

TOWNSHIP OF CUMRU

**FINANCIAL STATEMENTS,
SUPPLEMENTARY AND OTHER INFORMATION**

Year Ended December 31, 2018



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Commissioners
Township of Cumru
Mohnton, Pennsylvania**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Cumru as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 risks assessments, the auditor considers internal control relevant to the Township'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 Township'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 in the first paragraph present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Cumru as of December 31, 2018, and the respective changes in the modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Township of Cumru's basic financial statements. The combining modified cash basis - nonmajor governmental funds financial statements and combining modified cash basis - fiduciary funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining modified cash basis - nonmajor governmental funds financial statements and combining modified cash basis - fiduciary funds 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. In our opinion, the combining modified cash basis - nonmajor governmental funds financial statements and combining modified cash basis -fiduciary funds financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Township of Cumru's basic financial statements. The budgetary comparison information and the pension and other postemployment benefits information, which is the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Basis of Accounting

We draw attention to Note 1 of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Herbein + Company, Inc.

**Reading, Pennsylvania
June 19, 2019**

TOWNSHIP OF CUMRU

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 7,627,231	\$ 8,005,212	\$ 15,632,443
Restricted escrow deposits	67,694	4,520	72,214
Capital assets, net of depreciation	-	4,531,225	4,531,225
TOTAL ASSETS	7,694,925	12,540,957	20,235,882
LIABILITIES			
Payroll taxes withheld	633	-	633
Funds held in escrow	67,694	4,520	72,214
Current portion of long-term debt	250,000	45,000	295,000
Long-term debt	1,575,000	204,000	1,779,000
TOTAL LIABILITIES	1,893,327	253,520	2,146,847
NET POSITION			
Net investment in capital assets	-	4,282,225	4,282,225
Restricted for:			
Public safety	2,274,767	-	2,274,767
Public works - sanitation	171,782	-	171,782
Public works - highways and streets	177,451	-	177,451
Culture and recreation	6,107	-	6,107
Debt service	64,328	-	64,328
Unrestricted	3,107,163	8,005,212	11,112,375
TOTAL NET POSITION	\$ 5,801,598	\$ 12,287,437	\$ 18,089,035

TOWNSHIP OF CUMRU

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 1,130,044	\$ 330,016	\$ 15,618	\$ -	\$ (784,410)	\$ -	\$ (784,410)
Public safety:							
Police	4,088,336	83,646	13,149	-	(3,991,541)	-	(3,991,541)
Fire, ambulance, and rescue	1,139,819	205,625	94,618	-	(839,576)	-	(839,576)
Other (planning, zoning, etc.)	120,148	214,053	-	-	93,905	-	93,905
Public works - sanitation	999,502	1,384,291	25,391	-	410,180	-	410,180
Public works - highways and streets	4,393,911	33,196	531,782	-	(3,828,933)	-	(3,828,933)
Culture and recreation	106,740	10,920	-	-	(95,820)	-	(95,820)
Debt - interest, agent fees	40,785	-	-	-	(40,785)	-	(40,785)
Employer paid benefits and insurance	764,232	-	279,199	-	(485,033)	-	(485,033)
Total Governmental Activities	12,783,517	2,261,747	959,757	-	(9,562,013)	-	(9,562,013)
Business-Type Activities:							
Sewer	5,057,506	4,874,551	28,494	-	-	(154,461)	(154,461)
Total Primary Government	\$ 17,841,023	\$ 7,136,298	\$ 988,251	\$ -	(9,562,013)	(154,461)	(9,716,474)
General Revenues:							
Taxes:							
Property taxes					5,365,858	-	5,365,858
Earned income taxes					2,512,391	-	2,512,391
Real estate transfer and other taxes					639,109	-	639,109
Investment earnings					190,280	149,038	339,318
Miscellaneous income					61,100	4,199	65,299
Transfers					987	(987)	-
Total General Revenues and Transfers					8,769,725	152,250	8,921,975
Change in Net Position					(792,288)	(2,211)	(794,499)
Net Position - Beginning of Year					6,593,886	12,289,648	18,883,534
Net Position - End of Year					\$ 5,801,598	\$ 12,287,437	\$ 18,089,035

See accompanying notes.

TOWNSHIP OF CUMRU

BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS

December 31, 2018

	General	Fire Protection	Refuse Collection	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 4,866,637	\$ 2,177,055	\$ 171,782	\$ 76,117	\$ 335,640	\$ 7,627,231
Restricted escrow deposits	45,571	20,923	-	-	1,200	67,694
TOTAL ASSETS	\$ 4,912,208	\$ 2,197,978	\$ 171,782	\$ 76,117	\$ 336,840	\$ 7,694,925
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Payroll taxes withheld	\$ 633	\$ -	\$ -	\$ -	\$ -	\$ 633
Funds held in escrow	45,571	20,923	-	-	1,200	67,694
TOTAL LIABILITIES	46,204	20,923	-	-	1,200	68,327
FUND BALANCES						
Restricted for:						
Public safety	3,851	2,177,055	-	-	93,861	2,274,767
Public works - sanitation	-	-	171,782	-	-	171,782
Public works - highways and streets	-	-	-	-	177,451	177,451
Culture and recreation	6,107	-	-	-	-	6,107
Debt service	-	-	-	-	64,328	64,328
Assigned	506,505	-	-	76,117	-	582,622
Unassigned	4,349,541	-	-	-	-	4,349,541
TOTAL FUND BALANCES	4,866,004	2,177,055	171,782	76,117	335,640	7,626,598
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,912,208	\$ 2,197,978	\$ 171,782	\$ 76,117	\$ 336,840	\$ 7,694,925

See accompanying notes.

