

**TOWNSHIP OF DERRY
BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017**

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HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Township of Derry
Hershey, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Derry, Hershey, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Township's primary government 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of employer contributions, schedule of changes in the net pension liability and related ratios police pension, and schedule of changes in the net pension liability and related ratios in non-uniform pension on pages 3-16 and 69-78 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Derry, Hershey, Pennsylvania's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the primary government of the Township of Derry, Hershey, Pennsylvania, which consists of all funds that comprise the Township's legal entity. These primary government financial statements do not include financial data for the Township's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Township's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the Township of Derry, Hershey, Pennsylvania, as of December 31, 2017, the changes in its financial position or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

June 26, 2018
(except for Note 17, as to
Which the date is October 5, 2018)

Mechanicsburg, Pennsylvania



Certified Public Accountants

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

This section of the Township of Derry's annual financial report presents a narrative overview and analysis of the Township's financial performance for the fiscal year ended December 31, 2017. Please read this management's discussion and analysis in conjunction with the accompanying financial statements and notes which follow in order to obtain a thorough understanding of the Township's financial conditions at December 31, 2017.

FINANCIAL HIGHLIGHTS

- There was a real estate millage increase included in the Township's 2017 budget for the Capital Projects Fund of .5517 mills.
- The total assets of the primary government of Derry Township exceeded its liabilities at the close of 2017 by \$46,668,164 (*total net position*).
- At the close of 2017, the Township's governmental funds reported a combined ending total fund balance of \$8,286,924 which is an increase of \$4,228,953 from 2016. Approximately 29% of this total, or \$2,364,258 is available for spending at the government's discretion (*unassigned fund balance*).
- The Township entered into lease agreements for 2 Ford F350s, 2 Police Interceptors, and a Volvo Wheel Loader. The total principal amount of these agreements was \$334,911.
- The Township obtained a Dauphin County Infrastructure Bank loan in 2014 for \$256,960 to fund the installation of a traffic signal at Fishburn and Homestead Roads. In 2017, the Township drew down \$17,502 of that loan for the project. The remaining portion of \$68,457 is being held in an account at First National Bank by the Dauphin County Industrial Development Authority.
- The Township issued the Series of 2017 General Obligation Note in the amount of \$550,000 to pay for the Caracus Avenue project.
- The Township issued the Series of 2017 Guaranteed Revenue Note in the amount of \$2,968,111 to pay for upcoming road projects.
- The Township's bond rating is AA with a stable outlook from Standard & Poor's Ratings Services.

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

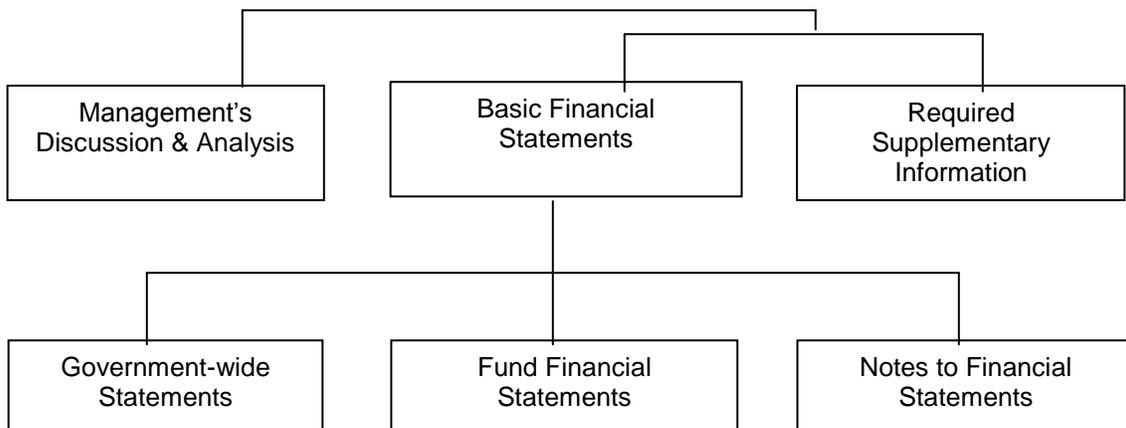
OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of two parts: management's discussion and analysis and the basic financial statements (including notes to the financial statements.) The basic financial statements present two different views of the Township through the use of government-wide statements and fund financial statements:

- The first two statements (pages 17, 18, and 19) are government-wide financial statements that provide long-term and short-term information about the Township's overall financial status.
- The next two statements (pages 20 & 22) are fund financial statements that focus on individual parts of Township government, and report operations in more detail than the government-wide statements.
- The governmental funds statements describe only general government services which include public safety, general government, community development, health and human services, public works, parks and recreation, library and child care programs.
- The remaining three statements (pages 24, 25, & 26) are proprietary fund statements that provide information about the recycling fund operations and cash flows.
- Fiduciary fund statements provide information about the retirement plans for Township employees in which the Township acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support Township activities.

The financial statements include notes that provide an explanation for certain information in the financial statements and also provide more details for this information. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, a section with combining statements provides details about the non-major governmental funds that are presented in a single column in the basic financial statements.

Figure A-1
REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the Township's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of the Township of Derry's
Government-wide and Fund Financial Statements

	Government- Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds)	Entire Township government (except fiduciary funds)	Activities the Township operates similar to private business – Recycling program	Instance in which the Township is the trustee or agent to someone else's resources – such as the retirement plan for Township employees.
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 (Continued)
Major Features of the Township of Derry's
Government-wide and Fund Financial Statements

	Government- Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of asset, deferred outflow, deferred inflow and liability information	All assets, deferred inflows, deferred outflows, liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up, deferred outflows, deferred inflows, and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets, deferred outflows, deferred inflows, and liabilities, both financial and capital, and short-term and long-term.	All assets, deferred outflows, deferred inflows, and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can.
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

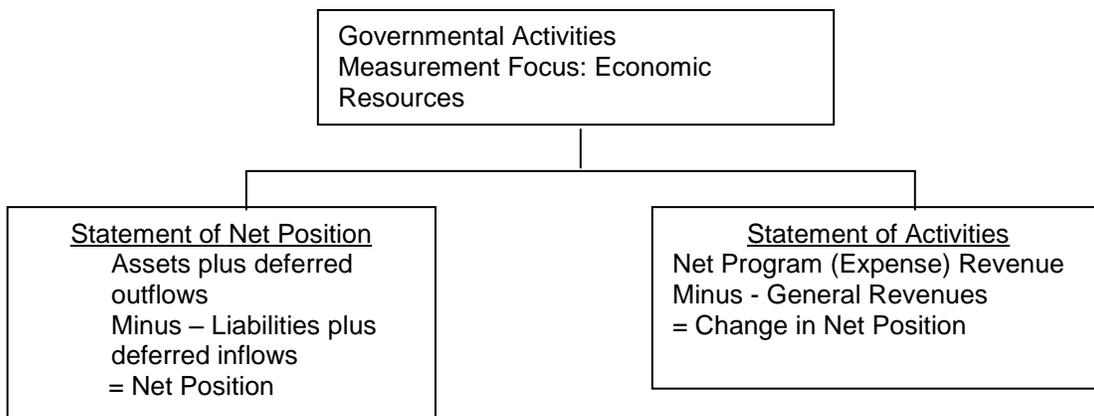
OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Township's assets, deferred outflows, deferred inflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net position and how it has changed. The statement of net position includes all of the Township's assets, deferred outflows, deferred inflows, and liabilities, except fiduciary funds. Net position – the difference between the Township's assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the Township's financial health, or position. Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating. The statement of activities focuses on how the Township's net position changed during the year. Additional non-financial factors such as changes in the Township's real property tax base and general economic conditions must be considered to assess the overall position of the Township. The primary features of government-wide financial statements are reflected in Figure A-3.

Figure A-3
 Primary Features of Government-wide Financial Statements



- *Governmental activities* - Most of the Township's basic services are included here, such as the police, fire, public works, recreation departments, and general administration. Property and earned income taxes, amusement tax, parking tax, occupation tax, charges for services, and state grants finance most of these activities.

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds, not the Township as a whole. Funds are accounting groups that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law.

The Township has three kinds of funds:

- *Governmental funds* – Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship between the governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds is described in a reconciliation that follows the fund financial statements.
- *Proprietary funds* – Services for which the Township charges customers a fee are generally reported in proprietary funds. The only proprietary fund of the Township includes its recycling fund. Proprietary fund statements offer short and long-term financial information about activities the Township operates like a business.
- *Fiduciary funds* – The Township is the trustee, or fiduciary, for one single-employer pension plans; police and two agent multi employer plans; general employees. These plans cover essentially all full-time employees. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

The Township's net position - governmental activities at December 31 are presented below:

Summary of Statement of Net Position December 31		
	Governmental Activities	
	2017	2016
Current and other assets	\$ 26,036,638	\$ 22,833,406
Capital assets	65,369,364	71,196,001
Non-current assets	-	-
Total assets	<u>\$ 91,406,002</u>	<u>\$ 94,029,407</u>
Losses on refundings	109,598	126,357
Pension	<u>2,390,665</u>	<u>2,145,952</u>
Total deferred outflows	<u>2,500,263</u>	<u>2,272,309</u>
Current and other liabilities	4,382,519	4,063,710
Non-current liabilities	<u>42,142,128</u>	<u>40,990,309</u>
Total liabilities	<u>\$ 46,524,647</u>	<u>\$ 45,054,019</u>
Value of swap & unamortized items	63,333	68,333
Pension	<u>961,787</u>	<u>819</u>
Total deferred inflows	<u>\$ 1,025,120</u>	<u>\$ 69,152</u>
Net position:		
Net investment in capital assets	\$ 45,787,497	\$ 53,565,432
Restricted	4,593,768	1,655,661
Unrestricted	<u>(4,024,767)</u>	<u>(4,042,548)</u>
Total net position	<u>\$ 46,356,498</u>	<u>\$ 51,178,545</u>

Assets

At December 31, 2017, the Township's total governmental assets and deferred outflows of resources totaled \$93,906,265. Of this amount, \$65,369,364 is accounted for by capital assets, which include infrastructure and construction in progress. Net investment in capital assets totaled \$45,787,497 at December 31, 2017.

Increases in current and other assets resulted from an increase in restricted cash due to the 2017 Guaranteed Revenue Note, whose funds are being held in a cash account controlled by the Dauphin County Infrastructure Bank. Increases in liabilities resulted primarily from the issuance of new long term debt.

TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

The following presents the Township's change in net position – governmental activities for the fiscal years ended December 31:

Change in Net Position		
	Governmental Activities	
	2017	2016
Revenues		
Program revenues		
Charges for services	\$ 3,197,529	\$ 2,820,325
Operating grants	1,197,867	1,272,366
Capital grants and contributions	792,589	9,759,172
General revenues		
Property taxes	4,112,614	3,199,870
Other taxes	11,727,578	11,617,259
Other	<u>1,159,415</u>	<u>1,538,520</u>
Total revenues	<u>\$ 22,187,589</u>	<u>\$ 30,207,512</u>
Program expenses		
General government	3,119,054	2,312,012
Public works	4,808,169	5,138,728
Health human services	10,830	10,008
Culture and recreation	3,729,181	3,205,578
Public safety and community development	9,980,085	10,204,352
Interest and fiscal charges	<u>409,347</u>	<u>624,505</u>
Total expenses	<u>22,056,666</u>	<u>21,495,183</u>
Excess (deficiency) before transfers	130,923	8,712,329
Transfers	<u>202,747</u>	<u>500,000</u>
Change in net position	330,670	9,212,329
Extraordinary item	(5,155,717)	-
Net position beginning	51,178,545	40,982,991
Prior Period Adjustment	<u>-</u>	<u>983,225</u>
Net position ending	<u>\$ 46,356,498</u>	<u>\$ 51,178,545</u>

**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

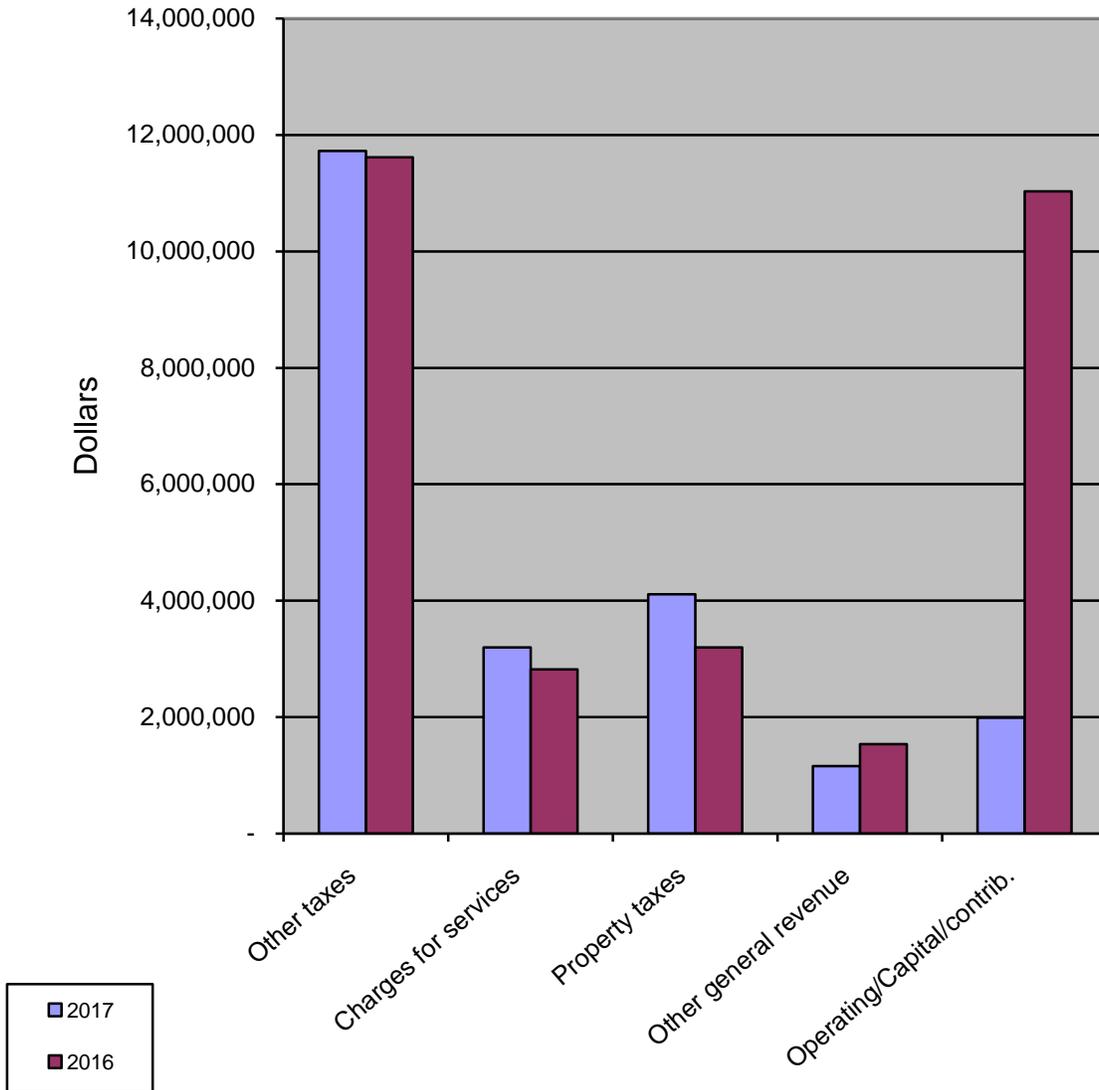
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenue Sources

Total government-wide revenues of \$22,390,336, a 27.1% decrease from 2016, were derived primarily from earned income tax, transfer taxes and other taxes, representing \$11,727,578 of the total. Property taxes made up the second largest source of revenue at \$4,112,614. Charges for services made up the third largest source of revenue at \$3,197,529, followed by operating grants and contributions of \$1,197,864. Other sources of revenue include capital grants and contributions of \$792,589 and other general revenues of \$1,159,415. In addition, funds were transferred in from the Township's proprietary fund in the amount of \$202,747.

The following chart graphically depicts the government-wide sources of revenues for the fiscal years ended December 31.

