

**LOWER SOUTHAMPTON TOWNSHIP**  
**BUCKS COUNTY, PENNSYLVANIA**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2021**

LOWER SOUTHAMPTON TOWNSHIP  
YEAR ENDED DECEMBER 31, 2021

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# Zelenkofske Axelrod LLC

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## INDEPENDENT AUDITOR'S REPORT

Township Supervisors  
Lower Southampton Township  
Bucks, Pennsylvania

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

#### **Opinion**

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 LOWER SOUTHAMPTON TOWNSHIP (the "Township") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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 Township, as of December 31, 2021, 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.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

The Township's 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; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for one year after the date the financial statements were issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.



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Page 2

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Adoption of GASB Statements**

As described in Note 1 to the financial statements, in 2021 the township adopted the provisions of Government Accounting Standards Board issued Statements No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period", Statement No. 91, "Conduit Debt Obligations", Statement No. 92, "Omnibus 2020", Statement No. 93, "Replacement of Interbank Offered Rates" (regarding LIBOR), and Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32". Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of employer contributions, schedule of investment returns, schedule of changes in the Total OPEB liability and related ratios, schedule of contributions OPEB, and budgetary comparison information on pages 3 through 13 and 54 through 58 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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's basic financial statements. The combining nonmajor fund financial statements on pages 60 and 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining 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. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Zelenkofske Axlerod LLC*

ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania  
December 20, 2022

**TOWNSHIP OF LOWER SOUTHAMPTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2021**

Our discussion and analysis of the Township of Lower Southampton's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2021. Please read it in conjunction with the Township's financial statements, which begin on page 14.

**FINANCIAL HIGHLIGHTS**

**Highlights for Government-wide Financial Statements (Full Accrual)**

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

- The total net position (assets, plus deferred outflows, less liabilities, and less deferred inflows) on a government-wide basis were \$26.4 million at December 31, 2021, an increase of \$1.7 million from 2020.
- Total revenues of the Township's governmental activities amounted to \$17.2 million and expenses equaled \$15.8 million in 2021. This compares to 2020 activity of \$15.7 million for revenues and expenses of \$15.2 million.
- Total revenues of the Township's business-type activities for 2021 were \$6.3 million and expenses were \$6.0 million. 2020 revenues equaled \$5.9 million and expenses of \$6.5 million.

**Highlights for Fund Financial Statements (Modified Accrual)**

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

- At December 31, 2021, the Township's total governmental funds reported fund balance of \$14.0 million, a decrease of \$0.3 million in comparison with the prior year.
- The Township's General Fund reported an unassigned fund balance of \$3.2 million, an increase of \$0.03 million from December 31, 2020.

**General Financial Highlights**

- The Board in 2021 did not increase the millage for Real Estate Taxes, which remained at 14.08 mills. There was a slight increase for the Sewer Fund during the second quarter of 2021 compared to 2020. The Sanitation, fee was \$300 for 2021, the same as 2020. Taxable assessment for the Township was \$218,711,230 (1/1/21 per County) with the value of one mill being \$218,711.

## **USING THIS ANNUAL REPORT**

This annual report consists of two kinds of basic financial statements, each with a different view of the Township's finances. The Statement of Net Position and the Statement of Activities (on pages 14 and 15) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 16. For governmental funds, the statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant funds. The remaining statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains budget to actual schedules and data pertaining to the pension and OPEB plans. In addition to these required elements, the Township includes other supplementary information with combining statements to provide details about the governmental funds.

### **Reporting the Township as a Whole**

Our analysis of the Township as a whole begins on page 6. One of the most important questions asked about the Township's finance is: "Is the Township as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about Lower Southampton Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net position and changes in them. You can think of the Township's net position - the difference between assets and liabilities - as one way to measure the Township's financial health, or financial position. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as the changes in the Township's property tax base and the condition of the Township's capital assets, to assess the overall health of the Township.

In the Statement of Net Position and the Statement of Activities, we divide the Township into two kinds of activities:

- **Governmental activities** - Most of the Township's basic services are reported here, including administrative, code and planning, police and emergency services, public works, sanitation, and parks and recreation. Business privilege and mercantile, earned income taxes, property taxes, franchise fees, business taxes, user fees, and state and federal grants finance most of these activities.
- **Business-type activities** - The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. Currently the Township is classifying its sewer services in this way.

## Reporting the Township's Most Significant Funds

Our analysis of Lower Southampton's funds begins on page 9. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements begin on page 16 and provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by State law. However, the Township Board of Supervisors establishes many other funds to help it control and manage money for particular purposes (like the General Obligation Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the PA Department of Transportation). The Township's two kinds of funds - governmental and enterprise - use different accounting approaches.