TOWNSHIP OF CUMRU

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

December 31, 2018

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

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS \$ 7,626,598

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Long-term debt (1,825,000)

NET POSITION - GOVERNMENTAL ACTIVITIES \$ 5,801,598

TOWNSHIP OF CUMRU

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

For the Year Ended December 31, 2018

	General	Fire Protection	Refuse Collection	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES						
Real estate taxes	\$ 4,020,119	\$ 865,377	\$ -	\$ -	\$ 480,362	\$ 5,365,858
Earned income taxes	2,512,391	-	-	-	-	2,512,391
Other taxes	639,109	-	-	-	-	639,109
Licenses, permits, and fines	213,405	-	-	-	-	213,405
Interest and rent	256,843	41,347	6,900	17,812	11,624	334,526
Intergovernmental	307,597	94,618	25,391	-	529,738	957,344
Charges for services	658,586	750	929,946	-	34,618	1,623,900
Special assessments	-	-	-	-	75,321	75,321
Other	57,093	6,358	47	15	-	63,513
TOTAL REVENUES	8,665,143	1,008,450	962,284	17,827	1,131,663	11,785,367
EXPENDITURES						
Current:						
General government	1,024,502	-	-	105,542	-	1,130,044
Public safety:						
Police	4,029,639	-	-	58,697	-	4,088,336
Fire, ambulance, and rescue	10,664	942,608	-	-	186,547	1,139,819
Other (planning, zoning, etc.)	73,076	-	-	-	47,072	120,148
Public works - sanitation	-	-	999,502	-	-	999,502
Public works - highways and streets	1,760,135	-	-	2,093,870	539,906	4,393,911
Culture and recreation	106,740	-	-	-	-	106,740
Debt service - principal	-	-	-	-	250,000	250,000
Debt service - interest, agent fees	-	-	-	-	40,785	40,785
Employer paid benefits and insurance	759,232	-	-	-	5,000	764,232
TOTAL EXPENDITURES	7,763,988	942,608	999,502	2,258,109	1,069,310	13,033,517
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	901,155	65,842	(37,218)	(2,240,282)	62,353	(1,248,150)
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	-	204,875	-	-	-	204,875
Transfers in (out)	(1,703,373)	-	-	1,704,360	-	987
TOTAL OTHER FINANCING SOURCES (USES)	(1,703,373)	204,875	-	1,704,360	-	205,862
NET CHANGE IN FUND BALANCES	(802,218)	270,717	(37,218)	(535,922)	62,353	(1,042,288)
FUND BALANCES - BEGINNING OF YEAR	5,668,222	1,906,338	209,000	612,039	273,287	8,668,886
FUND BALANCES - END OF YEAR	\$ 4,866,004	\$ 2,177,055	\$ 171,782	\$ 76,117	\$ 335,640	\$ 7,626,598

See accompanying notes.

TOWNSHIP OF CUMRU

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

For the Year Ended December 31, 2018

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,042,288)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities as shown below:

Payment of bond principal	<u>250,000</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (792,288)

TOWNSHIP OF CUMRU

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS -
PROPRIETARY FUND**

December 31, 2018

	Sewer Fund
ASSETS	
Current Assets	
Cash and investments	\$ 8,005,212
Restricted escrow deposits	4,520
Capital Assets	
Sewer systems, net of accumulated depreciation	4,531,225
TOTAL ASSETS	12,540,957
LIABILITIES	
Current Liabilities	
Funds held in escrow	4,520
Current portion of long-term debt	45,000
Noncurrent Liabilities	
Long-term debt	204,000
TOTAL LIABILITIES	253,520
NET POSITION	
Net investment in capital assets	4,282,225
Unrestricted - board-designated - City of Reading contract	2,897,253
Unrestricted	5,107,959
TOTAL NET POSITION	\$ 12,287,437

TOWNSHIP OF CUMRU

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
MODIFIED CASH BASIS - PROPRIETARY FUND**

For the Year Ended December 31, 2018

	Sewer Fund
OPERATING REVENUES	
Charges for services:	
Sanitation charges	\$ 4,837,863
Connection fees	36,688
	4,874,551
TOTAL OPERATING REVENUES	
 OPERATING EXPENSES	
Personnel services	701,704
Maintenance, operations, and contract services	3,802,365
Professional fees	202,020
Materials and supplies	24,909
Depreciation	319,730
Miscellaneous expense	1,530
	5,052,258
TOTAL OPERATING EXPENSES	
	NET OPERATING LOSS (177,707)
 NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue	28,494
Interest, rents, and royalties	149,038
Other revenue	4,199
Interest expense	(5,248)
	176,483
TOTAL NONOPERATING REVENUES (EXPENSES)	
	LOSS BEFORE TRANSFERS (1,224)
 TRANSFERS OUT	(987)
	CHANGE IN NET POSITION (2,211)
 NET POSITION - BEGINNING OF YEAR	12,289,648
	NET POSITION - END OF YEAR \$ 12,287,437
	12,287,437

TOWNSHIP OF CUMRU

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS -
 PROPRIETARY FUND

For the Year Ended December 31, 2018

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,874,551
Payments to employees	(701,704)
Payments to suppliers	<u>(4,030,824)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	142,023
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating revenues	32,693
Repayment of interfund payable	<u>(61)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	32,632
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(28,693)
Transfer to capital projects	(987)
Principal paid on long-term debt	(52,000)
Interest paid on capital debt	<u>(5,248)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(86,928)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest, rents, and royalties	<u>149,038</u>
NET INCREASE IN CASH	236,765
CASH BALANCE - BEGINNING OF YEAR	<u>7,768,447</u>
CASH BALANCE - END OF YEAR	<u>\$ 8,005,212</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (177,707)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	<u>319,730</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 142,023</u>

See accompanying notes.

TOWNSHIP OF CUMRU

STATEMENT OF NET POSITION - MODIFIED CASH BASIS -
FIDUCIARY FUNDS

December 31, 2018

	Pension Trust Funds
ASSETS	
Cash	\$ 1,176,335
Investments	<u>13,629,121</u>
TOTAL ASSETS	14,805,456
NET POSITION	
Net position held in trust for pension benefits	<u>14,805,456</u>
TOTAL NET POSITION	<u><u>\$ 14,805,456</u></u>

TOWNSHIP OF CUMRU

**STATEMENT OF CHANGES IN NET POSITION -
MODIFIED CASH BASIS - FIDUCIARY FUNDS**

For the Year Ended December 31, 2018

	Pension Trust Funds
ADDITIONS	
Contributions:	
Township and Commonwealth	\$ 791,107
Employee	143,991
Other	400
Investment income:	
Interest and dividends	234,678
Investment loss	(959,063)
TOTAL ADDITIONS	211,113
DEDUCTIONS	
Benefit payments, including tax withheld	816,605
Administrative expenses	145,662
TOTAL DEDUCTIONS	962,267
CHANGE IN NET POSITION	(751,154)
TOTAL NET POSITION - BEGINNING OF YEAR	15,556,610
TOTAL NET POSITION - END OF YEAR	\$ 14,805,456

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

The Township of Cumru (the "Township"), Berks County, Pennsylvania, is a first class township created in 1737. The Township is governed by five (5) elected commissioners in accordance with laws of the Commonwealth of Pennsylvania. The commissioners must be residents and registered voters who are elected every two years, on a staggered basis, for a four-year term. The commissioners have the power to establish policies to be carried out by the Township. The commissioners appoint a manager who is responsible for the execution of all actions of the commissioners. The manager manages the Township with the assistance of the Township secretary and the director of public services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As described further in Note 1D., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Township (the primary government) and its component units.