Revenue Sources



**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

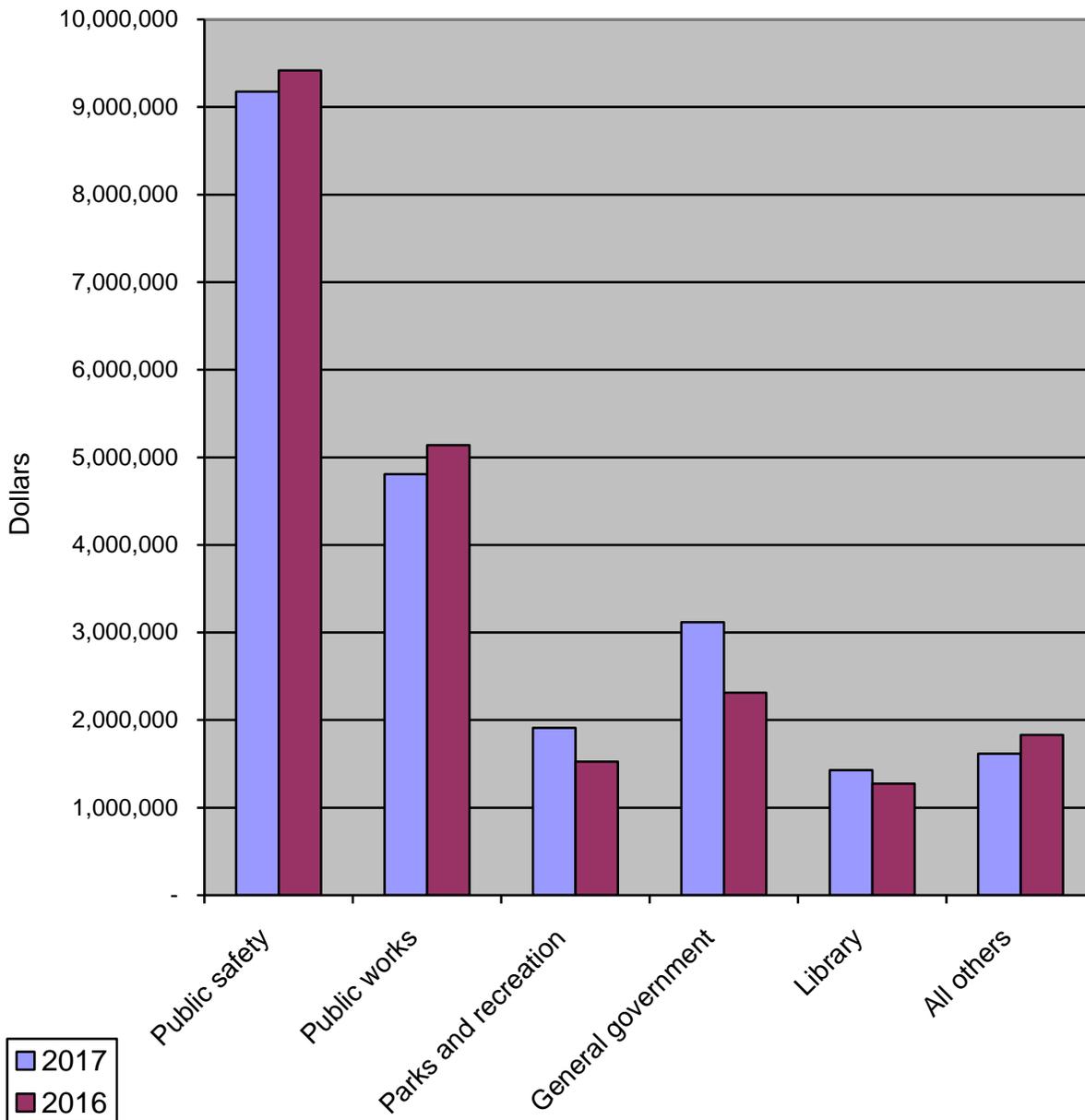
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Program Expenses:

Total expenses for all programs in 2017 were \$22,111,470, an increase of 2.2% from 2016. The expenses cover a range of services, with the largest being public safety at \$9,176,354. The second largest program area was public works at \$4,808,169, followed by general government at \$3,119,054, parks and recreation at \$1,911,182, library at \$1,427,089, and all others totaling \$1,614,818.

This chart graphically depicts the government-wide program expenses for the fiscal years ended December 31.

Program Expenses



**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

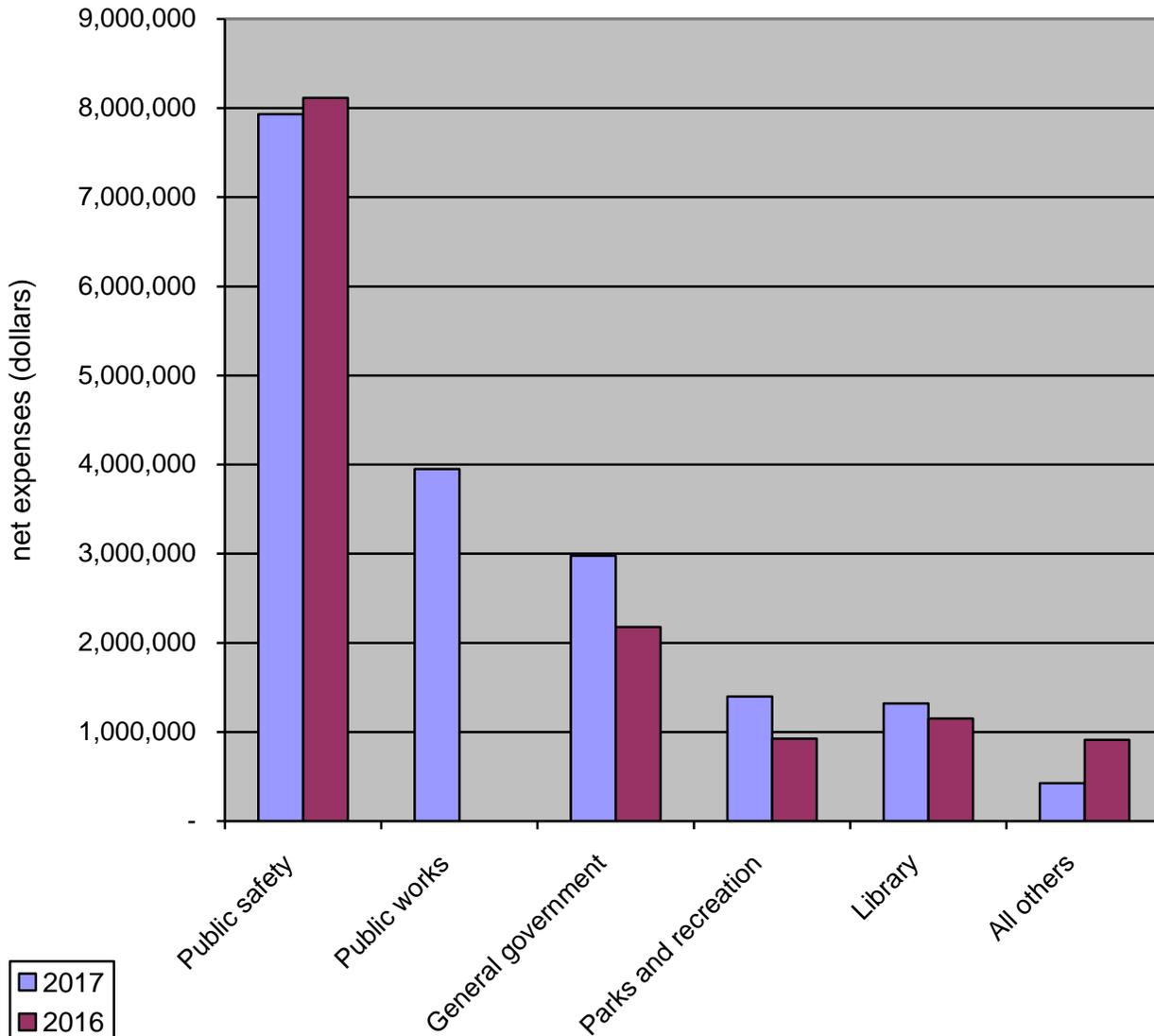
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Net Program Expenses/Revenues

Net program expenses/revenues indicate the amount of support required from taxes and other general revenues for the year. Public safety expenses required the most general revenue for support, utilizing \$7,933,651 in 2017. Public works required \$2,949,343 of general revenues for support, while general government required \$2,977,411, parks and recreation required \$1,397,809, library required \$1,321,424, community development required \$0, and health and human services required \$10,830. Interest and fiscal charges required \$409,347.

The following chart graphically depicts the net program expenses/revenues by function/program for the fiscal years ended December 31.

Net Program Expenses/Revenues



TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township's governmental funds reported a net increase of \$4,228,953 in 2017 and a combined fund balance \$8,286,924 at year end. Of this combined fund balance \$2,364,258 or 28.53% represents unassigned fund balance, meaning it is available to meet the Township's current and future needs. Of the remaining fund balance, \$369,000 is nonspendable, \$4,821,225 is restricted, \$222,480 is committed, and \$509,961 is assigned.

General Fund Budgetary Highlights

During 2017, actual expenditures and other financing uses were under budgeted appropriations by \$74,305. Additionally, actual revenues and other financing sources were higher than anticipated by \$506,032. The variance resulted primarily from occupation tax revenues, real estate transfer tax revenues, earned income tax revenues, and other financing sources which were higher than anticipated.

Capital Projects Fund

The Capital Projects Fund accounts for the purchase of Township capital assets and debt service payments. Sources of funds for the Capital Projects Fund include real estate taxes, grants and contributions, transfers from other funds. The largest 2017 expenditures were \$2,247,695 for debt service and \$1,545,478 related to public works and the Township's ongoing capital projects.

In 2017, actual expenditures exceeded appropriations by \$1,401,167. Excess expenditures resulted from additional project expenditures which had not been anticipated at the time of the budget's preparation. Intergovernmental revenues and charges for services which exceeded expectations were available to fund \$852,799 of the excess expenditures.

Recycling Fund

The Recycling Fund is the Township's only proprietary fund and accounts for the costs and disposal of recyclable waste of the Township's residents. Total assets of the fund for the year ended December 31, 2017 totaled \$543,549 as compared to \$514,881 in the prior year. Operating income for the year ended December 31, 2017 was \$254,590 as compared to \$212,429 for the prior year. The fund also made a transfer of \$202,747 to the Capital Projects Fund to provide additional funds for debt service.

**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

TRUST AND AGENCY OPERATIONS

Pension Trust Fund

The Township of Derry has two pension plans – general employees and police. The only direct municipal involvement in the administration of the plans is the calculation of benefits for retirees, which are then paid by the trustee. During 2017, plan net assets increased by \$2,477,762.

During 2017, contributions were required in both municipal pension plans. In the non-uniform plan, the actuarial accrued liability exceeds the actuarial value of assets by \$2,669,832 as of December 31, 2016, the date of the last actuarial valuation report. In the Police Pension plan, the actuarial accrued liability exceeds the actuarial value of assets by \$2,196,016 as of December 31, 2017, the date of the last actuarial valuation report.

The required supplementary information located at the conclusion of the Notes to Financial Statements provides the details on the plan's funding progress.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Township's investment in capital assets at December 31, 2017, net of accumulated depreciation, amounted to \$65,369,364, a decrease of 8.2% from the prior year. Assets consist primarily of land, buildings and improvements, equipment and infrastructure. Following is a summary of capital assets at December 31.

Summary of Capital Assets

	2017	2016
Land	\$ 3,635,502	\$ 3,635,502
Construction in Progress	525,314	10,635,690
Held for Resale	20,744	56,582
Building, and land and building Improvements	31,089,493	31,088,058
Infrastructure	62,853,044	56,736,688
Furniture, equipment and other capital assets	<u>13,200,992</u>	<u>12,869,840</u>
Total capital assets	<u>\$ 111,325,089</u>	<u>\$ 115,022,360</u>
Less: accumulated depreciation for:		
Building, and land and building Improvements	13,730,579	12,863,240
Infrastructure	21,244,815	20,351,244
Furniture, equipment and other capital assets	<u>10,980,331</u>	<u>10,611,875</u>
Total accumulated depreciation	<u>45,955,725</u>	<u>43,826,359</u>
Total	<u>\$ 65,369,364</u>	<u>\$ 71,196,001</u>

More detailed information about the Township's capital assets can be found in Note 5 of the notes to financial statements.

**TOWNSHIP OF DERRY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2017**

Long-term Debt

At December 31, 2017, the Township had \$34,927,473 of debt outstanding. This represents an increase of \$1,302,190 or 3.9% from the previous year. The following table details activity related to long term debt activity during 2017 and 2016:

Summary of Long-term Debt Activity

	2017	2016
Beginning Balance at 1/1	\$ 33,625,282	\$ 35,172,797
New debt proceeds	3,853,022	8,354,530
Principal retirement	<u>(2,550,831)</u>	<u>(9,902,045)</u>
Ending Balance at 12/31	34,927,473	33,625,282
Less: Due from DTMA	<u>(15,160,000)</u>	<u>(15,765,000)</u>
 Total	 <u>\$ 19,767,473</u>	 <u>\$ 17,860,282</u>

In addition to general obligation bond debt, compensated absences for December 31, 2017 and 2016 were \$727,930 and \$730,494, respectively.

BOND RATING

The Township maintained a strong investment bond rating of AA (stable outlook) from Standard and Poor's. More detailed information about the Township's general long-term debt activity can be found in Note 8 of the Notes to Financial Statements.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Mr. James N. Negley
Township Manager
600 Clearwater Road
Hershey, PA 17033

Separately issued financial statements for the Township's component unit, the Derry Township Municipal Authority, can be obtained by contacting the Authority directly. Their address is 670 Clearwater Road; Hershey, PA 17033.

**TOWNSHIP OF DERRY
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,850,788	\$ 106,310	\$ 2,957,098
Receivables			
Accounts	793,667	25,245	818,912
Taxes, net	2,952,240	-	2,952,240
Component unit	15,160,000	-	15,160,000
Due from other governments	18,746	-	18,746
Inventory	84,598	28,755	113,353
Prepaid expenses	284,402	300	284,702
Restricted cash and cash equivalents	3,892,197	-	3,892,197
Capital assets			
Land and construction in progress	4,160,816	-	4,160,816
Held for resale	20,744	-	20,744
Depreciable capital assets, net	<u>61,187,804</u>	<u>382,939</u>	<u>61,570,743</u>
Capital assets, net	<u>65,369,364</u>	<u>382,939</u>	<u>65,752,303</u>
Total Assets	<u>91,406,002</u>	<u>543,549</u>	<u>91,949,551</u>
Deferred Outflows of Resources			
Deferred amounts from refunding of debt	109,598	-	109,598
Deferred outflows - Pension	<u>2,390,665</u>	-	<u>2,390,665</u>
Total Deferred Outflows of Resources	<u>2,500,263</u>	-	<u>2,500,263</u>
 Total Assets and Deferred Outflows	 <u>\$ 93,906,265</u>	 <u>\$ 543,549</u>	 <u>\$ 94,449,814</u>

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 582,422	\$ 23,864	\$ 606,286
Accrued wages	214,994	-	214,994
Accrued and withheld payroll tax	29,510	-	29,510
Internal balances	(10,679)	10,679	-
Accrued interest payable	90,803	-	90,803
Escrow payable, payable from restricted assets	180,779	-	180,779
Other short-term liabilities	-	500	500
Unearned revenue	445,969	-	445,969
Long-term liabilities			
Due within one year - capital leases	249,312	36,916	286,228
Due within one year - long term debt	2,599,409	-	2,599,409
Compensated absences	727,930	-	727,930
Other postemployment benefit liability	4,655,204	-	4,655,204
Unfunded pension liability	4,865,848	-	4,865,848
Due in more than one year - capital leases	460,318	159,924	620,242
Due in more than one year, net - long term debt	31,432,828	-	31,432,828
Long-term liabilities	<u>44,990,849</u>	<u>196,840</u>	<u>45,187,689</u>
Total Liabilities	<u>46,524,647</u>	<u>231,883</u>	<u>46,756,530</u>
Deferred Inflows of Resources			
Unamortized guarantee fee	63,333	-	63,333
Deferred Inflows - Pension	961,787	-	961,787
Total Deferred Inflows of Resources	<u>1,025,120</u>	<u>-</u>	<u>1,025,120</u>
Net Position			
Net investment in net assets	45,787,497	186,099	45,973,596
Restricted for:			
Donor, grant and bond restrictions	3,055,262	-	3,055,262
Capital Projects	1,538,506	-	1,538,506
Street improvements and equipment	-	-	-
Unrestricted	<u>(4,024,767)</u>	<u>125,567</u>	<u>(3,899,200)</u>
Total Net Position	<u>46,356,498</u>	<u>311,666</u>	<u>46,668,164</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 93,906,265</u>	<u>\$ 543,549</u>	<u>\$ 94,449,814</u>