- **Governmental Funds** – Most of the Township's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliations on page 17 and 19.
- **Enterprise Funds** – When the Township charges customers for the services it provides, whether to outside customers or the other units of the Township, these services are generally reported in enterprise funds. Enterprise funds are reported in the same way that all activities are reported in the Statement Net Position and the Statement of Activities. In fact the Township's only enterprise fund - the Sewer Fund - is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for sewer operation.
- **Fiduciary Funds** – The Township is a fiduciary, or trustee, for various funds. These include our police pension fund and agency funds. The assets reported in these funds can only be used for the trust beneficiaries. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 24 and 25. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## Infrastructure Assets

GASB 34 requires that infrastructure assets be valued and reported within the governmental column of the government-wide statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The Township has chosen to depreciate their assets over their estimated useful life.

## THE TOWNSHIP AS A WHOLE

The following table reflects the condensed statement of net position:

**Table 1**  
Statement of Net Position  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Capital Assets	\$ 15,992	\$ 16,186	\$ 2,681	\$ 2,681	\$ 18,673	\$ 18,867
Other Assets	15,094	15,105	5,581	5,287	20,675	20,392
Total Assets	\$ 31,086	\$ 31,291	\$ 8,262	\$ 7,968	\$ 39,348	\$ 39,259
Pensions	\$ 549	\$ 495	\$ -	\$ -	\$ 549	\$ 495
Other Post Employment Benefits	273	111	-	-	273	111
Deferred Amount of Refunding	84	167	-	-	84	167
Total Deferred Outflows of Resources	\$ 906	\$ 773	\$ -	\$ -	\$ 906	\$ 773
Current Liabilities	\$ 902	\$ 619	\$ 5	\$ 11	\$ 907	\$ 630
Long Term Liabilities	11,833	14,359	113	113	11,946	14,472
Total Liabilities	12,735	14,978	118	124	12,853	15,102
Other Post Employment Benefits	30	35				
Pensions	1,035	275	-	-	1,035	275
Total Deferred Inflows of Resources	1,065	310	-	-	1,065	310
Net Position:						
Net Investment in Capital Assets	13,788	16,186	2,681	2,681	16,469	18,867
Restricted	1,184	6,453	-	-	1,184	6,453
Unrestricted	3,220	(5,863)	5,463	5,163	8,683	(700)
Total Net Position	\$ 18,192	\$ 16,776	\$ 8,144	\$ 7,844	\$ 26,336	\$ 24,620

For more detailed information see the Statement of Net Position (page 14)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, total assets and deferred outflows of resources exceeded total liabilities by \$26.3 million at year-end 2021. The largest portion of the Township's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure and equipment), less the outstanding debt to acquire these assets. The restricted net position portion represents resources that are subject to external restrictions on how they may be used. The unrestricted net position for governmental activities is the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

In comparing the Statement of Net Position to 2021, there was an increase in Total Net Position of approximately \$1.7 million or 6.97%. Governmental Activities Net Position increased by \$1.4 million and business activities increased by \$0.3 million. The Township has been building the sewer fund balance, which is a business-type activity, to fund future capital needs of the sewer and wastewater treatment facilities.



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

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Program Revenues						
Charges for Services	\$ 3,189	\$ 3,280	\$ 6,320	\$ 5,928	\$ 9,509	\$ 9,208
Operating Grants & Contrib.	2,176	1,311	-	-	2,176	1,311
Capital Grants & Contrib.	53	485	-	-	53	485
General Revenues						
Real Estate Taxes	3,911	3,677	-	-	3,911	3,677
Other Taxes	7,603	6,532	-	-	7,603	6,532
Gain (Loss) on Asset Disposal	-	61	-	-	-	61
Investment Income	123	171	2	4	125	175
Other General Revenues	146	175	-	-	146	175
Total Revenues	<u>17,201</u>	<u>15,692</u>	<u>6,322</u>	<u>5,932</u>	<u>23,523</u>	<u>21,624</u>
Expenses						
Administrative	1,497	1,688	-	-	1,497	1,688
Public Safety	8,733	8,194	-	-	8,733	8,194
Sanitation	1,769	2,092	-	-	1,769	2,092
Public Works	2,377	1,924	-	-	2,377	1,924
Sewer	-	-	6,022	6,459	6,022	6,459
Culture & Recreation	1,208	1,058	-	-	1,208	1,058
Interest Expense	201	237	-	-	201	237
Total Expenses	<u>15,785</u>	<u>15,193</u>	<u>6,022</u>	<u>6,459</u>	<u>21,807</u>	<u>21,652</u>
Change in Net Position	1,416	499	300	(527)	1,716	(28)
Net Position, Beg. of Year, Restated	<u>16,776</u>	<u>16,277</u>	<u>7,844</u>	<u>8,371</u>	<u>24,620</u>	<u>24,648</u>
Net Position, End of Year	<u>\$ 18,192</u>	<u>\$ 16,776</u>	<u>\$ 8,144</u>	<u>\$ 7,844</u>	<u>\$ 26,336</u>	<u>\$ 24,620</u>

For more detailed information see the Statement of Activities (page 15)

The following schedule presents the cost of each functional category as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid):

Table 3  
Governmental Activities/Business-type Activities  
(in thousands)