The Township used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, townships, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

Based on the foregoing criteria, the Township has determined it has no component units.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds which are reported only in the fund financial statements. The government-wide statements include separate columns and distinguish between the governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other nonexchange receipts. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

The statement of activities demonstrates the level to which the direct expenses of a given function of the Township are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function, or 2) taxes and grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items not includable in program revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

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

The Township Reports the Following Major Governmental Funds:

General Fund - This fund is established to account for resources devoted to financing the general services that the Township performs for its citizens. General tax receipts and other sources of receipts used to finance the fundamental operations of the Township are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The Township Reports the Following Major Governmental Funds - continued:

Special Revenue Funds - These funds are established to account for the cash receipts of specific sources other than expendable trusts or major capital projects that are legally restricted to disbursements for specified purposes.

The Township's major special revenue funds are:

- Fire Protection Fund - This fund is used to account for the proceeds from the real estate assessment of 1.00 mills for assisting with fire related public safety expenses.
- Refuse Collection Fund - This fund is used to account for refuse collection and recycling fees and grants.

Capital Projects Fund - This fund is used to account for financial resources set aside for future capital asset needs of the Township.

The Township's Nonmajor Governmental Funds Are:

Special Revenue

- Ambulance Fund - This fund is used to account for the proceeds from the real estate assessment of 0.22 mills for assisting with ambulance safety expenditures.
- Sewage Management Fund - This fund is used to account for sewage management program assessments and fees used for the inspection and enforcement of regulations of on-lot sewage disposal systems.
- Liquid Fuels Fund - This fund is used to account for the proceeds from the State Motor License Fund. Under the act of June 1, 1956, P.O. 1944, No. 145, this fund must be kept separate from all other funds and no other funds shall be commingled with this fund. Expenditures are legally restricted to expenditures for highway purposes in accordance with Department of Transportation regulations.
- Storm Water Fund - This fund is used to account for fees paid by developers to be used for storm water inspections and improvements.

Debt Service Fund - This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from enterprise funds. A portion of the real estate tax revenues is assessed for this fund.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The Township has the Following Major Enterprise Fund:

Enterprise Funds - These funds are used to account for business-like activities provided to the general public. Activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The Township's major enterprise fund is the following:

- Sewer Fund - is used to account for the operation of the sewer collection system which is operated as a public utility and not included as a regular function in the general fund.

Additionally, the Township Reports the Following Fund Types:

Fiduciary Funds - The Township's fiduciary funds are trust funds. Trust funds are used to account for assets held by the Township under a trust agreement for individuals, private organizations, or other governments and, therefore, are not available to support the Township's own programs. The Township's trust funds include:

- *Cumru Township Police Pension Fund* - This fund was established to provide pension benefits to Township police employees.
- *Cumru Township Nonuniformed Pension Fund* - This fund was established to provide pension benefits to Township employees. Recently a defined contribution in lieu of defined benefit was established. There is now a defined benefit fund and a defined contribution fund for the nonuniformed employees.

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

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

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

The accounting and financial treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

1. Measurement Focus

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.
- The fiduciary funds utilize an economic resources measurement focus within the limitations of the modified cash basis of accounting. All assets and liabilities (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

2. Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, payroll taxes withheld, developer escrows, capital assets for enterprise funds and all long-term debt obligations arising from cash transactions or events for both enterprise and governmental funds.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not arise from cash transactions or events are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value, except investments which are reported at fair value.

If the Township utilized accounting principles generally accepted in the United States of America, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented in accordance with the accrual basis of accounting.

E. Financial Position

1. Cash and Investments

For purposes of reporting cash flows, the proprietary fund type considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly-liquid debt investments purchased with a maturity of three months or less to be cash and cash equivalents.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

1. Cash and Investments - continued

The Township commissioners are authorized by statutes to invest its funds as defined in the Township Code. When making investments, commissioners can combine monies from more than one fund under the commissioners' control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

2. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivable/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statement as "internal balances."

3. Capital Assets

In the government-wide and fund financial statements, capital assets arising from cash transactions are recorded as capital outlay expenditures (expenses) upon acquisition for governmental activities.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

3. Capital Assets - continued

The business-type funds (proprietary funds) use the modified cash basis of accounting for capital assets for both the government-wide statements of net position and the fund statements. Capital assets resulting from cash transactions are set up as assets and depreciation is reported as necessary. All business-type capital assets are valued at historical cost. Major improvements are capitalized, while maintenance and repairs of property and equipment and infrastructure costs are charged to operations. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the amounts and a gain or loss is included in operations. Depreciation expense is recorded as an allocated expense to the appropriate function using the straight-line method of depreciation. A capitalization threshold of \$2,500 is used to report business-type capital assets. Estimated useful lives are as follows:

Leasehold improvements	20 - 50 years
Water and sewer systems	40 years
Machinery and equipment	7 - 15 years
Vehicles	5 years

4. Long-Term Debt

Governmental fund debt proceeds are reported as other financing sources in the fund financial statements and as a liability in the government-wide financial statements. Payment of principal and interest are reported as expenditures in the government fund statements and payment of principal is a reduction of a liability in the government-wide statements. Propriety fund debt has been recorded as a liability in the fund financial statement and as a liability in the proprietary fund government-wide statements with interest expense recognized in the period paid.