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expenditure) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 3,119,054	\$ 109,863	\$ 31,780	\$ -	\$ (2,977,411)	\$ -	\$ (2,977,411)
Public safety	9,176,354	956,521	286,182	-	(7,933,651)	-	(7,933,651)
Community development	803,731	940,881	-	-	137,150	-	137,150
Health and human services	10,830	-	-	-	(10,830)	-	(10,830)
Public works	4,808,169	272,896	793,341	792,589	(2,949,343)	-	(2,949,343)
Parks and recreation	1,911,182	507,828	5,545	-	(1,397,809)	-	(1,397,809)
Library	1,427,089	24,649	81,016	-	(1,321,424)	-	(1,321,424)
Child care programs	390,910	384,891	-	-	(6,019)	-	(6,019)
Interest and fiscal charges	409,347	-	-	-	(409,347)	-	(409,347)
Total Governmental Activities	22,056,666	3,197,529	1,197,864	792,589	(16,868,684)	-	(16,868,684)
Business-Type Activities:							
Recycling	254,912	330,366	171,655	-	-	247,109	247,109
Total Primary Government	\$ 22,311,578	\$ 3,527,895	\$ 1,369,519	\$ 792,589	(16,868,684)	247,109	(16,621,575)
General Revenues:							
Taxes:							
General property taxes					4,112,614	-	4,112,614
Other taxes					11,727,578	-	11,727,578
Grants and contributions not restricted to specific programs					965,389	-	965,389
Interest and investment earnings					153,170	182	153,352
Miscellaneous					40,429	-	40,429
Gain on disposal					427	-	427
Transfers					202,747	(202,747)	-
Total General Revenues and Transfers					17,202,354	(202,565)	16,999,789
Changes in Net Position					333,670	44,544	378,214
Extraordinary item (Note 17)					(5,155,717)	-	(5,155,717)
Net Position, January 1					51,178,545	267,122	51,445,667
Net Position, December 31					\$ 46,356,498	\$ 311,666	\$ 46,668,164

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,616,672	\$ 417,362	\$ 816,754	\$ 2,850,788
Receivables				
Accounts	611,724	181,943	-	793,667
Taxes	2,898,005	48,231	6,004	2,952,240
Due from other funds	63,560	780,396	-	843,956
Due from other governments	18,746	-	-	18,746
Inventory	84,598	-	-	84,598
Prepaid expenses	284,402	-	-	284,402
Restricted cash and cash equivalents	-	3,892,197	-	3,892,197
Total Assets	<u>\$ 5,577,707</u>	<u>\$ 5,320,129</u>	<u>\$ 822,758</u>	<u>\$ 11,720,594</u>
 Liabilities and Fund Balance				
Accounts payable	\$ 278,138	\$ 245,655	\$ 58,629	\$ 582,422
Accrued wages	214,994	-	-	214,994
Accrued and withheld payroll tax	29,510	-	-	29,510
Due to other funds	780,396	52,881	-	833,277
Unearned revenue	42,585	403,384	-	445,969
Escrow payable, payable from restricted assets	180,779	-	-	180,779
Total Liabilities	<u>1,526,402</u>	<u>701,920</u>	<u>58,629</u>	<u>2,286,951</u>
 Deferred Inflows of Resources				
Deferred taxes	1,256,307	24,441	2,426	1,283,174
Total Deferred Inflows of Resources	<u>1,256,307</u>	<u>24,441</u>	<u>2,426</u>	<u>1,283,174</u>
 Fund Balance				
Nonspendable	369,000	-	-	369,000
Restricted				
Restricted for donor, grant and legislated restrictions	-	3,892,197	-	3,892,197
Restricted for street improvements and equipment	-	-	792,573	792,573
Committed	-	222,480	-	222,480
Assigned	30,870	479,091	-	509,961
Unassigned	2,395,128	-	(30,870)	2,364,258
Total Fund Balance	<u>2,794,998</u>	<u>4,593,768</u>	<u>761,703</u>	<u>8,150,469</u>
 Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 5,577,707</u>	<u>\$ 5,320,129</u>	<u>\$ 822,758</u>	<u>\$ 11,720,594</u>

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balance - Governmental Funds		\$ 8,150,469
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		65,369,364
Losses on refundings and unamortized swap costs are not financial resources and, therefore, are not reported in the funds.		109,598
Deferred inflows and outflows related to pension activity are not financial resources and, therefore, are not reported in the funds.		1,428,878
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
Property taxes	1,283,174	
Unamortized guaranty fee	<u>(63,333)</u>	1,219,841
Interest expense on long-term debt is not recognized on the fund statements until due.		(90,803)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds, loans, agreement and leases payable (less amounts due from other governments for debt service)	(19,581,867)	
Compensated absences	(727,930)	
Other postemployment benefit liability	(4,655,204)	
Unfunded Pension Liability	<u>(4,865,848)</u>	<u>(29,830,849)</u>
Net Position - Governmental Activities		<u>\$ 46,356,498</u>

See accompanying notes to the financial statements.

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

Revenues	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 13,766,289	\$ 2,002,415	\$ 242,984	\$ 16,011,688
Licenses and permits	297,365	7	-	297,372
Fines and forfeits	184,436	-	-	184,436
Interest and rents	73,601	77,174	2,395	153,170
Intergovernmental revenues	1,265,194	792,589	793,341	2,851,124
Charges for services	2,207,508	214,710	11,369	2,433,587
Miscellaneous revenues	382,347	44,384	-	426,731
Total Revenues	<u>18,176,740</u>	<u>3,131,279</u>	<u>1,050,089</u>	<u>22,358,108</u>
Expenditures				
General government	1,697,004	168,743	-	1,865,747
Public safety	8,789,645	249,601	-	9,039,246
Community development	754,550	8,059	-	762,609
Health and human services	10,830	-	-	10,830
Public works	2,769,158	1,545,478	788,538	5,103,174
Parks and recreation	1,544,783	13,103	-	1,557,886
Library	1,250,257	34,051	-	1,284,308
Child care programs	384,033	-	-	384,033
Debt service				
Principal	-	1,850,931	59,134	1,910,065
Interest and fiscal charges	-	396,764	3,731	400,495
Total Expenditures	<u>17,200,260</u>	<u>4,266,730</u>	<u>851,403</u>	<u>22,318,393</u>
Other Financing Sources (Uses)				
Operating transfers in	129,866	439,347	142,657	711,870
Operating transfers out	(379,257)	(129,866)	-	(509,123)
Loan proceeds	-	3,515,125	-	3,515,125
Lease proceeds	-	334,911	-	334,911
Swap Proceeds	-	-	-	-
Total Other Financing Services (Uses)	<u>(249,391)</u>	<u>4,159,517</u>	<u>142,657</u>	<u>4,052,783</u>
Net Changes in Fund Balance	<u>727,089</u>	<u>3,024,066</u>	<u>341,343</u>	<u>4,092,498</u>
Fund Balance, January 1	2,067,909	1,569,702	420,360	4,057,971
Fund Balance, December 31	<u>\$ 2,794,998</u>	<u>\$ 4,593,768</u>	<u>\$ 761,703</u>	<u>\$ 8,150,469</u>

See accompanying notes to the financial statements.

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

Net change in fund balance - governmental funds \$ 4,092,498

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

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which depreciation expense exceeded capital outlays in the current period. (666,895)

Governmental funds report bond premiums and losses on refundings
as revenues and expenditures. However, in the Statement
of Activities, these costs are amortized over the maturity period of the debt.
This is the amount of amortization in the current period. (6,408)

Governmental funds report the guaranty fees as revenues in the year they are
received. However, in the Statement of Activities, these financing sources are
amortized over the life of the debt or the agreement, whichever is shorter.
This is the amount of amortization for the guaranty fees for the current period. 5,000

The repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position. 1,580,900

The decrease in the unfunded pension liability is reflected as an expense on the
Statement of Activities, but is not included in the fund statements. 594,788

The deferred inflows and outflows for the pension is reflected as an expense on the
Statement of Activities, but is not included in the fund statements. (716,255)

Capital lease payments are recorded as expenditures in the governmental funds,
but are recorded as reductions of liabilities in the government-wide statements. 329,165

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds. This is the net
deferred property tax revenue that is earned for 2017, but not collected in time
to meet current obligations. (171,496)

The loss on the disposal of assets is recorded on the Statement of Activities,
but is not included in the fund statements. (4,025)

The increase in accrued interest payable is reflected as a decrease in expense on the
Statement of Activities, but is not included in the fund statements. (5,264)

Revenues related to lease proceeds are reported as revenue in the fund statements
but are recorded as lease payable on the Statement of Net Position (334,911)

Revenues related to bond and note proceeds are reported as revenue in the fund statements
but are recorded as long term debt payable on the Statement of Net Position (3,515,125)

The interest and issuance costs on new debt is not reflected in the fund
expenditures but are included as expenses in the Statement of Activities. (21,678)

The increase in the accrued other postemployment benefit liability is reflected as an
expense on the Statement of Activities, but is not included in the fund statements. (829,188)

The decrease in compensated absence liabilities is reflected on the
Statement of Activities, but is not included in the fund statements. 2,564

Change in net position of governmental activities **\$ 333,670**

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF NET POSITION
PROPRIETARY FUND - RECYCLING
DECEMBER 31, 2017**

Assets

Current Assets

Cash and cash equivalents	\$ 106,310
Accounts receivable	<u>25,245</u>

Total Current Assets 131,555

Other Assets

Inventory	28,755
Prepaid Expenses	300
Capital assets, net of accumulated depreciation	<u>382,939</u>

Total Assets \$ 543,549

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 23,864
Customer deposit	500
Due within one year - capital leases	36,916
Due to other funds	<u>10,679</u>

Total Current Liabilities 71,959

Long Term Liabilities

Due in more than one year - capital leases	<u>159,924</u>
--	----------------

Total Long Term Liabilities 159,924

Net Position

Net investment in capital assets	186,099
Unrestricted	<u>125,567</u>

Total Net Position 311,666

Total Liabilities and Net Position \$ 543,549

See accompanying notes to the financial statements.

TOWNSHIP OF DERRY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND - RECYCLING
YEAR ENDED DECEMBER 31, 2017

Operating Revenues	
Charges for Service	\$ 330,366
Intergovernmental	<u>171,655</u>
Total Operating Revenues	<u>502,021</u>
Operating Expenses	
Wages and employee benefits	35,826
Materials and supplies	14,344
Contracted services and other charges	161,066
Depreciation	<u>36,195</u>
Total Operating Expenses	<u>247,431</u>
Operating Income	<u>254,590</u>
Non-Operating Revenue (Expenses)	
Interest income	182
Interest expense	<u>(7,481)</u>
Total Non-Operating Revenue	<u>(7,299)</u>
Income Before Transfers	247,291
Transfers out	<u>(202,747)</u>
Change in Net Position	44,544
Net Position, January 1	<u>267,122</u>
Net Position, December 31	<u><u>\$ 311,666</u></u>

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - RECYCLING
YEAR ENDED DECEMBER 31, 2017**

Cash flows from operating activities:	
Receipts from customers and users	\$ 328,927
State grants received	171,655
Payments to suppliers	(168,432)
Payments for employee services	<u>(35,826)</u>
Net cash provided by operating activities	<u>296,324</u>
 Cash flow from noncapital financing activities:	
Transfers out	<u>(202,747)</u>
Net cash used by noncapital financing activities	<u>(202,747)</u>
 Cash flow from investing activities:	
Interest Income	<u>182</u>
Net cash provided by investing activities	<u>182</u>
 Cash flow from financing activities:	
Interest paid on Lease Payable	(7,481)
Principal Payment on Lease Payable	<u>(35,765)</u>
Net cash provided by investing activities	<u>(43,246)</u>
 Net (decrease) in cash and cash equivalents	50,513
 Cash and cash equivalents beginning of year	<u>55,797</u>
 Cash and cash equivalents end of year	<u>\$ 106,310</u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 254,590
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	36,195
Changes in assets and liabilities:	
Increase in recycling charges receivable	(1,439)
Increase in inventory	(12,911)
Increase in prepaid expenses	-
Increase in accounts payable	19,376
Increase in due to other funds	<u>513</u>
Net cash provided by operating activities	<u>\$ 296,324</u>

See accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
DECEMBER 31, 2017**

	<u>Police Pension</u>	<u>Non-Uniform Pension</u>	<u>Pension Trust Fund Total</u>
Assets			
Cash and cash equivalents	\$ 1,473,831	\$ -	\$ 1,473,831
Investments	<u>18,608,228</u>	<u>9,062,825</u>	<u>27,671,053</u>
Total Assets	<u>\$ 20,082,059</u>	<u>\$ 9,062,825</u>	<u>\$ 29,144,884</u>
Liabilities			
Due to employees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Restricted for pension benefits	<u>20,082,059</u>	<u>9,062,825</u>	<u>29,144,884</u>
Total Net Position	<u>20,082,059</u>	<u>9,062,825</u>	<u>29,144,884</u>
Total Liabilities and Net Position	<u>\$ 20,082,059</u>	<u>\$ 9,062,825</u>	<u>\$ 29,144,884</u>

See the accompanying notes to the financial statements.

**TOWNSHIP OF DERRY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
YEAR ENDED DECEMBER 31, 2017**

	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>	<u>Pension Trust Fund Total</u>
Additions			
Contributions:			
Member contributions	\$ 287,439	\$ 174,319	\$ 461,758
Employer contributions	544,001	229,620	773,621
State aid	<u>443,225</u>	<u>189,954</u>	<u>633,179</u>
Total contributions	<u>1,274,665</u>	<u>593,893</u>	<u>1,868,558</u>
Investment income :			
Net appreciation			
in fair value of investments	292,675	-	292,675
Interest and dividends	<u>1,954,619</u>	<u>461,334</u>	<u>2,415,953</u>
Total investment income	<u>2,247,294</u>	<u>461,334</u>	<u>2,708,628</u>
Total Additions	<u>3,521,959</u>	<u>1,055,227</u>	<u>4,577,186</u>
Deductions			
Benefits	1,024,906	962,780	1,987,686
Administrative expenses	<u>107,843</u>	<u>3,895</u>	<u>111,738</u>
Total Deductions	<u>1,132,749</u>	<u>966,675</u>	<u>2,099,424</u>
Net Increase	2,389,210	88,552	2,477,762
Net Position:			
January 1	<u>17,692,849</u>	<u>8,974,273</u>	<u>26,667,122</u>
December 31	<u>\$ 20,082,059</u>	<u>\$ 9,062,825</u>	<u>\$ 29,144,884</u>

See the accompanying notes to the financial statements.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Derry, Pennsylvania (the Township) was organized in 1729 and operates as a Second Class Township. The Township, which operates as a board/manager form of government, is a suburb of Harrisburg with approximately 25,000 residents and an area of 27 square miles.

The financial statements of the Township have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the Township are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Township's financial activities for the year ended December 31, 2017.

A. Reporting Entity

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus amended by GASB Statement No. 80*, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Township's financial reporting entity are financial interdependencies, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service, and special financing relationships.

COMPONENT UNIT

The following entity is considered to be a component unit of the Township:

Derry Township Municipal Authority (DTMA)

The seven members of the Derry Township Municipal Authority are appointed by the Board of Supervisors to serve a term of five years. The Board is responsible for conducting all business necessary to acquire, hold, construct, improve, maintain, operate, own and lease sewers, sewer systems, interceptor lines, sewage treatment works and works for the treatment and disposal of industrial waste.

These primary government financial statements include only the activity of the primary government, the Township of Derry, and do not include the activity of its component unit. Separately published financial statements of the above component unit are available for inspection in the Authority's office at 670 Clearwater Road; Hershey, PA 17033.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity –(Continued)

JOINT VENTURE

A joint venture is a legal entity or other organization that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The following is a joint venture of the Township:

Township of Derry Tax Collection Commission

The Township of Derry Tax Collection Commission (the Commission) has a seven member board consisting of two Derry Township School District board members, two members of the Township of Derry Board of Supervisors and three at-large Township residents appointed jointly by the School District and Township. The Commission is generally responsible for policies, rules and regulations relating to the collection of local taxes.

The Commission is not reported as part of the Township's reporting entity. As a member of the Commission, the Township was required to make monthly contributions to the Commission. For the year ended December 31, 2017, the Township contributed \$160,200 to the Commission, which was reported as an expenditure of the General Fund. Complete financial statements for the Township of Derry Tax Collection Commission can be obtained from the Township of Derry Tax Collection Commission, 610 Clearwater Road; Hershey, PA 17033.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity –(Continued)

RELATED ORGANIZATIONS

Related organizations are not component units, yet there is some form of accountability, other than financial accountability that exists between the primary government and the related organization because of the appointment authority. The following are related organizations of the Township:

Township of Derry General Authority

The Township of Derry General Authority was created by ordinance of the Board of Supervisors of the Township of Derry on August 10, 1999. This Authority was created for the purpose of exercising and enjoying all powers capable of being exercised by a municipal authority under the Municipal Authorities Act of 1945 or any other Pennsylvania legislation. The Board is comprised of five members who are appointed to five year terms with only one member's term expiring each year.