	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
Governmental Activities				
Administrative	\$ 1,497	\$ 1,688	(378)	(1,203)
Public Safety	8,733	8,194	(7,151)	(6,585)
Sanitation	1,769	2,092	141	(280)
Public Works	2,377	1,924	(1,778)	(850)
Culture & Recreation	1,208	1,058	(1,000)	(962)
Interest Expense	201	237	(201)	(237)
Total Governmental Act	<u>15,785</u>	<u>15,193</u>	<u>(10,367)</u>	<u>(10,117)</u>
Total Sewer-Business	<u>\$ 6,022</u>	<u>\$ 6,459</u>	<u>\$ 299</u>	<u>\$ (531)</u>

Total Governmental Activities shows an increase in net costs of approximately \$0.25 million over 2020. This is due to decreases in overall program revenues and increases in certain program expenses. The decreases in program revenues were Charges for Services (\$91 thousand) and Capital Grants and Contributions (\$432 thousand). The increases in program expenses were related to Public Safety (\$539 thousand), Public Works (\$453 thousand) and Culture and Recreation (\$150 thousand). A portion of the costs of governmental activities were paid (charges for services) by those who directly benefited from the programs (\$3.2 million).

Business-Type Activities change in net position increased by \$827 thousand over 2020 primarily due to an increase in revenue of \$390 thousand and a decrease in expenses of \$437 thousand.

### Normal Impacts

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

#### Revenues:

**Economic Condition** - Reflect a declining, stable, or growing economic environment and has a substantial impact on property, business, mercantile or other tax revenue, as well as public spending habits for building permits and elective user fees.

**Increase/Decrease in Township Approved Rates** - While certain tax rates are set by statute, the Township Board of Supervisors has significant authority to impose and periodically increase/decrease rates (real estate tax millage, sewer fees, building fees, user fees, etc.).

**Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)** - Certain recurring revenues (state-shared revenues, block grant etc.) may experience significant changes periodically, while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

**Market Impacts on Investment Income** - The Township's investment portfolio is managed using a longer average maturity on capital funds. Market conditions cause investment income to fluctuate with the economic conditions.

## Expenditures:

**Introduction of New Programs** - Within the functional expense categories (Public Safety, Public Works, etc.), individual programs may be added or deleted to meet changing community needs.

**Increase in Authorized Personnel** - Changes in service demand may cause the Township Board of Supervisors to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent over 50% of the Township's program expenses.

**Salary Increases (annual adjustments and merit)** - The ability to attract and retain human resources requires Lower Southampton Township to strive to approach a competitive salary and range position in the marketplace.

**Inflation** - While overall inflation appears to be reasonably modest, the Township may experience unusual commodity-specific increases. The increases in oil prices affect cost of fuel as well as paving materials.

## Current Year Impacts

### Governmental Funds

Revenues for the Township's governmental funds were \$17.2 million in 2021. Sources of revenue were comprised of the following items:

**Table 4**  
Governmental Funds - Revenues by Source  
For the Years Ended December 31  
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Taxes	\$11,513	\$10,208	\$ 1,305
Licenses and Permits	625	906	(281)
Fines and Forfeitures	63	60	3
Interest and Rents	124	171	(47)
Intergovernmental	2,229	1,796	433
Charges for Services	2,501	2,287	214
Miscellaneous	146	175	(29)
Total Revenues	<u>\$17,201</u>	<u>\$15,603</u>	<u>\$ 1,598</u>

Overall revenues increased compared to 2020 by \$1.6 million. Taxes comprised the largest source of Township revenues (67%), amounting to \$11.5 million for 2021. The Board of Supervisors has worked to decrease reliance upon our tax ratable base (approximately \$218 million), and instead have focused on income tax and on charging reasonable fees to users of Township-provided services. The area of charges for service and licenses and permits represents 18% of total revenues in 2021.

The cost of all governmental funds this year was \$17.5 million, up approximately \$1.2 million from 2020. As the chart below indicates, Public Safety (police and emergency service) is the largest program and their expenses totaled \$9.0 million. The second largest program expense is Sanitation totaling \$1.8 million.

**Table 5**  
Governmental Funds - Expenditures by Function  
For the Years Ended December 31  
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Current:			
General Government	\$ 1,392	\$ 1,430	\$ (38)
Public Safety	8,975	8,271	704
Sanitation	1,769	2,122	(353)
Public Works	1,612	1,164	448
Culture and Recreation	983	793	190
Debt Service:			
Principal	1,292	1,358	(66)
Interest	201	237	(36)
Capital Outlay	1,245	870	375
Total Expenditures	<u>\$17,469</u>	<u>\$16,245</u>	<u>\$ 1,224</u>

The total expenditures of all governmental fund programs and services increased by just under 6% from 2020. The increases in Public Safety, Public Works, Culture and Recreation and Capital Outlay were partially offset by decreases in governmental funds' expenditures for General Government, Sanitation and Debt Service.

### Enterprise Fund

Total operating revenues of the Sewer Fund were \$6.3 million as compared to total operating expenses of \$6.0 million. The Sewer Fund recovers its costs primarily through user charges and connection fees. Rates are based on a flat rate for residential and a flat rate plus usage formula for commercial. The user charges are set to accommodate projection for capital improvement charges by Philadelphia Water Department. For the Sewer Fund, total operating expenses decreased by 6.8% due to a decrease in operational costs for 2021.