5. Net Position/Fund Balance Classifications

Government-Wide Statements, Proprietary Funds, and Fiduciary Funds

Net position is classified and displayed in three components:

Net investment in capital assets - This component groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balance of debt reduce the balance in this component.

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

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

5. Net Position/Fund Balance Classifications - continued

Government-Wide Statements, Proprietary Funds, and Fiduciary Funds - continued

Unrestricted - This component represents net positions of the Township, which are not restricted for any project or other purpose.

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

Governmental Fund Financial Statements

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed - Amounts that can be used only for a specific purpose determined by a formal action (resolution) of the Township commissioners, the government's highest level of decision-making authority. The formal action to commit fund balance to a specific purpose must occur prior to the end of the reporting period, but the amount which will be subject to the constraint may be determined in the subsequent period. Committed funds may only be changed or lifted by the same formal action taken to commit them.

Assigned - Amounts that the Township commissioners intend to use for a specific purpose. Assignments of fund balance are made by the Township commissioners.

Unassigned - Amounts that are not included within any other classification noted. Unassigned amounts are the portion of fund balance not obligated or specifically designated and is available for any purpose.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

5. Net Position/Fund Balance Classifications - continued

Fund Balance Policies

Spending Policy

The Township does not have a formal fund balance policy regarding the use of restricted resources; therefore, the default policy from the government accounting standards will be used. Any disbursement incurred for a purpose in which restricted and unrestricted fund balance amounts are available are satisfied through restricted fund balance amounts before unrestricted fund balance amounts. When an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balances, the fund balance is consumed as follows: committed, assigned, and unassigned.

Minimum Fund Balance Policy

The Township has no formal minimum fund balance policies or any formal stabilization arrangements in place.

F. Revenues, Expenditures, and Expenses

1. Program Revenues

In the statement of activities, revenues that are derived directly from each activity or from parties outside the Township's taxpayers are reported as program receipts. The Township has the following program receipts in each activity:

General Government - Charges for services include receipts for licenses, franchise fees, fines, and permits. Operating grants include revenues for general government expenditures.

Public Safety - Charges for services include receipts for fines, permits and sewage management charges. Operating grants include foreign fire insurance tax distribution from the Commonwealth of Pennsylvania and police grants.

Public Works: Sanitation - Charges for services include fees charged for refuse collection and host fees. Operating grants include recycling grants from the Commonwealth of Pennsylvania.

Public Works: Highways and Streets - Charges for services include storm water fees from developers. Operating grants include proceeds from the State Motor License Fund through the Commonwealth of Pennsylvania.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Revenues, Expenditures, and Expenses - continued

1. Program Revenues - continued

Culture and Recreation - Includes receipts from the Township's recreation board activities.

Employer Paid Benefits and Insurance - Includes general municipal pension system state aid from the Commonwealth of Pennsylvania.

All other governmental revenues are reported as general revenue. All taxes are classified as general revenues even if restricted for a specific purpose.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for waste disposal treatment. Operating expenses for all the sewer fund include personnel, maintenance, operations, contracted services, professional fees, materials and supplies, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

3. Property Taxes

Property taxes are levied on March 1, and are payable on or before June 30. The tax levy ordinance for the 2018 calendar year levied taxes on March 1, 2018, at 6.20 mills (4.645 mills for general operating purposes, 0.335 mills for debt service, 0.22 mills for ambulance, and 1.00 mills for fire protection). Taxes paid prior to April 30 are payable at a 2% discount, and taxes paid after June 30 are assessed at a 10% penalty. Taxes not paid as of January 15 are considered delinquent and are turned over to the Berks County Tax Claim Bureau for collection. The taxes are levied based on assessed values on property. Assessed values are an approximation of market value. All taxable real property was assessed at \$887,066,100.

4. Compensated Absences

Compensated absences for vacation and sick leave are recorded when paid.

5. Other Postemployment Benefits

The Township provides certain benefits for its retired employees. The cost of such benefit is charged to expense as the premiums are paid.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Use of Estimates

The preparation of the financial statements in accordance with the modified cash basis of accounting used by the Township requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The Township adopts an annual operating budget, which can be amended by the commissioners throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Township. However, legal budgets are adopted only for the general fund. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the cash basis. For this reason, no reconciliation will be needed between budgeted and actual amounts.

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

1. Prior to December 1, the Township manager submits to the Township commissioners a proposed operating budget for the fiscal year commencing the following January. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Township meeting to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, expenditures did not exceed appropriations in the general operating fund.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 3 - CASH AND INVESTMENTS

Under Section 1705.1 of the Commonwealth of Pennsylvania First Class Township Code, the Township is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

Cash and investments in the financial statements at December 31, 2018, are summarized as follows:

Petty cash	\$ 1,550
Deposits	15,703,107
Investments - pension funds	<u>14,805,456</u>
	<u>\$ 30,510,113</u>

Cash

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a policy for custodial credit risk. As of December 31, 2018, the carrying amount of the Township's deposits was \$15,703,107 and the bank balance was \$15,964,437. Of the balance, \$250,000 was covered by federal depository insurance and \$15,714,437 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

Pension Trust Fund

The pension trust funds' investments are held separately from those of other Township funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The Township maintains investment policies that summarize the investment philosophy of the Township and establishes investment guidelines and performance objectives for both the Police and Nonuniformed Pension Plans.

As of December 31, 2018, the Township had the following cash and investments in its pension trust funds:

<u>Cash or Investment Type</u>	<u>Fair Market Value</u>	<u>Level</u>
Mutual funds - pooled investments	\$ 2,413,701	2
Mutual funds - publically traded	631,971	1
Common stocks	7,685,802	1
Government bonds	1,356,852	2
Municipal bonds	160,707	2
Fixed income bonds	1,380,088	2
	<u>13,629,121</u>	
Cash and cash equivalents	<u>1,176,335</u>	N/A
Total Pension Cash and Investments	<u><u>\$ 14,805,456</u></u>	

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

An investment company holds the Township's pooled investments in diversified and balanced portfolios consisting of mutual funds. These investments are valued based on the quoted market prices for shares held. The fair value of the Township's pooled investments has been established utilizing the net asset value of the units allocated to the Township.

Interest Rate Risk

The Township does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2018, the pension trust funds' investment in corporate bonds range in ratings from AAA to BBB by Standard and Poor's.

Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. There were no investments in the Police Pension Plan or the Nonuniformed Plan that constituted more than 5% of any of the plan net assets available for benefits at December 31, 2018. In addition, the plans did not have any investment transactions with related parties during the year.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. The Township's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2018, a portion of the Township's pension balance was exposed to custodial credit risk.

NOTE 4 - INTERFUND TRANSFERS

Interfund transfers are as follows at December 31, 2018:

	Transfers In	Transfers Out
General fund	\$ -	\$ 1,703,373
Major fund - Capital Projects	1,704,360	-
Major enterprise fund - Sewer	-	987
	<u>\$ 1,704,360</u>	<u>\$ 1,704,360</u>

The transfers from general fund and sewer fund to capital projects were to reimburse for capital projects paid out of capital projects fund.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 5 - CAPITAL ASSETS

Following is a summary of changes in business-type capital assets during the fiscal year ended December 31, 2018:

	Balance 1/1/18	Additions	Deletions	Balance 12/31/18
Land	\$ 10,000	\$ 5,000	\$ -	\$ 15,000
Leasehold improvements	1,074,826	-	-	1,074,826
Water and sewer systems	7,939,038	-	-	7,939,038
Machinery and equipment	749,944	12,500	-	762,444
Vehicles	477,745	11,193	-	488,938
	<u>10,251,553</u>	<u>28,693</u>	<u>-</u>	<u>10,280,246</u>
Accumulated depreciation	<u>(5,429,291)</u>	<u>(319,730)</u>	<u>-</u>	<u>(5,749,021)</u>
Total business-type capital assets	<u>\$ 4,822,262</u>	<u>\$ (291,037)</u>	<u>\$ -</u>	<u>\$ 4,531,225</u>

Depreciation expense recorded in the proprietary fund is \$319,730 for the year ended December 31, 2018.

NOTE 6 - LONG-TERM DEBT

Governmental Activities

General Obligation Bonds, Series of 2013

On February 29, 2013, the Township issued \$2,800,000 in General Obligation Bonds to advance refund the Township's General Obligation Bond, Series of 2009 and to provide an additional \$500,000 to fund certain capital projects located within the Township. Repayment and other terms for this loan are as follows:

Year Ending December 31	Interest Rate	Principal	Interest	Total
2019	1.50%	\$ 250,000	\$ 34,015	\$ 284,015
2020	1.45%	255,000	30,265	285,265
2021	1.65%	260,000	26,568	286,568
2022	1.90%	260,000	22,278	282,278
2023	2.00%	265,000	17,337	282,337
2024 - 2025	2.25%	<u>535,000</u>	<u>18,000</u>	<u>553,000</u>
		<u>\$ 1,825,000</u>	<u>\$ 148,463</u>	<u>\$ 1,973,463</u>

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 6 - LONG-TERM DEBT - CONTINUED

Business-Type Activities

General Obligation Note, Series of 2013

On March 19, 2013, the Township issued a \$500,000 General Obligation Note to acquire certain capital assets. Interest on the loan is fixed at 1.75% until August 15, 2018. Thereafter, commencing February 15, 2019 through August 15, 2023, the note bears interest at a variable rate equal to 70% of the prime rate as reported in the Wall Street Journal with the interest rate not to exceed 5.0%. Repayment and other terms for this loan are as follows:

<u>Year Ending December 31</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>* Interest</u>	<u>Total</u>
2019	1.75%	\$ 45,000	\$ 4,358	\$ 49,358
2020	1.75%	48,000	3,570	51,570
2021	1.75%	49,000	2,730	51,730
2022	1.75%	52,000	1,873	53,873
2023	1.75%	55,000	962	55,962
		<u>\$ 249,000</u>	<u>\$ 13,493</u>	<u>\$ 262,493</u>

* Interest for the variable portion of the notes is calculated using the interest rate in effect at year end.

The following is a summary of the Township's long-term debt transactions for the year ended December 31, 2018:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
	<u>General Obligation Bonds Series of 2013</u>	<u>General Obligation Note Series of 2013</u>	<u>Total</u>
Debt outstanding - 12/31/17	\$ 2,075,000	\$ 301,000	\$ 2,376,000
Repayment of debt	(250,000)	(52,000)	(302,000)
Debt outstanding - 12/31/18	<u>\$ 1,825,000</u>	<u>\$ 249,000</u>	<u>\$ 2,074,000</u>

Funds to satisfy the 2013 General Obligation Bonds will be provided by future tax revenues with payments made by the Debt Service Fund. Funds to satisfy the 2013 General Obligation Note will be provided by future charges for services with payments made by the Sewer Fund. Total interest expense paid during the year was \$43,013.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 7 - PENSION PLANS

The Township of Cumru administers and contributes to the Cumru Township Police Pension Plan (PPP), which is a defined benefit plan, and the Cumru Township Nonuniformed Pension Plan (NUPP), which is a cash balance plan with a defined contribution. The NUPP also has a defined benefit component that was frozen December 31, 2012. Both plans are single employer, public employee retirement plans. The assets of the plans are invested separately, and each plan's assets may be used only for the payment of benefits to the members of the plan, in accordance with the terms of the plan.

Plan Descriptions

PPP is a single-employer defined benefit plan that covers all full-time members of the police force upon completion of a probationary period. PPP provides for retirement, disability, and death benefits to plan members and their beneficiaries. A member may retire after reaching age 50 and completion of 25 years of service. Benefits vest after 12 years of service. Employees who retire after reaching age 50 are entitled to monthly pension payments for the remainder of their lives equal to 50% of the average monthly pay based on the last 36 months of employment, plus \$100 for each year of service over 25 years with a maximum of \$500 per month. Payments continue after participant's death to the surviving spouse, providing not remarried, or to dependent children to age 18. For post January 1, 2000 retirees, an annual cost of living adjustment is made to retirees with a maximum total cost-of-living increase of 30% and a maximum pension benefit of 75% of the salary used for computing retirement benefit. The Plan was amended in 2004 to include the DROP provision.

If active and killed in line of duty, a monthly death benefit is paid to the spouse or eligible child equal to 100% of monthly salary at time of death. Pension provisions include death benefits whereby the beneficiary is entitled to receive a death benefit equal to 50% of the benefit the member would have been receiving had he/she been retired at the time of death. In addition, \$26,000 in death benefits are provided by insurance policies held outside the Plan.