Township of Derry Industrial and Commercial Development Authority (ICDA)

The Township of Derry Industrial and Commercial Development Authority was created by ordinance of the Board of Supervisors of the Township of Derry on August 10, 1999. This Authority was created for the purpose of exercising and enjoying all powers capable of being exercised by an industrial and commercial development authority under the Economic Financing Law, Act No. 74 of 1993, as amended and supplemented, or any other Pennsylvania legislation. The Authority has five Board members who are appointed for five year terms.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and The Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental grants, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

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

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental Fund revenues accrued on this basis include amusement and parking tax, deed transfer tax, joint program cost reimbursements (fuel, vehicle repairs, school resource officer and tax office operating costs), plan checking reimbursements, rentals, and fees. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Unearned and deferred revenues have been recorded for certain receivables that are measurable but not available to finance current liabilities. Revenues from intergovernmental grants are recognized on the basis of actual expenditures incurred and to the extent amounts are available.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise fund are recycling charges. Operating expenses for the Township's enterprise fund include wages and benefits costs, supplies, contracted services and other costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The accounts of the Township are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures or expenses, as appropriate.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Township reports the following major governmental funds:

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

The *Capital Projects Fund* accounts for funds provided by the Township including interfund transfers and grants received for the purpose of acquisition, construction or improvement of capital facilities or infrastructure. The fund also accounts for the resources accumulated and payments made for principal and interest on the long-term general obligation debt of the governmental funds.

The Township also has the following non-major governmental funds:

The *Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. These funds include the Liquid Fuels Fund and the Street Light Fund.

The Township has one business-type activity:

The *Recycling Fund* is used to account for the cost and disposal of recyclable waste of the Township's residents.

Additionally, the Township reports the following fund types:

The *Pension Trust Fund*, accounts for assets held by the Township in a trustee capacity for the future payment of retirement benefits to employees. The Township has two separate Pension Trust Funds, the *Police Pension Fund* and the *Non-Uniform Pension Fund*.

D. Adoption of Governmental Accounting Standards

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement's objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Township was required to adopt Statement No. 80 for its calendar year 2017 financial statements.

E. Pending Governmental Accounting Standards Board (GASB) Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The statement's objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Township will be required to adopt Statement No. 75 for its calendar year 2018 financial statements.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Pending Governmental Accounting Standards Board (GASB) Pronouncements (continued)

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The Statement's objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Township will be required to adopt Statement No. 85 for its calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issue*. The Statement's objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt providing guidance for transactions in which cash and other monetary assets acquired by with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Township will be required to adopt Statement No. 86 for its calendar year 2018 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement's objective is to improve guidance regarding the identification of fiduciary activities for accounting and reporting purposes and how these activities should be reported. The Township will be required to adopt Statement No. 84 for its calendar year 2019 financial statements.

F. Interfund Activity in the Government-wide Statements

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's governmental funds and its component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

G. Revenue Classification on Government-wide Statement of Activities

Amounts reported as *program revenues* include 1) charges to customers for services provided and rents, 2) operating grants, and 3) capital grants. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

H. Budget Information

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

Section 1.01 - Formal budgetary integration is employed as a management control device during the year for the General, Capital Projects, Liquid Fuels, Recycling and Street Light Funds.

Section 1.02 - The Board approves, by ordinance, the budget appropriation. All budget transfers and revisions that alter the total appropriations of the fund must be approved by the Board.

Section 1.03 - Unused appropriations for all of the above annually budgeted funds lapse at the end of the year except for the unexpended balance of such appropriations where contracts are in course of construction at the end of the year.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Budget Information (continued)

Section 1.04 - The budget amounts shown in the financial statements are the final authorized amounts as approved by the Board of Supervisors.

I. Cash and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, funds held with the Pennsylvania Local Government Investment Trust (PLGIT), and short-term investments with original maturities of three months or less from the date of acquisition.

Cash deposits and cash equivalents are reported at carrying amounts which reasonably estimate fair value.

Investments of the Police Pension and Non-uniform Employee Pension Plans are reported at fair value.

J. Deferred Outflows of Resources

Deferred Outflows of Resources are a consumption of assets by the Township applicable to a future reporting period and have a positive effect on net position, similar to assets. This section of the financial statements includes items related to long-term debt which are amortized on the straight-line method (which approximates the interest method) over the terms of the bond issues and notes to which they relate. The amount of \$109,598 on the Township's statement of net position relates to losses on refundings. The amount of \$2,390,665 relates to pension activity for future periods.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

L. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Inventory

Inventory is valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets

Capital assets which include equipment, buildings, vehicles and land and building improvements are recorded at cost. In accordance with GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis—for State and Local Governments*, infrastructure has been prospectively capitalized, beginning January 1, 2003. In 2007, the Township valued and reported all infrastructure from January 1, 2003 and prior based upon an estimated historical cost. To the extent the Township's capitalization threshold is met, capital outlays are recorded and depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20-40 years
Furniture and Equipment	5-20 years
Land Improvements	15-20 years
Infrastructure	10-50 years

Maintenance and repairs are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized.

O. Allowance for Doubtful Accounts

Receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This allowance amount is estimated by analyzing the percentage of receivables that have been collected as compared to the age and the amounts which remain outstanding.

P. Unearned Revenues

Unearned revenues reported in government-wide financial statements represent revenues received in advance of providing services. The unearned revenues will be recognized as revenue in the fiscal year they are earned, in accordance with the accrual basis of accounting.

Q. Deferred Inflows of Resources

Deferred inflows of resources include acquisitions of assets by the Township that are applicable to a future reporting period. They have a negative effect on net position, similar to liabilities. In the government-wide statements, this section includes unamortized guarantee fees of \$63,333, and pension activity related to future periods of \$961,787.

In the governmental fund financial statements, this section includes deferred tax revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues. The Township deems revenues received within 180 days of year end to be available with the exception of property taxes, which must be received within 60 days of year end to be deemed available.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Long-Term Liabilities

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

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

S. Equity Classifications

In the government-wide financial statements, equity is classified as net position and displayed in three components:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.

Restricted – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints are placed on the use of the assets either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted – the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Township's policy is to apply restricted net position first.

T. Fund Balance Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balances in classifications based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash (e.g. inventories, prepaid amounts and long term notes receivable).

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Fund Balance Classifications (continued)

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

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

Assigned Fund Balance – includes amounts intended to be used by the Township for specific purposes that are neither restricted nor committed. The Board of Supervisors and the Township Manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are not restricted or committed.

Unassigned Fund Balance – this residual classification is used for the General Fund and includes all spendable amounts not contained in the other classifications.

When multiple classifications of fund balance are available for expenditure, it is the Township’s policy to first spend from the most restricted classification and then to exhaust those funds to the extent legally or contractually permitted before moving down to the next classification with available funds.

U. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverage in 2017. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Township provides medical (including prescription) insurance through the Pennsylvania Municipal Health Insurance Cooperative (PMHIC). PMHIC is the administrator of the plan, and Benecon Benefit Administrators and Consultants acts as a broker for the plan. Under the plan coverage, the Township’s liability for claims is limited to \$65,000 per participant. The coverage includes a stop loss insurance agreement which limits the Township’s total liability for medical claims for the year ending December 31, 2017 to \$1,710,070. Dental and vision insurance is provided through a group self-insurance program plan. The Loomis Company (Loomis) acts as the third-party administrator of the plan. Insurance premiums are paid from the General Fund. The actual claims paid during 2017 for medical, dental, and prescription expenses were \$1,693,835. Total administrative costs and claims for the fiscal year ended December 31, 2017 were \$1,932,566 including retiree costs of \$219,124.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. CASH AND INVESTMENTS

Investing is performed in accordance with investment policies complying with State Statutes and the Township Charter. Township funds may be invested in: (1) United States Treasury Bills, (2) Short-term obligations of the Federal Government or its agencies or instrumentalities, (3) Deposits in savings accounts or time deposits, to the extent fully insured, (4) Obligations of the United States or any of its agencies or instrumentalities backed by its full faith and credit, (5) Shares of an investment company registered under the Investment Company Act of 1940, (6) Certificates of deposit to the extent that they are secured by acceptable collateral. 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 investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

Deposits

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Township's deposits may not be returned to them. The Township does not have a policy for custodial credit risk on deposits.

For public unit accounts, the federal deposit insurance coverage depends upon the type of deposit and the location of the insured depository institution. Under these provisions, \$6,818,655 of the Township's bank balance of \$7,335,817 was exposed to custodial credit risk, but was collateralized by the pledging bank's trust department as permitted by Act 72. Of the bank balance, \$250,003 was covered by federal depository insurance.

As of December 31, 2017, proceeds of \$2,918,807 from Dauphin County Infrastructure Bank Loans were held in accounts at First National Bank by the Dauphin County Industrial Development Authority. The accounts are covered by Act 72 and is monitored by the Commonwealth of Pennsylvania.

In addition, \$264,889 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT separately issues audited financial statements which are available to the public at <https://www.plgit.com>. The fair value of the Township's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth is the formal external regulatory oversight for the pool. At December 31, 2017, PLGIT carried a rating of AAAM and had an average maturity of less than one year.

The reconciliation of deposits to the financial statements at December 31, 2017 is as follows:

Uninsured but collateralized in accordance with Act 72	\$ 6,818,655
Plus: Amount insured by FDIC	250,003
	7,068,658
Plus: Deposits in pooled investments considered cash equivalents	264,889
Plus: Deposits in transit	-
Less: Outstanding checks	(486,522)
Total deposits	6,847,025
Plus: Cash on hand	2,270
Total cash per financial statements	\$ 6,849,295
Cash and cash equivalents	\$ 2,957,098
Restricted cash and cash equivalents	3,892,197
Total cash per financial statements	\$ 6,849,295

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. CASH AND INVESTMENTS (CONTINUED)

Investments

The Township's Pension Trust Fund has separate deposits and investments that are held and managed by Bryn Mawr Trust Company and the Pennsylvania Municipal Retirement System (PMRS). At December 31, 2017, the Pension Trust Fund investments had a fair value of \$29,144,884.

Asset details are as follows:

Cash & equivalents	\$ 1,473,831
Equities	13,564,895
Fixed income	5,017,769
Accrued income	25,564
Pooled investments held at PMRS	<u>9,062,825</u>
Total:	<u>\$ 29,144,884</u>

The Bryn Mawr Trust Company is a wholly owned subsidiary of Bryn Mawr Bank Corporation, which is publicly held and traded on NASDAQ Global Market. The investment products and services offered through the Bryn Mawr Trust Company are not deposits or other obligations of, or guaranteed by, any bank or any bank affiliate. Additionally, the investments and services are not insured by the Federal Deposit Insurance Corporation or any other agency of the United States.

PMRS was created by the Pennsylvania General Assembly to administer sound, cost-effective pensions for local government employees. Responsibility for the administration of PMRS is vested in the eleven-member Pennsylvania Municipal Retirement Board. Under the Act, each individual municipality has authority to establish or amend its respective benefits and employee contribution rates subject to Board approval. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

3. RECEIVABLES

Governmental Activities

Receivables as of December 31, 2017 for the Township's governmental activities, individual major governmental funds, non-major funds in the aggregate, and applicable allowances for uncollectible accounts are as follows:

	General	Capital Projects	Non-Major Funds	Total
Receivables				
Taxes, gross	\$ 5,698,005	\$ 48,231	\$ 6,004	\$ 5,752,240
Allowance for uncollectibles	<u>(2,800,000)</u>	-	-	<u>(2,800,000)</u>
Taxes, net	\$ 2,898,005	\$ 48,231	\$ 6,004	\$ 2,952,240
Accounts	611,724	181,943	-	793,667
Derivative Income	-	-	-	-
Intergovernmental	18,746	-	-	18,746
Due from Derry Township				
Municipal Authority	<u>15,160,000</u>	-	-	<u>15,160,000</u>
Total Receivables	<u>\$18,688,475</u>	<u>\$ 230,174</u>	<u>\$ 6,004</u>	<u>\$18,924,653</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. RECEIVABLES (CONTINUED)

Business-Type Activities

Receivables as of December 31, 2017 for the Township's business-type activity and allowance for uncollectible accounts are as follows:

	Recycling Fund
Receivables	
Accounts, gross	\$ 25,245
Total Receivables	<u>\$ 25,245</u>

4. PROPERTY TAXES

The Township's property tax is levied each February 1st on the assessed value (\$2,046,655,100 for 2017), listed as of January 1st on all taxable real property located in the Township. The property tax rate for the year ended December 31, 2017 was .9964 mills for general purposes and .9917 mills for capital improvements. Current tax collections for the year ended were approximately 98% of the tax levied.

Dauphin County is responsible for collection of delinquent real property taxes and property tax assessment. Delinquent 2017 real property taxes were turned over to Dauphin County on January 13, 2018.

The full year property tax calendar is as follows:

Assessment date	January 1, 2017
Property tax bills rendered, lien date	February 1, 2017
Bills paid during February and March are granted a 2% discount	February 1, 2017 to March 31, 2017
Gross amount of levy is due	April 1, 2017 to May 31, 2017
Taxes delinquent and penalty of 5% of the face amount is charged	June 1, 2017 to July 31, 2017
Taxes delinquent and penalty of 10% of the face amount is charged	August 1, 2017 to January 12, 2018
Delinquent real property taxes are due to be turned over to Dauphin County	February 1, 2018

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. CAPITAL ASSETS

Governmental Activities

A summary of general capital assets during 2017 for governmental activities is as follows:

	<u>January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31</u>
General Government Assets				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,635,502	\$ -	\$ -	\$ 3,635,502
Construction in Progress	10,635,690	746,869	10,857,245	525,314
Held for Resale	<u>56,582</u>	<u>2,870</u>	<u>38,708</u>	<u>20,744</u>
Total Capital Assets Not Being Depreciated	<u>14,327,774</u>	<u>749,739</u>	<u>10,895,953</u>	<u>4,181,560</u>
Capital Assets, Being Depreciated:				
Land Improvements	6,017,161	1,435	-	6,018,596
Building and building Improvements	25,070,897	-	-	25,070,897
Equipment	12,869,840	581,312	250,160	13,200,992
Infrastructure	<u>56,736,688</u>	<u>11,596,785</u>	<u>5,480,429</u>	<u>62,853,044</u>
Total Capital Assets, Being Depreciated	<u>100,694,586</u>	<u>12,179,532</u>	<u>5,730,589</u>	<u>107,143,529</u>
Less: Accumulated Depreciation				
Land improvements	4,138,202	236,337	-	4,374,539
Building and building Improvements	8,725,038	631,002	-	9,356,040
Equipment	10,611,875	651,804	283,348	10,980,331
Infrastructure	<u>20,351,244</u>	<u>1,218,283</u>	<u>324,712</u>	<u>21,244,815</u>
Total Accumulated Depreciation	<u>43,826,359</u>	<u>2,737,426</u>	<u>608,060</u>	<u>45,955,725</u>
Total Capital Assets, Net	<u>\$ 71,196,001</u>	<u>\$ 10,191,845</u>	<u>\$ 16,018,482</u>	<u>\$ 65,369,364</u>

Depreciation expense for general fixed assets and infrastructure was allocated to the various functions as follows:

General Government	\$ 444,920
Public Safety	355,875
Community Development	16,230
Health and Human Services	-
Public Works	1,446,886
Parks and Recreation	354,691
Library	<u>118,824</u>
Total	<u>\$ 2,737,426</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. CAPITAL ASSETS (CONTINUED)

Business-Type Activities

The following is a summary of changes in capital assets for business-type activities for the year ended December 31, 2017:

	<u>January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31</u>
Capital assets, being depreciated:				
Buildings	\$ 366,980	\$ -	\$ -	\$ 366,980
Equipment	<u>285,829</u>	<u>-</u>	<u>-</u>	<u>285,829</u>
Total capital assets, being depreciated	<u>652,809</u>	<u>-</u>	<u>-</u>	<u>652,809</u>
Less accumulated depreciation for:				
Buildings	205,011	9,125	-	214,136
Equipment	<u>28,664</u>	<u>27,070</u>	<u>-</u>	<u>55,734</u>
Total accumulated depreciation	<u>233,675</u>	<u>36,195</u>	<u>-</u>	<u>269,870</u>
Total capital assets, being depreciated, net	<u>\$ 419,134</u>	<u>\$ (36,195)</u>	<u>\$ -</u>	<u>\$ 382,939</u>

6. FUND EQUITY

1. Government-wide statements

Net assets of the governmental activities reported on the government-wide statement of net position at December 31, 2017 include the following:

