**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**December 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 1,615,017	\$ 1,541,508	\$ 1,434,568
Interest	5,061,400	4,811,779	4,628,635
Changes of benefit terms	-	72,137	-
Differences between expected and actual experience	-	(1,184,334)	-
Changes of assumptions	-	185,874	-
Benefit payments, including refunds of employee contributions	<u>(3,324,851)</u>	<u>(2,880,212)</u>	<u>(2,726,344)</u>
Net change in total pension liability	<u>3,351,566</u>	<u>2,546,752</u>	<u>3,336,859</u>
Total pension liability - beginning	<u>67,502,694</u>	<u>64,955,942</u>	<u>61,619,083</u>
Total pension liability - ending (a)	<u><u>\$70,854,260</u></u>	<u><u>\$67,502,694</u></u>	<u><u>\$ 64,955,942</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 2,518,517	\$ 2,746,248	\$ 2,683,853
Contributions - employee	484,708	496,743	471,267
Net investment income	4,344,682	648,241	3,046,896
Benefit payments, including refunds of employee contributions	(3,324,851)	(2,880,212)	(2,726,344)
Administrative expense	(168,182)	(255,533)	(311,074)
Other	-	-	-
Net change in plan fiduciary net position	3,854,874	755,487	3,164,598
Plan fiduciary net position - beginning	<u>59,981,754</u>	<u>59,226,267</u>	<u>56,061,669</u>
Plan fiduciary net position - ending (b)	<u><u>\$63,836,628</u></u>	<u><u>\$59,981,754</u></u>	<u><u>\$ 59,226,267</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 7,017,632</u></u>	<u><u>\$ 7,520,940</u></u>	<u><u>\$ 5,729,675</u></u>
Plan fiduciary net pension as a percentage of the total pension liability	90.10%	88.86%	91.18%
Covered employee payroll	\$12,051,971	\$12,104,395	\$ 12,249,051
Net pension liability as a percentage of covered employee payroll	58.23%	62.13%	46.78%

The notes to the required supplementary information are an integral part of this schedule.

**MILLREEK TOWNSHIP**  
**Schedule of Contributions**  
12/31/2016

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2007	\$ 881,998	\$ 881,998	\$ -	\$ -	
2008	1,055,761	1,055,761	-	9,870,033	10.7%
2009	949,076	949,076	-	-	
2010	1,621,813	1,621,813	-	10,843,624	15.0%
2011	1,679,506	1,529,417	150,089	-	
2012	1,692,843	1,542,754	150,089	11,159,633	13.8%
2013	2,352,690	2,352,690	-	-	
2014	2,683,853	2,683,853	-	12,249,051	21.9%
2015	2,746,224	2,745,909	315	12,104,395	22.7%
2016	2,518,513	2,518,513	-	12,051,971	20.9%

**Notes to the Supplementary Schedules**

The following actuarial methods and assumptions were used in the calculation of actuarially determined contribution rates reported in the supplementary schedules:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Police – 10 years aggregate General – 7 years aggregate
Asset valuation method	4-year smoothing
Inflation	3.0%
Salary increases	Police – 5.0% including inflation General – 4.5% including inflation
Investment rate of return	7.5% net of investment expenses not funded through the MMO, and including inflation
Benefit Changes	General employees service increment added for early retirement and deferred vested participants in 2015.
Changes to Assumptions	Effective January 1, 2015 for Police employees, 100% of participants with at least 25 years will retire at 60 and not 62.
Other Information:	

The above schedule presents information starting with the years ended December 31, 2007, which was the latest information available.

The notes to the required supplementary information are an integral part of this schedule.

**MILLCREEK TOWNSHIP**  
**Schedule of Investment Returns**

Annual money-weighted rate of return, net of investment expense not funded through the MMO.

2014	5.77%
2015	1.12%
2016	6.93%

The notes to the required supplementary information are an integral part of this schedule.

**MILLCREEK TOWNSHIP**  
**Schedule of Funding Progress**  
**December 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2007	\$ 40,755,256	\$ 40,755,256	\$ -	100.00%	\$ 9,030,716	0.00%
1/1/2009	39,761,351	45,198,223	5,436,872	87.97%	9,870,033	55.08%
1/1/2011	42,426,928	53,072,764	10,645,836	79.94%	10,843,624	98.18%
1/1/2013	46,876,744	58,160,205	11,283,461	80.60%	11,159,633	101.11%
1/1/2015	57,007,573	64,029,619	7,022,046	89.03%	12,249,051	57.33%

The notes to the required supplementary information are an integral part of this schedule.

**MILLCREEK TOWNSHIP**  
**Post-Employment Benefits Other Than Pension Benefits**  
**Schedule of Funding Progress**  
**December 31,2016**

**Police Plan**

Acturial Valuation Date	Actuarial Value of Plan Assets (a)	Acturial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered payroll ([b-a]/c)
2015	\$ -	\$ 33,066,339	\$ 33,066,339	-	\$ 9,226,062	632.72%
2013	-	25,049,027	25,049,027	-	4,819,865	519.70%
2011	-	18,895,602	18,895,602	-	4,585,303	412.09%
2009	-	18,049,181	18,049,181	-	3,664,246	492.58%

**Employees Plan**

Acturial Valuation Date	Actuarial Value of Plan Assets (a)	Acturial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered payroll ([b-a]/c)
2015	\$ -	\$ 3,199,893	\$ 3,199,893	-	\$ 7,096,153	45.09%
2013	-	3,923,406	3,923,409	-	5,638,371	69.58%
2011	-	2,969,605	2,869,605	-	5,383,782	53.30%
2009	-	2,821,500	2,821,500	-	5,422,059	52.04%

The notes to the required supplementary information are an integral part of this schedule.



---

FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

---

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Supervisors  
Millcreek Township  
Erie, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township Pennsylvania, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Millcreek Township, Pennsylvania's basic financial statements, and have issued our report thereon dated May 23, 2017. Our report includes a reference to other auditors who audited the financial statements of Millcreek Township Water Authority and Millcreek Township Sewer Authority, as described in our report on Millcreek Township, Pennsylvania's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Millcreek Township, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Millcreek Township, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of Millcreek Township, Pennsylvania's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***  
**(Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Millcreek Township, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

May 23, 2017  
Erie, Pennsylvania