A disabled employee is entitled to receive disability benefits as long as the disability continues. Disability pension to equal 50% of the average monthly pay.

The Cumru Township Nonuniformed Pension Plan provides pension benefits, early or late optional retirement benefit provisions, and death and disability benefits. Effective December 31, 2012, Cumru Township elected to discontinue the accrual of service impacting the defined benefit provisions of the plan. In addition, the Township elected to provide 100% vesting for all plan participants at December 31, 2012. Effective January 1, 2013, a cash balance pension component was initiated. This Plan was adopted by an ordinance on June 17, 2014.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 7 - PENSION PLANS - CONTINUED

Under the defined benefit plan in place through December 31, 2012, a member may retire after reaching age 65. Benefits vest after seven years of service. Employees who retire after reaching age 65 with seven or more years of service are entitled to monthly pension benefits for the remainder of their lives equal to 1.5% of average monthly pay multiplied by years of service. Average monthly pay is based on the last five calendar years ending prior to the date of retirement. A member is eligible for early retirement after attainment of age 55 and completion of 10 years of service. The accrued benefit is reduced by 6-2/3% for each year up to 5 years that early retirement precedes normal retirement and by 3-1/3% for each year between 5 and 10 years early.

Under the cash balance plan in place as of January 1, 2013, a member may retire after reaching age 65. Benefits vest after seven years of service. A member is eligible for early retirement after attainment of age 55 and completion of 10 years of service.

Both plans are considered part of the Township's financial reporting entity and are included in the Township's financial statements as Pension Trust Funds.

Funding Policy

The contribution requirements of plan members and the Township are established and may be amended by the Township commissioners. Police and Nonuniformed Pension Plan members are required to contribute 4.0% and 3.0% of compensation, respectively. The contributions required of the Township under the defined benefit plans are based on actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended December 31, 2018, the rate of Township contributions for the Police Pension Plan and the Nonuniformed Pension Plan was 21.0% and 1.2% of covered payroll, respectively. The contributions required of the Township under the cash balance component of the Nonuniformed Pension Plan are 2% of each covered employee's annual compensation, but not less than \$2,500 or more than the maximum permissible amount as provided by law. The total Township and employee contributions to the Police Pension Plan for the years ended December 31, 2018, 2017, and 2016 were \$743,365, \$724,015, and \$866,329, respectively, which are equal to or exceed the required contribution for each year. The total Township and employee contributions to the Nonuniformed Pension Plan for the years ended December 31, 2018, 2017, and 2016 were \$191,733, \$156,829, and \$124,509, respectively, which are equal to or exceed the required contribution for each year.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Township administers a single-employer defined benefit healthcare plan (the Police Other Postemployment Benefits Plan). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Township's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the Township and the unions representing the Township's employees. The Police Other Postemployment Benefits Plan does not issue a publicly available financial report and the Township is implementing GASB Statement 75 prospectively.

Funding Policy

Contribution requirements are negotiated between the Township and union representatives. The required contribution is based on pay-as-you-go financing. For all employees upon attainment of age 55 that were retired or disabled in the line of duty (an officer is eligible for retirement upon attainment of age 50 and completion of 25 years of service), the Township pays the premium determined for the member's health, prescription drug, dental, and vision insurance only at the time of retirement. The member is responsible for any additional premium due to increases in the premium after retirement or coverage of a spouse and any eligible dependents. Their benefits are for their life plus one surviving spouse and eligible dependents to receive medical, prescription drug, dental, and vision until the earlier of three years, death, remarriage, or attaining eligibility for coverage under another plan.

The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. If coverage from alternative employment is lost, coverage with the Township shall be reinstated. For the fiscal year ended December 31, 2018, the Township made no contribution to the plan related to retirees.

NOTE 9 - DEFERRED COMPENSATION PLAN

Effective January 1, 1996, the Township implemented a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to those employees who meet eligibility requirements set forth in the plan, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or unforeseeable emergency. The Township has no liability for losses under the plan arising from expense charges of any kind or from depreciation or shrinkage in the value of assets of the plan, but does have the duty of executing due care that would be required of an ordinary prudent investor. Contributions to the plan are voluntary employee deductions, with the Township making no contributions.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 10 - FUND BALANCE

Details of the Township's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended December 31, 2018, are as follows:

General Fund: The general fund has restricted funds of \$3,851 for police items, \$6,107 for culture and recreation consisting of unspent fees in lieu of open space, an assigned fund balance of \$506,505 which is the appropriation of fund balance for the 2019 budget, and an unassigned fund balance of \$4,349,541.

Fire Protection Fund: The fire protection fund has restricted funds of \$2,177,055, consisting primarily of unspent real estate tax millage assessed for public safety - fire protection.

Refuse Fund: The refuse fund has restricted funds of \$171,782, consisting primarily of unspent dwelling unit charges for public works - sanitation.

Capital Projects Fund: The capital projects fund has assigned funds of \$76,117, consisting primarily of transfers from the general fund to be used for future capital purchases.

Nonmajor Governmental Funds

Ambulance Fund: The ambulance fund has restricted funds of \$2,043, consisting primarily of unspent real estate tax millage assessed for public safety - emergency medical services.

Sewage Management Fund: The sewage management fund has restricted funds of \$91,818, consisting primarily of unspent sewage management program fees for public safety - other.

Liquid Fuels Fund: The liquid fuels fund has restricted funds of \$121,559 consisting primarily of unspent state highways and streets funds for public works - highways and streets.

Storm Water Fund: The storm water fund has restricted funds of \$55,892, consisting primarily of unspent developer highways and streets storm water fees for public works - highways and streets.

Debt Service: The debt service fund has restricted funds of \$64,328, consisting primarily of unspent real estate tax millage assessed for debt service payments.

TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 - SOUTHERN BERKS REGIONAL MEDICAL SERVICES - COMMITMENTS

The Township entered into an agreement with Southern Berks Regional Medical Services (SBREMS) to provide emergency medical services and transportation services for all residences of the Township as if all residents of Cumru were members of SBREMS; the contract would automatically renew for another year if neither party objected. This agreement was reached for the period of January 1, 2018 through June 30, 2018 in which the Township agreed to pay SBREMS \$75,000. The agreement was extended through December 31, 2018, with the Township paying an additional \$75,000. A new agreement was reached for the period January 1, 2019 through December 31, 2019 at an annual fee of \$180,000. In order to properly fund this service, the Township has levied .22 mills on each dollar of assessed value in the 2018 calendar year. This tax levy was increased to .25 mills for the 2019 calendar year.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Various claims and lawsuits are pending against the Township. In the opinion of the Township management and solicitor, the outcome of these claims and lawsuits will not have a material adverse effect on the accompanying financial statements.

A Sewer Agreement with the City of Reading is still pending. Township management estimates that their liability relating to the 2019 year will be approximately \$3,283,682 once the new agreement is signed.

Subsequent to year end, the Township entered into a contract for \$628,674 for road work. The commitment will be paid with funds held in the liquid fuels fund and general fund.

NOTE 13 - INTERMUNICIPAL AGREEMENTS

During 2012, the Township entered into interest-free promissory notes with the County of Berks, Pennsylvania, for public safety system hardware and accessory hardware on behalf of Cumru Township Police Department, Southern Berks Regional EMS, and Cumru Township Fire Department. Annual payments of \$53,409 will be made beginning June 1, 2013, through 2019. The annual payments consist of \$26,945 for Cumru Township Police Department hardware, \$3,843 for Southern Berks Regional EMS hardware, and \$22,621 for Cumru Township Fire Department hardware.

The future payments are as follows at December 31:

2019	\$	53,409
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TOWNSHIP OF CUMRU

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

NOTE 14 - 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 areas for which the Township retains risk of loss. There were no reductions in insurance coverages for the 2018 year and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF CUMRU

COMBINING BALANCE SHEET - MODIFIED CASH BASIS -
NONMAJOR GOVERNMENTAL FUNDS

December 31, 2018

	Ambulance	Sewage Management	Liquid Fuels	Storm Water	Debt Service	Totals
ASSETS						
Cash and investments	\$ 2,043	\$ 91,818	\$ 121,559	\$ 55,892	\$ 64,328	\$ 335,640
Restricted escrow deposits	-	-	-	1,200	-	1,200
TOTAL ASSETS	<u>\$ 2,043</u>	<u>\$ 91,818</u>	<u>\$ 121,559</u>	<u>\$ 57,092</u>	<u>\$ 64,328</u>	<u>\$ 336,840</u>
LIABILITIES						
Funds held in escrow	\$ -	\$ -	\$ -	\$ 1,200	\$ -	\$ 1,200
FUND BALANCES						
Restricted for:						
Public safety	2,043	91,818	-	-	-	93,861
Public works - highways and streets	-	-	121,559	55,892	-	177,451
Debt service	-	-	-	-	64,328	64,328
TOTAL FUND BALANCES	<u>2,043</u>	<u>91,818</u>	<u>121,559</u>	<u>55,892</u>	<u>64,328</u>	<u>335,640</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,043</u>	<u>\$ 91,818</u>	<u>\$ 121,559</u>	<u>\$ 57,092</u>	<u>\$ 64,328</u>	<u>\$ 336,840</u>

TOWNSHIP OF CUMRU

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2018

	Ambulance	Sewage Management	Liquid Fuels	Storm Water	Debt Service	Totals
REVENUES						
Real estate taxes	\$ 190,344	\$ -	\$ -	\$ -	\$ 290,018	\$ 480,362
Interest and rent	816	1,517	5,954	1,045	2,292	11,624
Intergovernmental	-	-	529,738	-	-	529,738
Charges for services	-	22,148	-	12,470	-	34,618
Special assessments	-	75,321	-	-	-	75,321
TOTAL REVENUES	191,160	98,986	535,692	13,515	292,310	1,131,663
EXPENDITURES						
Public safety - fire, ambulance, and rescue	186,547	-	-	-	-	186,547
Public safety - other (planning, zoning, etc.)	-	47,072	-	-	-	47,072
Public works - highways and streets	-	-	534,618	5,288	-	539,906
Debt service - principal	-	-	-	-	250,000	250,000
Debt service - interest, agent fees	-	-	-	-	40,785	40,785
Employer paid benefits, other	5,000	-	-	-	-	5,000
TOTAL EXPENDITURES	191,547	47,072	534,618	5,288	290,785	1,069,310
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(387)	51,914	1,074	8,227	1,525	62,353
FUND BALANCES - BEGINNING OF YEAR	2,430	39,904	120,485	47,665	62,803	273,287
FUND BALANCES - END OF YEAR	\$ 2,043	\$ 91,818	\$ 121,559	\$ 55,892	\$ 64,328	\$ 335,640

TOWNSHIP OF CUMRU

**COMBINING STATEMENT OF NET POSITION - MODIFIED CASH BASIS -
FIDUCIARY FUNDS**

December 31, 2018

	Police Pension Fund	Nonuniformed Pension Fund	Total Pension Trust Funds
ASSETS			
Cash and cash equivalents	\$ 1,176,335	\$ -	\$ 1,176,335
Investments	11,215,420	2,413,701	13,629,121
	<u>12,391,755</u>	<u>2,413,701</u>	<u>14,805,456</u>
TOTAL ASSETS			
	<u>12,391,755</u>	<u>2,413,701</u>	<u>14,805,456</u>
NET POSITION			
Net position held in trust for pension benefits	<u>\$ 12,391,755</u>	<u>\$ 2,413,701</u>	<u>\$ 14,805,456</u>

TOWNSHIP OF CUMRU

**COMBINING STATEMENT OF CHANGES IN NET POSITION -
MODIFIED CASH BASIS - FIDUCIARY FUNDS**

For the Year Ended December 31, 2018

	Police Pension Fund	Nonuniformed Pension Fund	Total Pension Trust Funds
ADDITIONS			
Contributions:			
Township and Commonwealth	\$ 659,944	\$ 131,163	\$ 791,107
Employee	83,421	60,570	143,991
Other	300	100	400
Investment income:			
Interest and dividends	234,678	-	234,678
Investment loss	(779,005)	(180,058)	(959,063)
TOTAL ADDITIONS	199,338	11,775	211,113
DEDUCTIONS			
Benefit payments, including tax withheld	631,883	184,722	816,605
Administrative expenses	117,572	28,090	145,662
TOTAL DEDUCTIONS	749,455	212,812	962,267
CHANGE IN NET POSITION	(550,117)	(201,037)	(751,154)
TOTAL NET POSITION - BEGINNING OF YEAR	12,941,872	2,614,738	15,556,610
TOTAL NET POSITION - END OF YEAR	\$ 12,391,755	\$ 2,413,701	\$ 14,805,456