**Table 6**  
Enterprise Fund Revenues and Expenses  
For the Years Ending December 31  
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Operating Revenues:			
Sewer Sales	\$ 6,285	\$ 5,887	\$ 398
Other Revenues	36	41	(5)
Total Operating Revenues	<u>6,321</u>	<u>5,928</u>	393
Operating Expenses:			
Sewer Operations	5,179	5,617	(438)
General and Administrative	615	614	1
Depreciation	228	228	-
Total Operating Expenses	<u>6,022</u>	<u>6,459</u>	(437)
Operating Income/(Loss)	299	(531)	830
Nonoperating Revenues (Expenses):			
Interest Income	2	4	(2)
Total Net Nonoperating Revenues (Expenses)	<u>2</u>	<u>4</u>	(2)
Changes in Net Position	<u>\$ 301</u>	<u>\$ (527)</u>	<u>\$ 828</u>

## THE TOWNSHIP'S FUNDS

As the Township completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$14.0 million. Of this \$14.0 million, \$6.1 million is restricted for items such as Street Light, Fire Protection, Rescue Squad, Highway Aid, Debt Service, and Capital Projects and \$4.7 million is assigned to indicate that it is not available for new spending because it has already been assigned to items such as Library, Hydrant, Operating Reserve, Sanitation, Township Beautification, and Other Capital Projects. Approximately 23% (\$3.2 million) of the total fund balance represents the unassigned fund balance, or resources available for appropriation.

The net decrease in fund balance for all governmental funds was \$0.3 million.

### General Fund Budgetary Highlights

In total, General Fund revenues ended the year over budget by \$1.9 million. The over budget condition was mainly the result of a significant variance in Charges for Services which were over \$1 million in excess of budget, Intergovernmental Revenues were in excess of budget \$0.6 million and tax revenues which were \$0.57 million over budget.

Expenditure variances occurred due to the Township incurring fewer expenses than the adopted budget for 2021 in all areas.

### Capital Assets

At the end of 2021, on a government-wide basis, the Township had \$18.6 million invested in a broad range of capital assets net of accumulated depreciation, including police equipment, buildings, park facilities, roads, bridges, sewer lines, and pumping stations (See Table 7). This amount represents a net decrease (including additions and deletions) of \$245 thousand.

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in Note 4.

**Table 7**  
Change in Capital Assets  
(in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 5,221	\$ -	\$ -	\$ 5,221
Intangibles	5	-	-	5
Total Non-Depreciable Capital Assets	5,226	-	-	5,226
Depreciable Capital Assets:				
Infrastructure	25,977	777	-	26,754
Library Books	692	73	(39)	726
Buildings and Improvements	6,411	114	-	6,525
Machinery and Equipment	5,619	282	-	5,901
Accumulated Depreciation	(27,740)	(1,439)	39	(29,140)
Total Depreciable Capital Assets, Net	10,959	(193)	-	10,766
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 16,185</u>	<u>\$ (193)</u>	<u>\$ -</u>	<u>\$ 15,992</u>
Business-type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 21	\$ -	\$ -	\$ 21
Depreciable Capital Assets:				
Infrastructure	5,909	137	-	6,046
Buildings and Improvements	707	5	-	712
Machinery and Equipment	1,595	74	-	1,669
Accumulated Depreciation	(5,551)	(237)	-	(5,788)
Total Depreciable Capital Assets, Net	2,660	(21)	-	2,639
Total Business Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,681</u>	<u>\$ (21)</u>	<u>\$ -</u>	<u>\$ 2,660</u>

### Debt

The borrowing limit of the Township under the Debt Act is computed as a percentage of the Township's "Borrowing Base." The "Borrowing Base" is calculated as the annual arithmetic average of total "Revenue" (as defined by the Debt Act) for the three full fiscal years ended next preceding the date of incurring debt. The Township's remaining non-electoral debt borrowing capacity is well under percentages allowed. At year-end, the Township had \$6.3 million in bonds and notes outstanding versus \$7.6 million last year.

The following is a summary of the Township's outstanding long-term debt for the year ended December 31, 2021 which is presented in detail in the notes to financial statements as Note 7.

**Table 8**  
Change in Debt  
(in thousands)

Issue	Original Amount	Interest Rate	Final Maturity	Beginning Balance	Additions	Retirements	Ending Balance	
2010	\$ 13,355	2% to 2.75%	2022	\$ 2,560	\$ -	\$ (1,265)	\$ 1,295	
2015	799	1.50%	2021	21	-	(21)	-	
2018	4,975	2.15% to 3%	2026	4,970	-	(5)	4,965	
				<u>\$ 7,551</u>	<u>\$ -</u>	<u>\$ (1,291)</u>	<u>\$ 6,260</u>	
				Governmental Activities	\$ 7,551	\$ -	\$ (1,291)	\$ 6,260
				Business-type Activities	-	-	-	-
				Total Primary Government	<u>\$ 7,551</u>	<u>\$ -</u>	<u>\$ (1,291)</u>	<u>\$ 6,260</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The elected officials of Lower Southampton Township considered many factors when setting the calendar-year 2021 budget, tax rates, and fees. One of those factors was the economy. Unemployment in Bucks County is typically below that of the state. In December 2021, the unemployment rate (3.6%) was almost 35% percent below the state level (5.5%). Overall employment data is not compiled for municipalities, but such data is compiled for the County of Bucks in which the Township is located.