Net Investment in Capital Assets	
Land	\$ 3,635,502
Construction in Progress	525,314
Held for Resale	2,801
Land Improvements	1,644,057
Building and Building Improvements	15,714,857
Equipment	2,238,604
Infrastructure	<u>41,608,229</u>
Total capital assets	65,369,364
Less: Related long-term debt	(19,581,867)
Total - Net Investment in Capital Assets	<u>45,787,497</u>
Restricted	
Donor, grant, and bond restrictions	3,055,262
Capital Projects	<u>1,538,506</u>
Total Restricted	4,593,768
Unrestricted	<u>(4,024,767)</u>
Total Governmental Activities Net Position	<u>\$ 46,356,498</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. FUND EQUITY (CONTINUED)

2. Fund Statements

In the fund financial statements, portions of governmental fund balances are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. Restricted fund balances at December 31, 2017 are detailed below:

Capital Projects Fund	
Restricted for Rt. 743 & Other Traffic	224,777
Restricted for DCIB Loan	68,457
Restricted for DCIB Note	2,850,350
Restricted for Sinking Fund	3
Restricted for Developer Traffic	502,684
Restricted for Open Space Fees-Southpoint Meadows	47,225
Restricted for Open Space Fees-2008	16,886
Restricted for Open Space Fees-Deer Run Commons	42,572
Restricted for Open Space Fees-Jerry Shank Subdivision	2,448
Restricted for Open Space Fees-3 rd Revised Deer Run	2,454
Restricted for Open Space Fees-Hill	4,903
Restricted for Open Space Fees - Plebani	1,300
Restricted for Open Space Fees – Woodland Hills	6,431
Restricted for Open Space Fees – CAMA	1,299
Restricted for Open Space Fees – The Point	69,201
Restricted for Open Space Fees – Trimble	1,300
Restricted for Open Space Fees – MHS Staff Homes	7,804
Restricted for Open Space Fees – Musculas	40,778
Restricted for Open Space Fees – 880 Stauffers	1,325
Total Capital Projects	3,892,197
Liquid Fuels Fund	
Restricted for Road Improvements & Equipment	792,573
Total Restricted Fund Balance	\$ 4,684,770

7. UNEARNED REVENUE

Governmental funds record unearned revenue for items received in advance of an exchange transaction and grant proceeds received prior to meeting eligibility requirements. At December 31, 2017, the various components of unearned revenue are as follows:

	<u>Total</u>
Capital grants	\$ 403,384
Unearned rent	1,220
Police grants	41,365
Total	\$ 445,969

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	Balance			Balance		Due in
	<u>January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2017</u>	<u>One Year</u>	
Compensated absences	\$ 730,494	\$ 671,766	\$ 674,330	\$ 727,930	\$ -	-
Capital Leases – police cars	59,273	-	40,612	18,661	18,661	-
Capital Lease – sweeper	24,416	-	24,416	-	-	-
Capital Lease - trucks	15,200	-	15,200	-	-	-
Capital Lease – Colorado	15,416	-	4,855	10,561	5,133	-
Capital Lease – Bobcat	13,480	-	4,275	9,205	4,490	-
Capital Lease – F350	36,992	-	11,650	25,342	12,318	-
Capital Lease – Explorer	17,234	-	5,433	11,801	5,739	-
Capital Lease – Transit Wagon	14,766	-	4,640	10,126	4,917	-
Capital Lease – Escape	15,230	-	4,795	10,435	5,071	-
Capital Lease – Interceptor	22,805	-	7,167	15,638	7,593	-
Capital Lease – Portable Lifts	39,416	-	8,434	30,982	9,317	-
Capital Lease – 2 Interceptors	55,283	-	13,274	42,009	13,633	-
Capital Lease – Tahoe	39,612	-	12,854	26,758	13,202	-
Capital Lease – Ferris Mower	9,235	-	3,465	5,770	3,075	-
Capital Lease – Jacobsen Mower	92,017	-	21,679	70,338	22,539	-
Capital Lease – Super Loader	68,033	-	23,987	44,046	22,670	-
Capital Lease – International	146,838	-	27,328	119,510	28,311	-
Capital Lease – Toro Sand Pro	16,751	-	3,947	12,804	4,103	-
Capital Lease – Auto Scrubber	1,887	-	748	1,139	789	-
Capital Lease – Tub Grinder	232,605	-	35,765	196,840	36,916	-
Capital Lease – 2017 F350	-	40,642	22,170	18,472	5,805	-
Capital Lease – Volvo Wheel Loader	-	170,263	35,904	134,359	32,250	-
Capital Lease – police interceptor	-	27,349	7,133	20,216	6,547	-
Capital Lease – police interceptor	-	35,127	9,162	25,965	8,409	-
Capital Lease – 2017 F350 - police	-	61,530	16,037	45,493	14,740	-
Bridge Project Loan	173,971	-	33,682	140,289	34,229	-
Pennsylvania Infrastructure Bank Loan	1,108,111	-	177,323	930,788	180,205	-
Dauphin County Infrastructure Bank Loan	180,863	-	25,453	155,410	25,580	-
Dauphin County Infrastructure Bank Loan 2017	-	2,968,111	-	2,968,111	143,124	-
Joint Management and Use Agreement	450,848	-	59,443	391,405	61,271	-
ICDA Bonds, Series 2015	9,365,000	-	530,000	8,835,000	605,000	-
General Obligation Bonds, Series 2012	1,780,000	-	230,000	1,550,000	240,000	-
General Obligation Bonds, Series 2014	4,900,000	-	180,000	4,720,000	185,000	-
General Obligation Bonds, Series 2015	8,080,000	-	120,000	7,960,000	395,000	-
General Obligation Bonds, Series 2016	3,865,000	-	525,000	3,340,000	430,000	-
General Obligation Note, Series 2016	2,785,000	-	305,000	2,480,000	250,000	-
General Obligation Note, Series 2017	-	550,000	-	550,000	50,000	-
Total	\$ 34,355,776	\$ 4,524,788	\$ 3,225,161	\$ 35,655,403	\$ 2,885,637	\$ -
Unfunded pension liability				4,865,848		
Other postemployment benefit liability				4,655,204		
Less: unamortized bond discount				(106,977)		
Add: unamortized bond premium				118,211		
Total long-term liabilities				\$ 45,187,689		

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. LONG-TERM DEBT (CONTINUED)

Compensated Absences

Unused vacation leave may be accumulated up to a specified maximum and is paid at the time of termination from Township employment. Effective January 1, 2005, the Township entered into a new agreement with the police force and management regarding the payment of unused sick time at retirement. The payment is calculated as a percentage of unused sick time based on the retiree's past usage of sick time. The Township is not obligated to pay for unused personal days or non-police/non-management sick leave upon termination. At December 31, 2017 the long-term accrued vacation and sick pay was \$720,281 and \$7,649, respectively.

Capital Leases

The Township has entered into capital lease agreements for vehicles and equipment. Capital leases transfer the benefits and risks of ownership to the lessee, and are accounted for in the governmental activities' capital assets. The related liabilities are recorded in the governmental activities' current and long-term obligations. Amortization expense is included in depreciation expense. As of December 30, 2017, assets held through capital lease agreements totaled \$2,151,187 and accumulated depreciation for those assets totaled \$837,409.

The following list provides detail about the Township's capital leases:

- August 2012 lease – Present value cost of \$83,240
The lease is for three police cars and is to be paid in 5 consecutive annual payments of \$18,709 including an annual rate of interest of 6.20%.
- November 2012 lease – Present value cost of \$153,330
The lease is for a street sweeper and is to be paid in quarterly installments of \$8,272 for five consecutive years. The effective annual interest rate is 3.25%
- January 2013 lease – Present value cost of \$284,408
The lease is for two trucks and is to be paid in four consecutive annual payments of \$76,292 including an annual rate of interest of 4.9%.
- June 2013 lease – Present value cost of \$9,748
The lease is for a mower and is to be paid in four consecutive annual payments of \$2,596 including an annual rate of interest of 4.3%.
- September 2013 lease – Present value cost of \$109,172
The lease is for three police cars and is to be paid in five consecutive annual payments of \$24,428 including an annual rate of interest of 5.95%.
- June 2014 lease – Present value cost of \$15,338
The lease is for an in-car video server and is to be paid in five consecutive annual payments of \$3,557 including an annual rate of interest of 8.0%.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. LONG-TERM DEBT (CONTINUED)

Capital Leases

- June 2014 lease – Present value cost of \$59,288
The lease is for a crew cab and is to be paid in four consecutive annual payments of \$16,044 including an annual rate of interest of 5.55%.
- September 2014 lease – Present value cost of \$72,771
The lease is for two police cars and a cargo van and is to be paid in five consecutive annual payments of \$16,283 including an annual rate of interest of 5.95%.
- Jan 2015 lease – Present value cost of \$25,627
The lease is for Ford Escape and is to be paid in five consecutive annual payments of \$5,674 including an annual rate of interest of 5.76%.
- Feb 2015 lease – Present value cost of \$22,502
The lease is for a bobcat with snow blade and is to be paid in five consecutive annual payments of \$4,952 including an annual rate of interest of 5.02%.
- Mar 2015 lease – Present value cost of \$31,458
The lease is for a Ford Explorer and is to be paid in five consecutive annual payments of \$6,403 including an annual rate of interest of 5.74%.
- April 2015 lease – Present value cost of \$28,326
The lease is for a Chevy Colorado and is to be paid in five consecutive annual payments of \$5,740 including an annual rate of interest of 5.63%.
- April 2015 lease – Present value cost of \$61,783
The lease is for a Ford F350 and is to be paid in five consecutive annual payments of \$13,771 including an annual rate of interest of 5.95%.
- June 2015 lease – Present value cost of \$24,665
The lease is for a Ford Transit Wagon and is to be paid in five consecutive annual payments of \$5,519 including an annual rate of interest of 5.73%.
- August 2015 lease – Present value cost of \$36,948
The lease is for a Ford Interceptor Police car and is to be paid in five consecutive annual payments of \$8,524 including an annual rate of interest of 5.95%.
- January 2016 lease – Present value cost of \$47,050
The lease is for Portable Lifts and is to be paid in 60 consecutive monthly payments of \$1,000 including an annual rate of interest of 10.00%.
- January 2016 lease – Present value cost of \$21,362
The lease is for a Toro Sand Pro and is to be paid in 5 consecutive annual payments of \$4,610 including an annual rate of interest of 3.89%.
- January 2016 lease – Present value cost of \$270,700
The lease is for a Tub Grinder and is to be paid in 7 consecutive annual payments of \$43,246 including an annual rate of interest of 3.22%.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. LONG-TERM DEBT (CONTINUED)

- February 2016 lease – Present value cost of \$117,349
The lease is for a Jacobsen Mower and is to be paid in five consecutive annual payments of \$25,332 including an annual rate of interest of 3.9%.
- April 2016 lease – Present value cost of \$91,961
The lease is for a JCB 3CX-15 Super Loader Backhoe and is to be paid in four consecutive annual payments of \$24,174 including an annual rate of interest of 3.2%.
- May 2016 lease – Present value cost of \$12,700
The lease is for a Ferris Mower and is to be paid in three consecutive annual payments of \$3,465 including implied interest.
- May 2016 lease – Present value cost of \$2,985
The lease is for an Auto Scrubber and is to be paid in four consecutive annual payments of \$1,098 including implied interest.
- June 2016 lease – Present value cost of \$70,050
The lease is for 2 Ford Interceptor Police Cars and is to be paid in five consecutive annual payments of \$14,767 including implied interest.
- September 2016 lease – Present value cost of \$146,838
The lease is for a 2017 International SFA and is to be paid in five consecutive annual payments of \$32,614 including an annual rate of interest of 3.6%.
- October 2016 lease – Present value cost of \$53,536
The lease is for a Chevy Tahoe and is to be paid in five consecutive annual payments of \$13,924 including implied interest.
- February 2017 lease – Present value cost of \$170,263
The lease is for a 2016 Volvo Wheel Loader and is to be paid in five consecutive annual payments of \$35,904 including implied interest.
- March 2017 lease – Present value cost of \$27,349
The lease is for a 2017 Police Interceptor and is to be paid in four consecutive annual payments of \$7,133 including implied interest.
- June 2017 lease – Present value cost of \$35,127
The lease is for a 2017 Police Interceptor and is to be paid in four consecutive annual payments of \$9,162 including implied interest.
- August 2017 lease – Present value cost of \$61,530
The lease is for a 2017 F350 and is to be paid in four consecutive annual payments of \$16,037 including implied interest.
- September 2017 lease – Present value cost of \$40,642
The lease is for a 2017 F350 and is to be paid with an initial payment of \$22,170 and then three consecutive annual payments of \$6,904 including implied interest.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

Bridge Project Loan

In March 2012, the County of Dauphin completed the reconstruction and relocation of County Bridge No. 122. According to a memorandum of understanding with the County, the Township has agreed to pay back its allocated share of the project construction cost over a period of ten years at an annual interest rate of 1.625%. The Township's allocated share totaled \$334,470. Annual payments of \$36,509 are due until October 2021 and are currently being made from the Township's liquid fuels fund. The maturity schedule for the loan is as follows:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
34,229	2,280	1.625	2018
34,785	1,723	1.625	2019
35,350	1,158	1.625	2020
<u>35,925</u>	<u>584</u>	1.625	2021
<u>\$ 140,289</u>	<u>\$ 5,745</u>		

Pennsylvania Infrastructure Bank Loan

In April 2011, the Township entered into an agreement with the Pennsylvania Infrastructure Bank for \$1,789,500 for the storm water project. The term of the loan is 10 years and interest is to be paid at an annual rate of 1.625%. The maturity schedule for the loan is as follows:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
180,205	15,125	1.625	2018
183,133	12,197	1.625	2019
186,109	9,221	1.625	2020
189,134	6,197	1.625	2021
<u>192,207</u>	<u>3,123</u>	1.625	2022
<u>\$ 930,788</u>	<u>\$ 45,863</u>		

Dauphin County Infrastructure Bank Loan

In May 2014, the Township entered into an agreement with Dauphin County for an Infrastructure Bank loan award of \$256,960. Proceeds of the loan are to be used to fund the installation of a traffic signal at the intersection of Fishburn and Homestead Roads. The term of the loan is 10 years and interest is to be paid at an annual rate of .50 %. Annual payments of \$26,357 are due until January 2023 and are currently being made from the Township's liquid fuels fund. The maturity schedule for the loan is as follows:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
25,580	777	.50	2018
25,708	649	.50	2019
25,836	521	.50	2020
25,965	391	.50	2021
26,095	262	.50	2022
<u>26,226</u>	<u>131</u>	.50	2023
<u>\$ 155,410</u>	<u>\$ 2,731</u>		

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes

ICDA Bonds, Series of 2007 / School District Bonds, Series of 2012/
Joint Management and Use Agreement

In 2002, the Township joined with the Derry Township School District to renovate the Granada Avenue Gymnasium through financing by the Township of Derry ICDA. On March 1, 2007, the Authority issued the Guaranteed School Revenue Bonds Series of 2007 to refund the Series of 2002, and pay the costs of issuing the bonds.

On March 15, 2012, the Derry Township School District issued the General Obligation Bonds, Series of 2012 in the amount of \$3,110,000 to currently refund the outstanding bonds from 2007, thus registering the debt in the name of the School District and terminating the involvement of the Authority. The 2012 bonds are payable from tax and other general revenues of the School District.

A joint management and use agreement between the School District and the Township obligates the Township to pay a portion of the related bond issue based on the Township's utilization of the facility. The Township and School are also jointly responsible for any sums, expenses, or costs incurred with regard to the operation and maintenance of the gymnasium.

Following is a maturity schedule for the Township's obligation according to the joint management and use agreement with the School District:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
61,271	7,075	2.00	2018
63,101	6,005	1.45	2019
64,015	4,907	2.00	2020
65,844	3,609	2.00	2021
67,673	2,240	2.10	2022
<u>69,501</u>	<u>765</u>	2.20	2023
<u>\$ 391,405</u>	<u>\$ 24,601</u>		

\$9,995,000 ICDA Bonds, Series of 2015

In 2005, the Township entered into the Derry Township Municipal Center Project through financing by the Township of Derry ICDA via the Guaranteed Township Revenue Bonds, Series of 2005. The proceeds were used to finance the construction of a new municipal complex on Clearwater Road in Hershey, Pennsylvania. The complex provides space for the Township of Derry's administration and police departments, as well as the Derry Township Earned Income Tax office.

On August 19, 2010, the Township of Derry ICDA authorized the issuance of the Guaranteed Township Revenue Bonds, Series of 2010 in the amount of \$10,525,000 for a current refunding of the Series of 2005 Bonds.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes (Continued)

In May 2015, the Township of Derry ICDA authorized the issuance of the Guaranteed Township Revenue Bonds, Series of 2015 in the amount of \$9,995,000 for the current refunding of the Series of 2010 Bonds. The 2015 Bonds began to mature on November 15, 2015 and will continue to mature every year thereafter with final maturity on November 15, 2030. Interest is due semi-annually on May 15 and November 15 and the interest rates range from 1.00% to 3.125%.