OTHER INFORMATION

TOWNSHIP OF CUMRU

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - MODIFIED CASH BASIS

(UNAUDITED)

For the Year Ended December 31, 2018

	*		
	Budget	Actual	Variance
REVENUES			
Real estate taxes	\$ 4,093,260	\$ 4,020,119	\$ (73,141)
Earned income taxes	2,600,000	2,512,391	(87,609)
Other taxes	630,000	639,109	9,109
Licenses, permits, and fines	201,900	213,405	11,505
Interest and rent	210,304	256,843	46,539
Intergovernmental	343,336	307,597	(35,739)
Charges for services	616,005	658,586	42,581
Other	-	57,093	57,093
TOTAL REVENUES	8,694,805	8,665,143	(29,662)
EXPENDITURES			
Current:			
General government	1,204,766	1,024,502	180,264
Public safety:			
Police	4,255,616	4,029,639	225,977
Fire, ambulance, and rescue	16,314	10,664	5,650
Other (planning, zoning, etc.)	102,399	73,076	29,323
Public works - highways and streets	1,966,578	1,760,135	206,443
Culture and recreation	125,229	106,740	18,489
Employer paid benefits and insurance	717,113	759,232	(42,119)
TOTAL EXPENDITURES	8,388,015	7,763,988	624,027
EXCESS OF REVENUES OVER EXPENDITURES	306,790	901,155	594,365
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	15,000	-	(15,000)
Transfers in (out)	(1,134,880)	(1,703,373)	(568,493)
TOTAL OTHER FINANCING SOURCES (USES)	(1,119,880)	(1,703,373)	(583,493)
NET CHANGE IN FUND BALANCE	\$ (813,090)	(802,218)	\$ 10,872
FUND BALANCE - BEGINNING OR YEAR		5,668,222	
FUND BALANCE - END OF YEAR		\$ 4,866,004	

* Original and Final Budget are the same.

TOWNSHIP OF CUMRU

**POLICE AND NONUNIFORMED PENSION PLANS
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
(In Accordance with Act 205)**

(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION PLAN						
01/01/17	\$ 11,098,005	\$ 14,611,949	\$ 3,513,944	76.0%	\$ 1,823,506	192.7%
01/01/15	10,868,161	13,366,992	2,498,831	81.3%	1,980,863	126.1%
01/01/13	8,540,541	12,320,381	3,779,840	69.3%	1,802,275	209.7%
NONUNIFORMED PENSION PLAN						
01/01/17	\$ 1,828,283	\$ 2,413,085	\$ 584,802	75.8%	\$ 1,302,380	44.9%
01/01/15	2,079,987	2,327,788	247,801	89.4%	1,340,350	18.5%
01/01/13	1,980,773	2,120,176	139,403	93.4%	1,493,776	9.3%

SCHEDULES OF EMPLOYER CONTRIBUTIONS**

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION PLAN		
2018	\$ 659,944	100%
2017	643,819	100%
2016	790,626	100%
2015	765,106	100%
2014	529,028	100%
2013	579,388	100%
NONUNIFORMED PENSION PLAN		
2018	\$ 2,762	100%
2017	1,993	100%
2016	-	N/A
2015	-	N/A
2014	-	N/A
2013	173,948	100% *

* Effective December 31, 2012, the Township elected to cease benefit accruals in this plan and provide 100% vesting for all plan participants. Effective January 1, 2013, the plan became a single-employer cash balance pension plan.

** Schedules prepared in accordance with actuarial valuations performed under PA Act 205. These valuations are utilized to determine funding requirements for the plans.

TOWNSHIP OF CUMRU

**POLICE AND NONUNIFORMED PENSION PLANS
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS
(In Accordance with GASB 68)**

(UNAUDITED)

<u>Measurement Date</u>	<u>Plan Fiduciary Net Position (a)</u>	<u>Total Pension Liability (TPL)(b)</u>	<u>Net Pension (NPL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>NPL as a Percentage of Covered Payroll ((b-a)/c)</u>
POLICE PENSION PLAN						
12/31/17	\$ 12,944,772	\$ 15,457,940	\$ 2,513,168	83.7%	\$ 2,091,188	120.2%
12/31/16	11,098,005	14,490,664	3,392,659	76.6%	1,823,506	186.1%
12/31/15	10,491,138	13,662,163	3,171,025	76.8%	1,879,853	168.7%
NONUNIFORMED PENSION PLAN						
12/31/17	\$ 1,958,506	\$ 2,439,804	\$ 481,298	80.3%	\$ 1,317,091	36.5%
12/31/16	1,828,283	2,372,135	543,852	77.1%	1,302,380	41.8%
12/31/15	1,886,199	2,349,424	463,225	80.3%	1,452,925	31.9%

Note: In 2016, the interest rate assumption was lowered from 8.0% to 7.5% per annum for the Nonuniformed Pension Plan.

Schedules prepared in accordance with actuarial valuations performed in accordance with GASB 68. GASB 68 requires the liability of employers contributing to employees defined benefit pensions to be measured on the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to the employees past period of service, less the cost of the plan's fiduciary net position.

TOWNSHIP OF CUMRU

**OTHER POSTEMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS**

(UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/18	\$ -	\$ 1,444,385	\$ 1,444,385	0.0%	\$ 2,330,773	62.0%
01/01/16	-	1,098,375	1,098,375	0.0%	2,152,875	51.0%
01/01/13	-	1,113,550	1,113,550	0.0%	1,990,118	56.0%

The 1/1/18 actuarial valuation was performed under GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaced the requirements for GASB 45. This statement established new standards for measuring the other postemployment benefits liabilities which resulted in changes to the actuarial valuation assumptions.