The cost of the collection of sanitation will remain the same for budget year 2021 at \$300 annually.

The Real Estate Millage Rate remained the same for calendar year 2021.

The user fees for business-type activity (sewer rates) for residential and commercial users has a slight increase effective the second quarter of 2021 to cover increased treatment and capital costs of service provider.

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 show the Township's accountability for the money it receives.

## CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact the Finance Office at the Township of Lower Southampton, 1500 Desire Avenue, Feasterville, PA 19053.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF NET POSITION  
YEAR ENDED DECEMBER 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 12,125,445	\$ 4,384,645	\$ 16,510,090
Receivables:			
Accounts	63,277	1,466,099	1,529,376
Taxes	1,835,520	-	1,835,520
Due From Other Governments	661,793	-	661,793
Internal Balances	269,531	(269,531)	-
Prepays	105,575	-	105,575
Restricted:			
Investments	33,193	-	33,193
Capital Assets Not Being Depreciated	5,226,098	20,828	5,246,926
Capital Assets Net of Accumulated Depreciation	10,765,844	2,659,780	13,425,624
<b>Total Assets</b>	<b>31,086,276</b>	<b>8,261,821</b>	<b>39,348,097</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	548,938	-	548,938
Other Post Employment Benefits	273,206	-	273,206
Deferred Amount of Refunding	83,671	-	83,671
<b>Total Deferred Outflows of Resources</b>	<b>905,815</b>	<b>-</b>	<b>905,815</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>31,992,091</b>	<b>8,261,821</b>	<b>40,253,912</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	380,329	4,966	385,295
Unearned Revenue	351,227	-	351,227
Deposits Held in Escrow	157,745	-	157,745
Other Liabilities	13,678	-	13,678
Long-Term Liabilities:			
Due Within One Year	1,368,692	-	1,368,692
Due After One Year	10,463,571	112,777	10,576,348
<b>Total Liabilities</b>	<b>12,735,242</b>	<b>117,743</b>	<b>12,852,985</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Other Post Employment Benefits	30,517	-	30,517
Pensions	1,034,571	-	1,034,571
<b>Total Deferred Inflows of Resources</b>	<b>1,065,088</b>	<b>-</b>	<b>1,065,088</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	13,788,598	2,680,608	16,469,206
Restricted for:			
Debt Service	25,130	-	25,130
Program Purposes	1,159,100	-	1,159,100
Unrestricted	3,218,933	5,463,470	8,682,403
<b>Total Net Position</b>	<b>\$ 18,191,761</b>	<b>\$ 8,144,078</b>	<b>\$ 26,335,839</b>

The accompanying notes are an integral part of the financial statements.



LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government - Administration	\$ 1,496,802	\$ 421,619	\$ 696,783	\$ -	\$ (378,400)	\$ -	\$ (378,400)
Public Safety	8,732,817	714,206	868,184	-	(7,150,427)	-	(7,150,427)
Sanitation	1,768,993	1,910,307	-	-	141,314	-	141,314
Public Works	2,377,340	201	545,699	52,868	(1,778,572)	-	(1,778,572)
Culture and Recreation	1,207,639	142,606	65,593	-	(999,440)	-	(999,440)
Interest Expense	201,529	-	-	-	(201,529)	-	(201,529)
Total Governmental Activities	15,785,120	3,188,939	2,176,259	52,868	(10,367,054)	-	(10,367,054)
Business-Type Activities:							
Sewer Operations	6,021,587	6,320,554	-	-	-	298,967	298,967
Total Primary Government	\$ 21,806,707	\$ 9,509,493	\$ 2,176,259	\$ 52,868	\$ (10,367,054)	\$ 298,967	\$ (10,068,087)
General Revenues:							
Taxes:							
Real Estate - General Levy					3,141,846	-	3,141,846
Real Estate - Transfer Tax					768,402	-	768,402
Earned Income Tax					6,193,135	-	6,193,135
Business and Mercantile					1,258,458	-	1,258,458
Other					151,294	-	151,294
Gain on Sale of Assets					-	-	-
Investment Earnings and Rents					123,552	1,588	125,140
Miscellaneous					146,234	-	146,234
Total General Revenues					11,782,921	1,588	11,784,509
Change in Net Position					1,415,867	300,555	1,716,422
Net Position - Beginning					16,775,894	7,843,523	24,619,417
Net Position - Ending					\$ 18,191,761	\$ 8,144,078	\$ 26,335,839