The 2015 Bonds are payable from and secured by an assignment of rentals payable to the ICDA by the Township under a sublease agreement.

Following is a maturity schedule for the Township's portion of the ICDA Bonds, Series of 2015:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
605,000	226,240	1.50 – 2.00	2018
610,000	214,540	2.00	2019
625,000	202,340	2.00	2020
635,000	189,840	2.00	2021
650,000	177,140	2.00	2022
3,430,000	638,765	2.50 – 3.00	2023 – 2027
<u>2,280,000</u>	<u>142,445</u>	3.00 – 3.125	2028 – 2030
<u>\$ 8,835,000</u>	<u>\$ 1,791,310</u>		

\$8,610,000 General Obligation Bonds, Series of 2015

In March 2015, the Township of Derry issued the General Obligation Bonds, Series of 2015 in the amount of \$8,610,000 for the current refunding of the Series of 2010 Bonds. The 2015 Bonds began to mature on December 15, 2015 and will continue to mature every year thereafter with final maturity on December 15, 2028. Interest is due semi-annually on June 15 and December 15 and the interest rates range from 1.00% to 3.25% per year.

Pursuant to a Subsidy Agreement between the Derry Township Municipal Authority and the Township, the Municipal Authority has agreed to pay the Township amounts sufficient to pay the principal of and interest on the Bonds from the receipts and revenues from the Municipal Authority's sewer system when they become due. The Township has pledged its full faith, credit and taxing power to the payment of the principal of and interest on the bonds. Payments are due in annual installments of \$120,000 to \$680,000 through December 15, 2028 plus interest at 1.00% to 3.25% per year.

The following is a maturity schedule for the General Obligation Bonds, Series 2010:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
395,000	187,265	2.00	2018
405,000	179,365	1.50	2019
450,000	173,290	2.00	2020
890,000	164,290	2.00	2021
910,000	146,490	2.00	2022
4,230,000	449,742	2.00 – 3.25	2023-2027
<u>680,000</u>	<u>22,100</u>	3.25	2028
<u>\$ 7,960,000</u>	<u>\$ 1,322,542</u>		

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes (Continued)

\$3,105,000 General Obligation Note, Series of 2016

On May 18, 2016 the Township of Derry authorized the issuance of the General Obligation Note, Series of 2016. Proceeds of the Note were used to currently refund the outstanding General Obligation Bonds, Series of 2011 of the Derry Township Municipal Authority, adjust the payment and to pay the costs of issuing the bonds. Payments are due in annual installments of \$305,000 to \$1,660,000 through December 15, 2025 plus interest at 2.07% to 3.75% per year.

Pursuant to a Subsidy Agreement between the Derry Township Municipal Authority and the Township, the Municipal Authority has agreed to pay the Township amounts sufficient to pay the principal of and interest on the Bonds from the receipts and revenues from the Municipal Authority's sewer system when they become due. The Township has pledged its full faith, credit and taxing power to the payment of the principal of and interest on the bonds.

The following is a maturity schedule for the General Obligation Note, Series of 2016:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
250,000	51,336	2.07	2018
250,000	46,161	2.07	2019
220,000	40,986	2.07	2020
35,000	36,432	2.07	2021
35,000	35,707	2.07	2022
<u>1,690,000</u>	<u>174,133</u>	3.75	2023 - 2025
<u>\$ 2,480,000</u>	<u>\$ 384,755</u>		

\$4,415,000 General Obligation Bonds, Series of 2016

On September 29, 2016 the Township of Derry authorized the issuance of the General Obligation Bonds, Series of 2016 in the amount of \$4,415,000 for a current refunding of the Township's General Obligation Bonds, Series A of 2011 and to pay the costs of issuing the bonds. The bonds began to mature on November 15, 2016 and will continue to mature every year thereafter with final maturity on November 15, 2024. Interest is due semi-annually on May 15 and November 15 and the interest rates range from .60% to 4.00%. The present value savings of this issue was approximately \$228,931.

The following is a maturity schedule for the General Obligation Bonds, Series of 2016:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
430,000	73,375	3.00	2018
450,000	60,475	1.00	2019
460,000	55,975	4.00	2020
485,000	37,575	1.50	2021
490,000	30,300	1.50	2022
<u>1,025,000</u>	<u>31,100</u>	2.00	2023-2024
<u>\$ 3,340,000</u>	<u>\$ 288,800</u>		

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes (Continued)

\$6,000,000 General Obligation Note, Series A of 2011/ \$5,000,000 General Obligation Bonds, Series of 2014

On November 1, 2011 the Township of Derry authorized the issuance of the General Obligation Note, Series A of 2011 in the amount of \$6,000,000 for the restoration, repair, reconstruction and alteration of the Derry Township Municipal Authority's wastewater facilities, including, the Clearwater Road and Southwest Treatment Plants, the Mansion Road and Highmeadow Pumping Stations, and the payment of the costs of issuance of the Note.

In November 2014, the Township authorized the issuance of the General Obligation Bonds, Series of 2014 in the amount of \$5,000,000 for a current refunding of the General Obligation Note, Series A of 2011 and to provide funds to the Municipal Authority for capital projects. The 2014 Bonds begin to mature on December 15, 2015 and will continue to mature every year thereafter with final maturity on December 15, 2027. Interest is due semi-annually on June 15 and December 15 and the interest rates range from .25% to 3.00%. The refunding did not result in any net present value savings.

Pursuant to a Subsidy Agreement between the Municipal Authority and the Township, the Municipal Authority agreed to pay the Township amounts sufficient to pay the principal of and interest on the Bonds from the receipts and revenues from the Municipal Authority's sewer system when they become due. The Township has pledged its full faith, credit and taxing power to the payment of the principal of and interest on the bonds.

The following is a maturity schedule for the General Obligation Bonds, Series of 2014:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
185,000	130,675	1.00	2018
195,000	128,825	1.50	2019
190,000	125,900	2.00	2020
20,000	122,100	2.50	2021
15,000	121,600	2.50	2022
<u>4,115,000</u>	<u>532,250</u>	2.75-3.00	2023 - 2027
<u><u>\$ 4,720,000</u></u>	<u><u>\$ 1,161,350</u></u>		

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes (Continued)

\$4,060,000 General Obligation Bonds, Series of 2012

On November 13, 2012, the Township of Derry authorized the issuance of the General Obligation Bonds, Series of 2012 in the amount of \$4,060,000 for a current refunding of the Township's General Obligation Notes, Series of 2008 and to pay the costs of issuing the bonds. Payments are due in annual installments of \$110,000 to \$595,000 through August 15, 2024 plus interest at 1.00% to 2.00% per year.

The following is a maturity schedule for the General Obligation Bonds, Series of 2012:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
240,000	25,600	1.00	2018
240,000	23,200	1.50	2019
240,000	19,600	1.25	2020
240,000	16,600	2.00	2021
240,000	11,800	2.00	2021
<u>350,000</u>	<u>9,200</u>	2.00	2022-2024
<u>\$ 1,550,000</u>	<u>\$ 106,000</u>		

\$550,000 General Obligation Note, Series of 2017

On August 11, 2017, the Township of Derry authorized the issuance of the General Obligation Note, Series of 2017 in the amount of \$550,000 for the Caracus Avenue Project and to pay the costs of issuing the note. Payments are due in annual installments of \$50,000 to \$60,000 through November 15, 2027 plus interest at 2.78% per year.

The following is a maturity schedule for the General Obligation Note, Series of 2017:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
50,000	15,290	2.78	2018
50,000	13,900	2.78	2019
50,000	12,510	2.78	2020
55,000	11,120	2.78	2021
55,000	9,591	2.78	2022
<u>290,000</u>	<u>24,603</u>	2.78	2023-2027
<u>\$ 550,000</u>	<u>\$ 87,014</u>		

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. LONG-TERM DEBT (CONTINUED)

Guaranteed Revenue Notes

\$2,968,111 Guaranteed Revenue Note DCIB, Series of 2017

On December 19, 2017, the Township of Derry authorized the issuance of the Guaranteed Revenue Note DCIC, Series of 2017 in the amount of \$2,968,111 for upcoming construction project and to pay the costs of issuing the note. Payments are due in annual installments of \$136,308 to \$170,385 through October 1, 2037 plus interest at 1.30% to 4.00% per year.

The following is a maturity schedule for the Guaranteed Revenue Note, Series of 2017:

<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
143,124	29,482	1.30	2018
132,900	38,166	2.00	2019
136,308	37,834	2.00	2020
136,308	37,493	2.00	2021
136,308	37,153	2.00	2022
695,173	165,495	3.00 – 4.00	2023 – 2027
763,325	97,367	3.00 – 4.00	2028 – 2032
<u>824,665</u>	<u>39,167</u>	3.125 – 3.375	2033 – 2037
<u>\$ 2,968,111</u>	<u>\$ 482,158</u>		

Summary

The following summarizes the Township's future annual debt service requirements to maturity for the Township's long-term debt at December 31, 2017. The schedule below includes all capital lease agreements and the debt service requirements to be paid by the Derry Township Municipal Authority for the General Obligation Bonds, Series of 2014 and 2015 and the General Obligation Note, Series of 2016.

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	2,885,637	798,276	3,683,913
2019	2,914,357	747,220	3,661,577
2020	2,878,853	695,715	3,574,568
2021	2,920,204	630,968	3,551,172
2022	2,859,182	576,754	3,435,936
2023 – 2027	15,920,900	2,026,184	17,947,084
2028 – 2032	3,723,325	261,912	3,985,237
2033 – 2037	<u>824,666</u>	<u>39,167</u>	<u>863,833</u>
Total	<u>\$ 34,927,124</u>	<u>\$ 5,776,196</u>	<u>\$ 40,703,320</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

9. INTERFUND BALANCES

Interfund balances at December 31, 2017 consisted of the following:

- \$ 10,679 due to the General Fund from the Recycling Fund
- \$ 727,515 due to the Capital Projects Fund from the General Fund

The Recycling Fund balance resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Other balances resulted from providing resources between funds for cash flow purposes.

10. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2017 consisted of the following:

	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Recycling Fund</u>	
<u>Transfer To</u>				
General Fund	\$ -	\$ 129,866	-	\$ 129,866
Capital Projects	236,600	-	202,747	439,347
Nonmajor Governmental				
Liquid Fuels Fund	-	-	-	-
Street Light Fund	<u>142,657</u>	<u>-</u>	<u>-</u>	<u>142,657</u>
Total	<u>\$ 379,257</u>	<u>\$ 129,866</u>	<u>\$ 202,747</u>	<u>\$ 711,870</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the capital projects fund as debt service payments come due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the year ended December 31, 2017, the Township also made a transfer of \$202,747 from the Recycling Fund to Capital Projects to provide additional funds for debt service.

11. SUMMARY OF EXPENDITURES OVER APPROPRIATIONS

In the Capital Projects Fund, actual expenditures and other financing uses exceeded appropriations by \$1,537,622. The excess expenditures were a result of road project expenditures which were not anticipated at the time the budget was prepared. Sufficient revenues and fund balances were available within the fund to cover the excess expenditures.

12. DEFICIT FUND BALANCE

As of December 31, 2017, the Street Light Fund had a negative unassigned fund balance of \$30,870. The deficit resulted primarily from revenues being insufficient to cover expenditures. The General Fund is liable for any deficits in the fund and provides transfers when cash is required. At December 31, 2017, the Township assigned a portion of the General Fund fund balance to cover the deficit.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

13. ESCROW PAYABLE

The Township holds funds in escrow totaling \$180,779. Of this amount, \$178,300 represents funds held as security by the Township until such time as the developer completes construction of a specified project and eighteen months have elapsed with no significant maintenance or structural problems noted. The remaining \$2,479 represents designated funds received for the Chocolate Avenue Sign Beautification Program.

14. COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The Township receives revenues from various federal and state grant programs, which are subject to audit and adjustment by the respective grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

Contract Commitments

As of December 31, 2017, the Township was committed under contracts totaling \$222,480 for ongoing projects. This was recorded in accounts payable as of December 31, 2017.

Guarantee of Indebtedness of Others

The Township has, as additional security, unconditionally guaranteed payment of the full amount of all principal of and interest on the Derry Township Municipal Authority Sewer Revenue Bonds, Series of 2005, 2015, and 2016 when due and for such payment has pledged its full faith, credit and taxing powers. These bonds are scheduled to mature in 2024 and 2025. The outstanding principal balance of these bonds at December 31, 2017 was \$13,975,000.

In October 2014, the Township approved a \$5 million guarantee relating to the debt service for the Hershey Volunteer Fire Company construction project. As of December 31, 2017, the loan balance was \$3,538,824. The guaranty is scheduled to expire when the note matures in 20 years.

In addition, the Township guaranteed payment of the full amount of all principal of and interest on the Derry Township Industrial and Commercial Development Authority Guaranteed Township Revenue Bonds, Series of 2015 when due and for such payment has pledged its full faith, credit and taxing powers. The bond is scheduled to mature in 2030. The total outstanding principal balance of the bonds at December 31, 2017 was \$8,835,000.

Litigation

In the normal course of operations, the Township is involved in various civil disputes. It is the opinion of management that the potential claims against the Township not covered by insurance would not materially affect the financial statements.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS

The Township offers two single-employer defined benefit pension plans to its employees: The Derry Township Police Pension Plan (the Police Pension Plan) and the Derry Township Non-uniform Pension Plan (the Non-uniform Pension Plan). Additionally, the Township has continued to maintain a cash balance plan for those members who were no longer employed by the Township at December 31, 1994 (date of conversion from a defined contribution money purchase plan to a defined benefit plan) but who had a deferred benefit and no current payment.

Membership consisted of the following at December 31, 2017:

	Police Pension <u>Plan</u>	Non-uniform Defined Benefit <u>Pension Plan</u>	Non-uniform Cash Balance <u>Pension Plan</u>
Active employees	38	59	0
Retirees and beneficiaries currently receiving benefits	23	25	3
Terminated employees entitled to benefits but not yet receiving them	2	7	7
Surviving Spouse	1	1	0
Collecting under disability	<u>1</u>	<u>0</u>	<u>0</u>
Total	<u>65</u>	<u>92</u>	<u>10</u>

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Derry Township Police Pension Plan

Plan Description

The Police Pension Plan provides retirement benefits, as well as disability and death benefits, to full-time sworn police employees working at least forty hours per week. All full-time members of the police force join the Plan on their date of hire. All benefits vest after 12 years of credited service. Employees who retire at or after age 50 and with 25 years of credited service are entitled to a monthly retirement benefit, payable for life, in an amount equal to 50% of their average eligible monthly compensation received during the last 36 months of employment. A member who completes 20 years of service and terminates prior to reaching the normal retirement may receive an immediate pension. The pension is equal to the actuarial equivalent of the benefit accrued at the early retirement date.

The disability pension is available to participants disabled in the line of duty. The disability pension is equal to no less than 50% of the average monthly pay.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. RETIREMENT PLANS (CONTINUED)

Derry Township Police Pension Plan (Continued)

The Plan also provides certain death benefits to the surviving spouse and/or dependents. The amount of these benefits is 50% of the benefit the member would have been receiving had he been retired at the time of death. Also, the surviving spouse and/or dependents of an active member killed in the line of duty receive a monthly death benefit equal to 100% of the member's monthly salary at the time of death.

The authority under which obligations to contribute to the Police Pension Plan by the plan members, employer and other contributing entities are established or may be amended includes Act 600 and Act 205 of the Commonwealth of Pennsylvania and Township Ordinances.

Funding Policy

As a condition of participation, each member may contribute to the Plan up to 5% of earnings. The Township may, on an annual basis, by resolution, reduce or eliminate payments into the Police Pension Plan by participants. For 2017, members were required to contribute 2% of earnings to the Plan.

The Police Pension Plan is also funded by annual entitlements received from the Commonwealth of Pennsylvania and contributions from the Township. The Township of Derry complied in full with the Commonwealth of Pennsylvania's Minimum Municipal Obligation (MMO) funding and reporting requirements for 2017.

The annual required contribution for the current year was determined through an actuarial calculation as mandated by Act 205 based on an estimated 2017 payroll of \$3,878,463.

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%	
Salary Increases	5.50%	(average, including inflation)
Investment Rate of Return	7.50%	(including inflation)
Postretirement Cost of Living Increase	0.00%	

Mortality Rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected at 7 years and rates for non-annuitants projected at 15 years using Scale AA to reflect mortality improvements.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. RETIREMENT PLANS (CONTINUED)

Derry Township Police Pension Plan (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	60.00%	5.50% - 7.50%
Fixed Income	25.00%	1.00% - 3.00%
Cash	15.00%	0.00% - 1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	<u>Increase(Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 12/31/2016	\$ 20,573,752	\$ 17,701,766	\$ 2,871,986
Service Cost	590,154	-	590,154
Interest Cost	1,579,711	-	1,579,711
Changes of Benefit Terms	-	-	-
Changes of Experience	(199,801)	-	(199,801)
Changes of Assumptions	582,970	-	582,970
Contributions – Employer	-	987,226	(987,226)
Contributions – Member	-	111,072	(111,072)
Net Investment Income	-	2,148,013	(2,148,013)
Benefit Payments, including refunds of member contributions	(840,143)	(840,143)	-
Administrative Expense	-	(17,307)	17,307
Other Changes	-	-	-
Net Changes	<u>1,712,891</u>	<u>2,388,861</u>	<u>(675,970)</u>
Balances at 12/31/17	<u>\$ 22,286,643</u>	<u>\$ 20,090,627</u>	<u>\$ 2,196,016</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Police Pension Plan (Continued)

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

The following presents the net pension liability of the Police Pension Plan, calculates using the discount rate of 7.50%, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate.

		<u>Increase(Decrease)</u>	
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ 4,934,132	\$ 2,196,016	\$ (94,938)

The Township reported deferred outflows and deferred inflows of resources related to the Police Pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Investment Earnings on Police Pension Plan Investments	<u>\$ 846,777</u>	<u>\$ 815,580</u>
Total	<u>\$ 846,777</u>	<u>\$ 815,580</u>

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

Year ended December 31:	
2018	\$ 75,922
2019	75,920
2020	(86,097)
2021	(98,408)
2022	<u>63,860</u>
Total	<u>\$ 31,197</u>

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans

Derry Township Non-uniform Defined Benefit Plan

Plan Description

The Non-uniform Defined Benefit Pension Plan provides retirement benefits, as well as disability and death benefits, to full-time employees except members of the Police force. All benefits vest after 5 years of credited service. Employees who retire at or after age 55 are entitled to a monthly retirement benefit, payable for life, in an amount equal to 2.0% times credited service times final average salary (FAS), but in no event is the basic benefit greater than 50% of FAS. FAS is based upon the last 3 years of annualized wages. A member who completes 20 years of credited service and terminates prior to reaching the normal retirement may receive an immediate pension. The pension is the accrued pension, reduced by an actuarial factor to account for early payment.

The disability pension is available to members who are unable to perform gainful employment regardless of age or service. The disability pension is equal to 50% of the average monthly pay, offset by available workers' compensation benefits. A non-service related benefit of 30% is available to a member who has at least 10 years of service and who is unable to perform gainful employment.

The Plan also provides certain death benefits to the surviving spouse and/or dependents. If a member has at least 1 year of credited service at time of death, beneficiary receives present value of accrued benefit. At retirement, members may select a survivor benefit.

The Plan is controlled by the provisions of Ordinance No. 383 adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Funding Policy

As a condition of participation, members are required to contribute 5% of compensation to the plan.

The Non-uniform Defined Benefit Pension Plan is also funded by annual entitlements received from the Commonwealth of Pennsylvania and contributions from the Township. The Township of Derry complied in full with the Commonwealth of Pennsylvania's Minimum Municipal Obligation (MMO) funding and reporting requirements for 2017.

The annual required contribution for the current year was determined through an actuarial calculation as mandated by Act 205 based on estimated 2017 payroll of \$3,510,028.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%	
Salary Increases	3.00%	(average, including inflation)
Investment Rate of Return	5.25%	(including inflation)
Postretirement Cost of Living Increase	0.00%	

Mortality Rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity (large capitalized firms)	25%	8.7%
Domestic Equity (small capitalized firms)	15%	8.4%
International Equity (international developed markets)	15%	4.6%
International Equity (emerging markets)	10%	8.1%
Real Estate	20%	6.7%
Fixed Income	15%	-1.0%

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	<u>Increase(Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 12/31/2015	\$ 14,080,156	\$ 11,491,506	\$ 2,588,650
Adjustments	-	-	-
Service Cost	448,825	-	448,825
Interest Cost	787,801	-	787,801
Changes of Benefit Terms	-	-	-
Changes of Experience	(174,630)	-	(174,630)
Changes of Assumptions	434,594	-	434,594
Contributions – Employer	-	358,880	(358,880)
Contributions – PMRS assessment	-	1,880	(1,880)
Contributions – Member	-	174,375	(174,375)
PMRS Investment Income	-	695,635	(695,635)
Market value investment income	-	295,038	(295,038)
Transfers	-	-	-
Benefit Payments, including refunds of member contributions	(416,231)	(416,231)	-
PMRS administrative expense	-	(1,800)	1,800
Additional administrative expense	-	(34,080)	34,080
	<u>1,080,359</u>	<u>(1,073,697)</u>	<u>6,662</u>
Net Changes			
Balances at 12/31/16	<u>\$ 15,160,515</u>	<u>\$ 12,565,203</u>	<u>\$ 2,595,312</u>

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

The following presents the net pension liability of the Non-uniform defined benefit plan, calculates using the discount rate of 5.25%, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate.

	1% Decrease (4.25%)	<u>Increase(Decrease)</u> Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability	\$ 4,365,171	\$ 2,595,312	\$ 1,094,868

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

The Township reported deferred outflows and deferred inflows of resources related to the Non-uniform Pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 182,946	\$ 146,207
Changes in Assumptions	658,829	
Contributions Subsequent to Measurement Date	419,574	
Net Difference between Projected and Actual Investment Earnings on Non-Uniform Pension Plan Investments	<u>264,679</u>	<u>\$ -</u>
Total	<u>\$ 1,526,028</u>	<u>\$ 146,207</u>

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

Year ended December 31:	
2017	\$ 673,127
2018	253,551
2018	261,358
2020	89,255
2021	102,530
Thereafter	-
Total	<u>\$ 1,379,821</u>

Derry Township Non-uniform Cash Balance Plan

Plan Description

The Non-uniform Cash Balance Plan (the plan) is a single-employer plan controlled by the provisions of Ordinance No. 383 adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. For the year ended December 31, 2017, the Township made no contributions and paid an administrative fee of \$200.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%	
Salary Increases	N/A%	(average, including inflation)
Investment Rate of Return	5.25%	(including inflation)
Postretirement Cost of Living Increase	0.00%	

Mortality Rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity (large capitalized firms)	25%	8.7%
Domestic Equity (small capitalized firms)	15%	8.4%
International Equity (international developed markets)	15%	4.6%
International Equity (emerging markets)	10%	8.1%
Real Estate	20%	6.7%
Fixed Income	15%	-1.0%

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	<u>Increase(Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 12/31/2015	\$ 1,301,942	\$ 1,204,289	\$ 97,653
Adjustments	-	-	-
Service Cost	-	-	-
Interest Cost	71,270	-	71,270
Changes of Benefit Terms	-	-	-
Changes of Experience	1,237	-	1,237
Changes of Assumptions	3,117	-	3,117
Contributions – Employer	-	-	-
Contributions – PMRS assessment	-	200	(200)
Contributions – Member	-	-	-
PMRS Investment Income	-	71,029	(71,029)
Market value investment income	-	31,208	(31,208)
Transfers	-	-	-
Benefit Payments, including refunds of member contributions	(12,231)	(12,231)	-
PMRS administrative expense	-	(200)	200
Additional administrative expense	-	(3,480)	3,480
	<u>63,393</u>	<u>86,526</u>	<u>(23,133)</u>
Net Changes	<u>63,393</u>	<u>86,526</u>	<u>(23,133)</u>
Balances at 12/31/16	<u>\$ 1,365,335</u>	<u>\$ 1,290,815</u>	<u>\$ 74,520</u>

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

The following presents the net pension liability of the Non-uniform defined benefit plan, calculates using the discount rate of 5.25%, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate.

	1% Decrease (4.25%)	<u>Increase(Decrease)</u> Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability	\$ 331,979	\$ 74,520	\$ (181,011)

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. RETIREMENT PLANS (CONTINUED)

Derry Township Non-uniform Pension Plans (Continued)

The Township reported deferred outflows and deferred inflows of resources related to the Non-uniform Pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ -
Changes in Assumptions	-	-
Contributions Subsequent to Measurement Date	-	-
Net Difference between Projected and Actual Investment Earnings on Non-Uniform Pension Plan Investments	17,860	-
Total	<u>\$ 17,860</u>	<u>\$ -</u>

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

Year ended December 31:	
2017	\$ 8,065
2018	8,064
2018	7,971
2020	(6,240)
2021	-
Thereafter	-
Total	<u>\$ 17,860</u>

16. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Township provides postemployment insurance benefits to certain eligible employees through the Derry Township Postemployment Benefits Plan, a single-employer defined benefit plan. All postemployment benefits are based on contractual agreements with three employee groups. Eligibility for these benefits is based on years of service upon retirement.

The plan provides medical, dental, vision and prescription drug benefits for eligible retirees and their spouses. Coverage discontinues upon the retiree attaining Medicare eligibility. Coverage for the spouse discontinues after a period of 15 years or when the spouse becomes eligible for Medicare, whichever occurs first for two of the employee groups. The remaining employee group receives the same benefits as stated above except that coverage for the retiree discontinues after a period of 7 years or upon the retiree attaining Medicare eligibility, whichever occurs first. Coverage for the spouse discontinues after a period equal to the number of years the spouse was married to the retiree while the retiree was employed by the Township, up to 7 years, or when the retiree or spouse becomes eligible for Medicare, whichever occurs first. In all three employee groups the Township is required to pay 100% of the cost of benefits. Medical coverage is not provided to the retiree or spouse if they are eligible for coverage from another employer, even if those benefits are less than provided by the Township.

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

16. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Funding Policy

The Township may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For 2017, the Township made no contribution and instead elected to continue funding on a pay-as-you-go basis, which amounted to \$287,626 for 2017. These costs are recognized as an expense when claims or premiums are paid.

Funding Policy (Continued)

Annual OPEB cost and net OPEB obligation

For 2017, the components of the Township's annual OPEB (other postemployment benefit) cost of the year, the amount actually contributed to the Plan, and changes in the Township's net OPEB obligation to the Plan were as follows:

Annual required contribution	\$ 1,179,528
Interest on net OPEB obligation	172,171
Adjustment to annual required contribution	<u>(234,885)</u>
Annual OPEB cost	1,116,814
Contributions or payments made (estimated)	<u>(287,626)</u>
Increase in net OPEB obligation	829,188
Net OPEB obligation, beginning of year	<u>3,826,016</u>
Net OPEB obligation, end of year	<u>\$ 4,655,204</u>
 Percentage of annual OPEB cost contributed	 25.8%

The Township's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for the year ended December 31, 2017 were as follows:

	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
Total	<u>\$1,116,814</u>	<u>25.8%</u>	<u>\$4,655,204</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for the year ended December 31, 2016 were as follows:

	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
Total	<u>\$500,408</u>	<u>33.3%</u>	<u>\$3,826,016</u>

**TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

16. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The Township's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for the year ended December 31, 2015 were as follows:

	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
Total	<u>\$506,428</u>	<u>33.9%</u>	<u>\$3,492,301</u>

Funding Policy (Continued)

Funded status and funding progress

The funded status of the Plan as of January 1, 2017, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	(1)	\$ 9,254,645	
Actuarial value of assets	(2)	<u>0</u>	
Unfunded AAL (UAAL)	(3)	<u>\$ 9,254,645</u>	(1) – (2)
Funded ratio	(4)	<u>0.0%</u>	(2)/(1)
Covered payroll	(5)	<u>\$ 7,167,786</u>	
UAAL as % of covered payroll	(6)	<u>129.11%</u>	(3)/(5)

Actuarial methods and assumptions

Actuarial valuations involve 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.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial 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 entry age normal cost method was used in the January 1, 2017 actuarial valuation. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend of 6.0 percent initially. The actuarial value of assets was determined using market value. The UAAL is being amortized as a level percentage of payroll on a 30 year open period.

TOWNSHIP OF DERRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

17. EXTRAORDINARY ITEM

In February 2017, the Township transferred all management responsibility for storm water, including ownership of all storm water assets to DTMA. DTMA will be responsible for all future maintenance and construction of storm water assets. The effect of the transfer of assets is shown on the Statement of Activities as an extraordinary item in the amount of \$5,155,717 which was the net book value of the storm water assets at the time of transfer.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June_____, the date which the financial statements were available to be issued.

In January 2018, the Township issued the General Obligation Bond Series of 2018 in the amount of \$5,010,000.

In February 2018, the Township entered into the Federally Taxable Line of Credit Series of 2018 in the amount of \$1,550,000.

In March 2018, the Township entered into a Cash Settlement Hedge in the amount of \$25,000,000.

TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Taxes				
Real estate taxes, net of discount	\$ 2,057,000	\$ 2,057,000	\$ 2,038,711	\$ (18,289)
Real estate transfer tax	720,000	720,000	995,764	275,764
Earned income tax	4,750,000	4,750,000	4,994,432	244,432
Occupation tax	2,140,000	2,140,000	2,205,181	65,181
Local services tax	1,400,000	1,400,000	1,316,177	(83,823)
Amusement tax	1,490,000	1,490,000	1,472,959	(17,041)
Parking lot tax	840,000	840,000	743,065	(96,935)
Total taxes	<u>13,397,000</u>	<u>13,397,000</u>	<u>13,766,289</u>	<u>369,289</u>
Licenses and permits	<u>343,500</u>	<u>343,500</u>	<u>297,365</u>	<u>(46,135)</u>
Fines and forfeits	<u>244,100</u>	<u>244,100</u>	<u>184,436</u>	<u>(59,664)</u>
Interest and rents	<u>78,910</u>	<u>78,910</u>	<u>73,601</u>	<u>(5,309)</u>
Intergovernmental revenues	<u>1,252,530</u>	<u>1,252,530</u>	<u>1,265,194</u>	<u>12,664</u>
Charges for services	<u>1,935,160</u>	<u>1,935,160</u>	<u>2,207,508</u>	<u>272,348</u>
Miscellaneous revenues	<u>549,374</u>	<u>549,374</u>	<u>382,347</u>	<u>(167,027)</u>
Total budgeted revenues	<u>\$ 17,800,574</u>	<u>\$ 17,800,574</u>	<u>\$ 18,176,740</u>	<u>\$ 376,166</u>
Other financing sources				
Operating transfers in	-	-	129,866	129,866
Total other financing sources	<u>-</u>	<u>-</u>	<u>129,866</u>	<u>129,866</u>
Total revenues and other financing sources	<u>\$ 17,800,574</u>	<u>\$ 17,800,574</u>	<u>\$ 18,306,606</u>	<u>\$ 506,032</u>

TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (continued)
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
General government				
Administration	\$ 991,904	\$ 991,904	\$ 1,023,242	\$ (31,338)
Financial administration	272,661	272,661	259,303	13,358
Tax collection	196,755	196,755	194,980	1,775
Municipal building	186,900	186,900	161,496	25,404
Insurance	89,700	89,700	94,822	(5,122)
Miscellaneous expenditures	<u>481,254</u>	<u>481,254</u>	<u>492,876</u>	<u>(11,622)</u>
Total general government	<u>2,219,174</u>	<u>2,219,174</u>	<u>2,226,719</u>	<u>(7,545)</u>
Public safety				
Police protection	7,951,120	7,951,120	7,890,447	60,673
Fire protection	481,500	481,500	468,874	12,626
Emergency medical service	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>-</u>
Total public safety	<u>8,562,620</u>	<u>8,562,620</u>	<u>8,489,321</u>	<u>73,299</u>
Community development	<u>762,248</u>	<u>762,248</u>	<u>728,769</u>	<u>33,479</u>
Health and human services	<u>13,600</u>	<u>13,600</u>	<u>10,460</u>	<u>3,140</u>
Public works - highways and streets	<u>2,658,433</u>	<u>2,658,433</u>	<u>2,674,541</u>	<u>(16,108)</u>
Parks and recreation	<u>1,377,195</u>	<u>1,377,195</u>	<u>1,492,001</u>	<u>(114,806)</u>
Library	<u>1,175,608</u>	<u>1,175,608</u>	<u>1,207,538</u>	<u>(31,930)</u>
Child care programs	<u>365,318</u>	<u>365,318</u>	<u>370,911</u>	<u>(5,593)</u>
Total expenditures	<u>17,134,196</u>	<u>17,134,196</u>	<u>17,200,260</u>	<u>(66,064)</u>
Other financing uses				
Transfers out	<u>519,626</u>	<u>519,626</u>	<u>379,257</u>	<u>140,369</u>
Total expenditures and other financing uses	<u>\$ 17,653,822</u>	<u>\$ 17,653,822</u>	<u>\$ 17,579,517</u>	<u>\$ 74,305</u>

TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Real estate taxes	\$ 1,976,498	\$ 1,976,498	\$ 2,002,415	\$ 25,917
Licenses and permits	50	50	7	(43)
Charges for services	-	-	214,710	214,710
Interest and rents	73,300	73,300	77,174	3,874
Intergovernmental revenues	154,500	154,500	792,589	638,089
Miscellaneous revenues	-	-	44,384	44,384
Other financing sources				
Transfers in	654,626	654,626	439,347	(215,279)
Loan Proceeds	-	-	3,515,125	3,515,125
Lease Proceeds	-	-	334,911	334,911
Total other financing sources	654,626	654,626	4,289,383	3,634,757
Total revenues and other financing sources	\$ 2,858,974	\$ 2,858,974	\$ 7,420,662	\$ 4,561,688

See Accompanying Notes to Required Supplementary Information

TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND (continued)
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
General government	\$ 31,100	\$ 31,100	\$ 168,743	\$ (137,643)
Public safety				
Police protection	189,054	189,054	219,601	(30,547)
Contribution to Fire Company	30,000	30,000	30,000	-
Total public safety	<u>219,054</u>	<u>219,054</u>	<u>249,601</u>	<u>(30,547)</u>
Community development	<u>9,674</u>	<u>9,674</u>	<u>8,059</u>	<u>1,615</u>
Public works - highways and streets	<u>286,571</u>	<u>286,571</u>	<u>1,545,478</u>	<u>(1,258,907)</u>
Parks and recreation	<u>270,580</u>	<u>270,580</u>	<u>13,103</u>	<u>257,477</u>
Library	<u>35,000</u>	<u>35,000</u>	<u>34,051</u>	<u>949</u>
Debt service				
Principal	1,626,766	1,626,766	1,850,931	(224,165)
Interest and fiscal charges	380,229	380,229	396,764	(16,535)
Total Debt Service	<u>2,006,995</u>	<u>2,006,995</u>	<u>2,247,695</u>	<u>(240,700)</u>
Total expenditures	<u>\$ 2,858,974</u>	<u>\$ 2,858,974</u>	<u>\$ 4,266,730</u>	<u>\$ (1,407,756)</u>
Other financing uses				
Transfers Out	-	-	129,866	(129,866)
Refund of Prior years revenues	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>129,866</u>	<u>(129,866)</u>
Total expenditures and other financing uses	<u>\$ 2,858,974</u>	<u>\$ 2,858,974</u>	<u>\$ 4,396,596</u>	<u>\$ (1,537,622)</u>

**TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLANS AND OPEB PLAN
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2017**

	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2-1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a Percent of Covered Payroll [(2)-(1)]/5
Police Pension Plan	1/1/2017	\$ 17,701,766	\$ 20,573,752	\$ 2,871,986	86%	\$ 3,839,792	75%
	1/1/2015	15,209,392	17,972,656	2,763,264	85%	3,429,072	81%
	1/1/2013	11,105,463	15,973,499	4,868,036	70%	3,336,396	146%
	1/1/2011	10,418,005	14,657,271	4,239,266	71%	3,071,397	138%
	1/1/2009	9,502,245	12,795,272	3,293,482	74%	2,798,837	118%
	1/1/2007	8,357,457	10,968,100	2,610,643	76%	2,601,960	100%
	1/1/2005	7,184,486	9,275,861	2,091,375	78%	2,449,307	85%
	1/1/2003	5,646,692	7,950,003	2,303,311	71%	2,142,564	108%
	1/1/2001	5,991,959	6,728,682	736,723	89%	1,833,510	40%
	1/1/1999	5,185,505	5,726,074	540,569	91%	1,621,785	33%
Non-uniform Defined Benefit Pension Plan	1/1/2017	\$ 12,565,203	\$ 15,160,515	\$ 2,595,312	83%	\$ 3,487,500	74%
	1/1/2015	11,973,740	12,947,190	973,450	92%	3,406,635	29%
	1/1/2013	10,668,784	11,191,672	522,888	95%	3,245,112	16%
	1/1/2011	9,660,484	9,915,014	254,530	97%	3,394,258	7%
	1/1/2009	8,253,752	8,292,084	38,332	100%	3,151,491	1%
	1/1/2007	6,528,540	6,753,314	224,774	97%	2,930,358	8%
	1/1/2005	5,397,256	5,644,615	247,359	96%	2,703,160	9%
	1/1/2003	4,350,050	4,284,761	(65,289)	101%	2,262,160	-3%
	1/1/2001	3,546,434	3,527,728	(18,706)	101%	2,004,551	-1%
	1/1/1999	2,244,499	2,704,687	460,188	83%	1,616,902	28%
1/1/1997	1,317,873	2,060,816	742,943	64%	1,385,071	54%	
Other Postemployment Benefit Plan	1/1/2017	-	\$ 9,254,645	\$ 9,254,645	0%	\$ 7,167,786	129%
	1/1/2013	-	4,454,438	4,454,438	0%	6,426,557	69%
	1/1/2010	-	4,475,133	4,475,133	0%	6,173,934	72%
	1/1/2007	-	4,741,841	4,741,841	0%	5,449,214	87%

See Accompanying Notes to Required Supplementary Information

**TOWNSHIP OF DERRY
REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLANS AND OPEB PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2017**

Calendar Year	Police Pension		Non-uniform Defined Benefit Pension Plan		Non-uniform Defined Contribution Pension Plan		OPEB Plan	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2003	359,693	100%	158,697	100%	200	100%	-	-
2004	370,341	100%	178,209	100%	200	100%	-	-
2005	556,745	100%	190,718	100%	200	100%	-	-
2006	519,119	100%	207,884	100%	200	100%	-	-
2007	502,210	100%	270,728	100%	200	100%	-	-
2008	476,294	100%	290,504	100%	200	100%	625,386	3%
2009	625,158	100%	232,864	100%	200	100%	625,386	5%
2010	629,851	100%	238,141	100%	200	100%	625,386	11%
2011	756,769	100%	244,166	100%	200	100%	557,300	21%
2012	768,942	100%	240,336	100%	200	100%	557,300	18%
2013	969,383	100%	241,012	100%	200	100%	557,300	58%
2014	1,003,748	100%	248,273	100%	200	100%	557,652	34%
2015	1,111,782	100%	334,943	100%	200	100%	557,652	34%
2016	959,589	100%	360,760	100%	200	100%	557,652	30%
2017	987,226	100%	419,574	100%	200	100%	1,179,528	24%

See Accompanying Notes to Required Supplementary Information

**TOWNSHIP OF DERRY
SCHEDULE OF CHANGES
IN THE NET PENSION
LIABILITY AND
RELATED RATIOS
POLICE PENSION
DECEMBER 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 590,154	\$ 558,805	\$ 529,673
Interest	1,579,711	1,454,441	1,357,661
Changes of experience	(199,801)		
Changes of assumptions	582,970		
Benefit payments, including refunds of member contributions	<u>(840,143)</u>	<u>(674,167)</u>	<u>(625,317)</u>
Net Change in total pension liability	1,712,891	1,339,079	1,262,017
Total pension liability, beginning	<u>20,573,752</u>	<u>19,234,673</u>	<u>17,972,656</u>
Total pension liability, ending	<u>22,286,643</u>	<u>20,573,752</u>	<u>19,234,673</u>
Plan fiduciary net position			
Contributions - employer	987,226	959,589	1,111,782
Contributions - member	111,072	110,174	104,011
Net investment income	2,148,013	1,164,094	352,508
Benefit payments, including refunds of member contributions	(840,143)	(674,167)	(625,317)
Administrative expenses	<u>(17,307)</u>	<u>(4,000)</u>	<u>(6,300)</u>
Net Change in plan fiduciary net position	2,388,861	1,555,690	936,684
Plan fiduciary net position, beginning	<u>17,701,766</u>	<u>16,146,076</u>	<u>15,209,392</u>
Plan fiduciary net position, ending	<u>20,090,627</u>	<u>17,701,766</u>	<u>16,146,076</u>
Net pension liability	<u>\$ 2,196,016</u>	<u>\$ 2,871,986</u>	<u>\$ 3,088,597</u>
Plan fiduciary net position as a percentage of the total pension liability	90.15%	86.04%	83.94%
Projected covered employee payroll	3,782,543	3,839,792	3,748,331
Net pension liability as a percentage of covered employee payroll	58.06%	74.80%	82.40%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**TOWNSHIP OF DERRY
SCHEDULE OF CHANGES
IN THE NET PENSION
LIABILITY AND
RELATED RATIOS
NON-UNIFORM PENSION
DECEMBER 31, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 448,825	\$ 468,885	\$ 453,549
Interest	787,801	724,938	669,565
Changes of experience	(174,630)	(956)	320,154
Changes of assumptions	434,594	415,333	-
Transfers	-	-	19,219
Benefit payments, including refunds of member contributions	<u>(416,231)</u>	<u>(475,234)</u>	<u>(446,386)</u>
Net Change in total pension liability	1,080,359	1,132,966	1,016,101
Total pension liability, beginning	<u>14,080,156</u>	<u>12,947,190</u>	<u>11,931,089</u>
Total pension liability, ending	<u>15,160,515</u>	<u>14,080,156</u>	<u>12,947,190</u>
Plan fiduciary net position			
Contributions - employer	358,880	333,163	248,273
Contributions - PMRS Assessment	1,880	1,780	-
Contributions - member	174,375	175,495	164,032
PMRS investment income	695,635	638,347	593,385
Market value investment income	295,038	(860,531)	39,022
Transfers	-	-	19,219
Benefit payments, including refunds of member contributions	<u>(416,231)</u>	<u>(475,234)</u>	<u>(446,386)</u>
PMRS administrative expense	(1,800)	(1,780)	(1,720)
Additional administrative expenses	<u>(34,080)</u>	<u>(26,611)</u>	<u>(22,757)</u>
Net Change in plan fiduciary net position	1,073,697	(215,371)	593,068
Plan fiduciary net position, beginning	<u>11,491,506</u>	<u>11,706,877</u>	<u>11,113,809</u>
Plan fiduciary net position, ending	<u>12,565,203</u>	<u>11,491,506</u>	<u>11,706,877</u>
Net pension liability	<u>\$ 2,595,312</u>	<u>\$ 2,588,650</u>	<u>\$ 1,240,313</u>
Plan fiduciary net position as a percentage of the total pension liability	82.88%	81.61%	90.42%
Projected covered employee payroll	3,487,500	3,509,899	3,381,407
Net pension liability as a percentage of covered employee payroll	74.42%	73.75%	36.68%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**TOWNSHIP OF DERRY
SCHEDULE OF CHANGES
IN THE NET PENSION
LIABILITY AND
RELATED RATIOS
CASH BALANCE PENSION
DECEMBER 31, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ -	\$ -	\$ -
Interest	71,270	68,044	62,347
Changes of experience	1,237	1,149	5,340
Changes of assumptions	3,117	1,705	-
Transfers	-	-	-
Benefit payments, including refunds of member contributions	<u>(12,231)</u>	<u>(12,231)</u>	<u>(11,876)</u>
Net Change in total pension liability	63,393	58,667	55,811
Total pension liability, beginning	<u>1,301,942</u>	<u>1,243,275</u>	<u>1,187,464</u>
Total pension liability, ending	<u>1,365,335</u>	<u>1,301,942</u>	<u>1,243,275</u>
Plan fiduciary net position			
Contributions - employer	-	-	200
Contributions - PMRS Assessment	200	200	-
Contributions - member	-	-	-
PMRS investment income	71,029	67,874	62,304
Market value investment income	31,208	(71,065)	(469)
Transfers	-	-	-
Benefit payments, including refunds of member contributions	<u>(12,231)</u>	<u>(12,231)</u>	<u>(11,876)</u>
PMRS administrative expense	(200)	(200)	(200)
Additional administrative expenses	<u>(3,480)</u>	<u>(2,830)</u>	<u>(2,389)</u>
Net Change in plan fiduciary net position	86,526	(18,252)	47,570
Plan fiduciary net position, beginning	<u>1,204,289</u>	<u>1,222,541</u>	<u>1,174,971</u>
Plan fiduciary net position, ending	<u>1,290,815</u>	<u>1,204,289</u>	<u>1,222,541</u>
Net pension liability	<u>\$ 74,520</u>	<u>\$ 97,653</u>	<u>\$ 20,734</u>
Plan fiduciary net position as a percentage of the total pension liability	94.54%	92.50%	98.33%
Projected covered employee payroll	-	-	-
Net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

TOWNSHIP OF DERRY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

1. BUDGET TO GAAP RECONCILIATION

General Fund

The GAAP financial statement presentation allocates insurance and miscellaneous charges to the various expenditure categories.

Following is a schedule reconciling the budgetary basis presentation to the GAAP presentation.

	<u>Budgetary Basis</u>	<u>Increase/(Decrease)</u>	<u>GAAP</u>
Revenues			
Taxes	\$ 13,766,289	\$ -	\$ 13,766,289
Licenses and permits	297,365	-	297,365
Fines and forfeits	184,436	-	184,436
Interest and rents	73,601	-	73,601
Intergovernmental revenues	1,265,194	-	1,265,194
Charges for services	2,207,508	-	2,207,508
Miscellaneous revenues	382,347	-	382,347
Total Revenues	<u>\$ 18,176,740</u>	<u>\$ -</u>	<u>\$ 18,176,740</u>
Expenditures			
General Government	\$ 2,226,719	\$ (529,715)	\$ 1,697,004
Public safety	8,489,321	300,324	8,789,645
Community development	728,769	25,781	754,550
Health and human services	10,460	370	10,830
Public works	2,674,541	94,617	2,769,158
Parks and recreation	1,492,001	52,782	1,544,783
Library	1,207,538	42,719	1,250,257
Child care programs	370,911	13,122	384,033
Total Expenditures	<u>\$ 17,200,260</u>	<u>\$ -</u>	<u>\$ 17,200,260</u>

TOWNSHIP OF DERRY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures

During the year, the Township exceeded budgeted appropriations in the following areas for the major funds:

General Fund

General government	\$	7,545
Public works		16,108
Parks and Recreation		114,806
Library		31,930
Child care programs		5,593

Capital Projects Fund

General government	\$	137,643
Public safety		30,547
Public works		1,258,907
Debt service		240,700

3. PENSION AND OTHER POSTEMPLOYMENT BENEFIT-ADDITIONAL INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>Police Pension Plan</u>	<u>Non-uniform Defined Benefit Pension Plan</u>	<u>Non-uniform Cash Balance Pension Plan</u>	<u>OPEB Plan</u>
Valuation date	1/1/2017	1/1/2016	1/1/2016	1/1/2017
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed	Level dollar closed	Level dollar 30 year open period
Remaining amortization period	11 years	N/A	N/A	16.2889 years
Asset valuation method	Market value determined by trustee	Fair value (1)	Fair value	Market value
Actuarial assumptions:				
Investment rate of return	7.50%	5.25%	5.25%	4.50%
Projected salary increases	5.50%	Age-related scale for merit and seniority	N/A	5.50%
Includes inflation based on	3.00%	3.00%	3.00%	N/A

(1) Investment gain or loss is recognized over a five-year period. Actuarial value of assets is not allowed to be greater than 120% or less than 80% of market value.

SUPPLEMENTARY INFORMATION

**TOWNSHIP OF DERRY
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	Liquid Fuels	Street Light	Total
Assets			
Cash and cash equivalents	\$ 816,754	\$ -	\$ 816,754
Taxes receivable	-	6,004	6,004
Total Assets	\$ 816,754	\$ 6,004	\$ 822,758
Liabilities			
Accounts payable	\$ 24,181	\$ 34,448	\$ 58,629
Total Liabilities	24,181	34,448	58,629
Deferred Inflows of Resources			
Deferred taxes	-	2,426	2,426
Total Deferred Inflows of Resources	-	2,426	2,426
Fund Balance			
Restricted	792,573	-	792,573
Unassigned	-	(30,870)	(30,870)
Total Fund Balance	792,573	(30,870)	761,703
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 816,754	\$ 6,004	\$ 822,758

TOWNSHIP OF DERRY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	Liquid Fuels	Street Light	Total
Revenues			
Taxes	\$ -	\$ 242,984	\$ 242,984
Interest and rents	2,395	-	2,395
Intergovernmental revenues	793,341	-	793,341
Charges for services	-	11,369	11,369
Total Revenues	795,736	254,353	1,050,089
Expenditures			
Public works	389,223	399,315	788,538
Debt Service			
Principal	59,134	-	59,134
Interest	3,731	-	3,731
Total Expenditures	452,088	399,315	851,403
Other Financing Sources			
Operating transfers in	-	142,657	142,657
Total Financing Sources	-	142,657	142,657
 Net Change in Fund Balance	 343,648	 (2,305)	 341,343
 Fund Balance, January 1	 448,925	 (28,565)	 420,360
 Fund Balance, December 31	 \$ 792,573	 \$ (30,870)	 \$ 761,703

See Independent Auditor's Report