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
BALANCE SHEET – GOVERNMENTAL FUNDS  
DECEMBER 31, 2021

	General	General Obligation	Capital Reserve	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 4,194,060	\$ 5,277,397	\$ 1,606,882	\$ 9,351	\$ 1,037,755	\$ 12,125,445
Receivables:						
Accounts	63,277	-	-	-	-	63,277
Taxes	1,693,547	-	-	103,367	38,606	1,835,520
Due From Other Governments	381,205	-	280,588	-	-	661,793
Due From Other Funds	1,533,867	-	-	-	-	1,533,867
Prepays	105,575	-	-	-	-	105,575
Restricted:						
Investments	33,193	-	-	-	-	33,193
<b>Total Assets</b>	<b>\$ 8,004,724</b>	<b>\$ 5,277,397</b>	<b>\$ 1,887,470</b>	<b>\$ 112,718</b>	<b>\$ 1,076,361</b>	<b>\$ 16,358,670</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts Payable and Accrued Expenses	\$ 258,639	\$ 112,830	8,860	\$ -	\$ -	\$ 380,329
Due to Other Funds	-	87,555	1,176,781	-	-	1,264,336
Unearned Revenue	351,227	-	-	-	-	351,227
Other Current Liabilities	13,678	-	-	-	-	13,678
Escrows Payable	157,745	-	-	-	-	157,745
<b>Total Liabilities</b>	<b>781,289</b>	<b>200,385</b>	<b>1,185,641</b>	<b>-</b>	<b>-</b>	<b>2,167,315</b>
<b>Deferred Inflows of Resources:</b>						
Unavailable Revenue - Property Taxes	63,665	-	-	87,588	32,813	184,066
<b>Total Deferred Inflow of Resources</b>	<b>63,665</b>	<b>-</b>	<b>-</b>	<b>87,588</b>	<b>32,813</b>	<b>184,066</b>
<b>Fund Balances:</b>						
<b>Restricted for:</b>						
Street Light	-	-	-	-	138,731	138,731
Fire Protection	-	-	-	-	31,046	31,046
Rescue Squad	-	-	-	-	2,893	2,893
Highway Aid	-	-	-	-	870,878	870,878
Capital Projects	-	5,077,012	-	-	-	5,077,012
Debt Service	-	-	-	25,130	-	25,130
<b>Assigned to:</b>						
Library Reserve	68,120	-	-	-	-	68,120
Library	210,203	-	-	-	-	210,203
Hydrant	5,171	-	-	-	-	5,171
Operating Reserve	1,773,916	-	-	-	-	1,773,916
Sanitation	1,804,709	-	-	-	-	1,804,709
Township Beautification	115,552	-	-	-	-	115,552
Other Capital Projects	-	-	701,829	-	-	701,829
Unassigned	3,182,099	-	-	-	-	3,182,099
<b>Total Fund Balances</b>	<b>7,159,770</b>	<b>5,077,012</b>	<b>701,829</b>	<b>25,130</b>	<b>1,043,548</b>	<b>14,007,289</b>
<b>Total Liabilities, Deferred Inflow of Resources, and Fund Balances</b>	<b>\$ 8,004,724</b>	<b>\$ 5,277,397</b>	<b>\$ 1,887,470</b>	<b>\$ 112,718</b>	<b>\$ 1,076,361</b>	<b>\$ 16,358,670</b>

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF  
NET POSITION  
DECEMBER 31, 2021

Total fund balances for governmental funds \$ 14,007,289

Total net position reported for governmental activities in the statement of net position is different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital Assets Not Being Depreciated	5,226,098
Capital Assets Net of \$29,139,457 Accumulated Depreciation	<u>10,765,844</u>

Total Capital Assets	15,991,942
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Some of the Township's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. 184,066

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position.

Balances at December 31 are:

Liability for Other Postemployment Benefits	(1,632,682)
Capital Leases Payable	(69,010)
Compensated Absences	(845,201)
Unamortized Premium	(106,145)
Bonds Payable	(6,260,000)
Note Payable	-
Net Pension Liability	(2,919,225)
Deferred Outflows of Resources	905,815
Deferred Inflows of Resources	<u>(1,065,088)</u>
	<u>(11,991,536)</u>

Total net position of governmental activities	<u>\$ 18,191,761</u>
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LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	General	General Obligation	Capital Reserve	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 9,573,635	\$ -	\$ -	\$ 1,339,858	\$ 599,642	\$ 11,513,135
Licenses and Permits	624,777	-	-	-	-	624,777
Fines and Forfeitures	63,165	-	-	-	-	63,165
Interest and Rents	117,024	1,276	382	-	4,870	123,552
Intergovernmental	1,232,510	-	333,456	-	663,161	2,229,127
Charges for Services	2,500,997	-	-	-	-	2,500,997
Miscellaneous Income	100,664	-	-	-	45,570	146,234
<b>Total Revenues</b>	<b>14,212,772</b>	<b>1,276</b>	<b>333,838</b>	<b>1,339,858</b>	<b>1,313,243</b>	<b>17,200,987</b>
<b>EXPENDITURES</b>						
Current:						
General Government - Administration	1,390,692	-	-	1,076	-	1,391,768
Public Safety	8,181,220	-	-	-	793,804	8,975,024
Sanitation	1,768,993	-	-	-	-	1,768,993
Public Works	858,701	-	286,205	-	466,650	1,611,556
Culture and Recreation	983,112	-	-	-	-	983,112
Debt Service:						
Principal	21,526	-	-	1,270,000	-	1,291,526
Interest	-	-	393	201,136	-	201,529
Capital Outlay	227,551	87,555	549,046	-	381,205	1,245,357
<b>Total Expenditures</b>	<b>13,431,795</b>	<b>87,555</b>	<b>835,644</b>	<b>1,472,212</b>	<b>1,641,659</b>	<b>17,468,865</b>
Excess of Revenues Over (Under) Expenditures	780,977	(86,279)	(501,806)	(132,354)	(328,416)	(267,878)
Other Financing Sources (Uses)						
Operating Transfer In (Out)	(240,000)	-	-	-	240,000	-
Proceeds from Capital Leases	-	-	-	-	-	-
Proceeds from Sale of Capital Equipment	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(240,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,000</b>	<b>-</b>
Net Change in Fund Balances	540,977	(86,279)	(501,806)	(132,354)	(88,416)	(267,878)
Fund Balances - January 1	6,618,793	5,163,291	1,203,635	157,484	1,131,964	14,275,167
Fund Balances - December 31	\$ 7,159,770	\$ 5,077,012	\$ 701,829	\$ 25,130	\$ 1,043,548	\$ 14,007,289

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021

Net change in fund balances - total governmental funds \$ (267,878)

The change in net position reported for governmental activities in the statement of activities is 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 (\$1,439,348) exceeded capital outlay (\$1,245,357), net of disposals in the current period. (193,991)

Bond and Note proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of note principal and payments for other long-term obligations are expenditures in the governmental funds but reduce the liabilities in the statement of net position.

Principal Repayments on Note and General Obligation Bonds	1,291,526
Principal Repayments on Capital Leases	33,053

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in compensated absences, liability for other postemployment benefits, bond premium, deferred amount on refunding, accrued interest, and pension expense

Compensated Absences	64,103	
Bond Premium	29,681	
Deferred Amount on Bond Refunding	(83,671)	
Deferred Tax Revenue	(26,585)	
OPEB Expense	(38,713)	
Pension Expense	608,342	
	608,342	
		553,157
Change in net position of governmental activities		\$ 1,415,867

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF NET POSITION – ENTERPRISE FUND  
DECEMBER 31, 2021

	Business Type Activities - Enterprise Fund	
	Sewer	Total
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 4,384,645	\$ 4,384,645
Accounts Receivables	1,466,099	1,466,099
Total Current Assets	5,850,744	5,850,744
Noncurrent Assets:		
Capital Assets Not Being Depreciated	20,828	20,828
Capital Assets Net of Accumulated Depreciation	2,659,780	2,659,780
Total Noncurrent Assets	2,680,608	2,680,608
Total Assets	8,531,352	8,531,352
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	4,966	4,966
Due to Other Funds	269,531	269,531
Total Current Liabilities	274,497	274,497
Long-Term Liabilities:		
Compensated Absences	112,777	112,777
Total Noncurrent Liabilities	112,777	112,777
Total Liabilities	387,274	387,274
<u>NET POSITION</u>		
Net Investment in Capital Assets	2,680,608	2,680,608
Unrestricted Net Position	5,463,470	5,463,470
Total Net Position	\$ 8,144,078	\$ 8,144,078

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Total</u>
Operating Revenues		
Sewer Sales	\$ 6,284,529	\$ 6,284,529
Other Revenues	36,025	36,025
Total Operating Revenues	<u>6,320,554</u>	<u>6,320,554</u>
Operating Expenses		
Sewer Operations	5,170,002	5,170,002
General and Administrative	614,498	614,498
Depreciation Expenses	237,087	237,087
Total Operating Expenses	<u>6,021,587</u>	<u>6,021,587</u>
Operating Income	<u>298,967</u>	<u>298,967</u>
Nonoperating Revenues		
Interest Income	1,588	1,588
Total Nonoperating Revenues	<u>1,588</u>	<u>1,588</u>
Changes In Net Position	300,555	300,555
Total Net Position - Beginning of Year	<u>7,843,523</u>	<u>7,843,523</u>
Total Net Position - End of Year	<u>\$ 8,144,078</u>	<u>\$ 8,144,078</u>

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF CASH FLOWS – ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Totals</u>
Cash Flows From Operating Activities		
Receipts from Customers	\$ 6,300,003	\$ 6,300,003
Payments to Employees	(235,190)	(235,190)
Payments to Suppliers	(5,514,394)	(5,514,394)
Net Cash Provided by Operating Activities	<u>550,419</u>	<u>550,419</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	<u>(185,029)</u>	<u>(185,029)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(185,029)</u>	<u>(185,029)</u>
Cash Flows from Investing Activities		
Interest Income	<u>1,588</u>	<u>1,588</u>
Net Cash Provided by Investing Activities	<u>1,588</u>	<u>1,588</u>
Net Decrease in Cash and Cash Equivalents	366,978	366,978
Cash and Cash Equivalents, Beginning of Year	<u>4,017,667</u>	<u>4,017,667</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,384,645</u>	<u>\$ 4,384,645</u>

(Continued)

The accompanying notes are an integral part of the financial statements.



LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Business Type Activities - Enterprise Fund</u>	
	<u>Sewer</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities		
Operating Income	\$ 298,967	\$ 298,967
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation Expense	237,087	237,087
Change in Assets and Liabilities		
Accounts Receivable	(20,551)	(20,551)
Accounts Payable and Accrued Expenses	(6,662)	(6,662)
Due to Other Funds	41,578	41,578
Net Cash Provided by Operating Activities	<u>\$ 550,419</u>	<u>\$ 550,419</u>

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2021

	Police Pension	Custodial Funds	Total Fiduciary Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,738,568	\$ 387,754	\$ 2,126,322
Investments:			
Mutual Funds	22,113,142	-	22,113,142
Total Assets	<u>23,851,710</u>	<u>387,754</u>	<u>24,239,464</u>
<u>LIABILITIES</u>			
Funds Held in Escrow	-	387,754	387,754
Total Liabilities	<u>-</u>	<u>387,754</u>	<u>387,754</u>
<u>NET POSITION</u>			
Net Position Held in Trust for Employees' Pension Benefits	23,851,710	-	23,851,710
Total Net Position	<u>\$ 23,851,710</u>	<u>\$ -</u>	<u>\$ 23,851,710</u>

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Police Pension	Custodial Funds
<u>ADDITIONS</u>		
Contributions:		
Employer - State Funding	\$ 481,722	\$ -
Employer - Other	907,339	-
Member	191,487	-
Total Contributions	1,580,548	-
Investment Income:		
Net Appreciation in Fair Value of Investments	2,579,916	-
Miscellaneous	5,827	9,981
Total Investment Income	2,585,743	9,981
Net Investment Income	2,585,743	9,981
Total Additions	4,166,291	9,981
<u>DEDUCTIONS</u>		
Benefit Payments	1,016,748	-
Administrative Expense	10,035	-
Other	-	9,981
Total Deductions	1,026,783	9,981
Change in Net Position	3,139,508	-
Net Position Held in Trust for Employees' Pension Benefits:		
Beginning of Year	20,712,202	-
End of Year	\$ 23,851,710	\$ -

The accompanying notes are an integral part of the financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lower Southampton Township (the "Township") operates under the Second Class Township Code under the laws of the Commonwealth of Pennsylvania. The operations of the Township are vested in a board of supervisors. The Township provides the following services: general administrative services, public improvements, public safety, culture and recreation and maintenance and repairs of highways and streets programs. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB").

A summary of the Township's significant accounting policies is as follows:

A) Reporting Entity

Consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No. 34*, the criteria used by the Township to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Township reviews the applicability of the following criteria.

The Township is financially accountable for:

- Organizations that make up the legal Township entity.
- Legally separate organizations if Township officials appoint a voting majority of the organization's governing body and the Township is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township as defined below.

*Impose Its Will* — If the Township can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

*Financial Benefit or Burden* — Exists if the Township (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the Township and there is a potential for the organization to provide a specific financial benefits to or impose specific financial burdens on the Township.

Based on the foregoing criteria, management of the Township has determined that no entities should be included in the financial statements of the Township.

B) Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B) Government-Wide and Fund Financial Statements (Continued)

from business-type activities, which rely, to a significant extent, on fees and charges for support.

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

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

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

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

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 collected 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 collectable within 180 days of the end of the current fiscal period with the exception of property taxes which must be received within 60 days of year end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating grants, capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the Township receives cash.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the primary government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The General Obligation Bond Fund is a Capital Projects Fund used to account for General Obligation Bond Proceeds that are restricted or committed for expenditure for capital construction and acquisitions related to capital activity.
- The Capital Reserve Fund is a Capital Projects Fund that accounts for revenue sources that have been assigned for capital purchases.
- The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The Township also has the following non-major funds:

Non-major Special Revenue Funds: The Street Light Fund, Fire Protection Fund, Rescue Squad Fund, and Highway Aid Fund 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.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

The Township's enterprise fund is a proprietary fund. In the fund financial statements, the proprietary fund is presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary fund is presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on their balance sheet. The proprietary fund types operating statement presents increases (revenues) and decreases (expenses) in total net position.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets in the proprietary funds are capitalized as assets in the fund financial statements, rather than reported as an expenditure.

The Township reports the following major proprietary funds:

- The Sewer Fund is used to account for the fiscal activities of the sewer treatment systems.

The Township's fiduciary funds are presented in the fund financial statements by type (pension trust fund and custodial fund). Since, by definition, the assets of these funds are held for the benefit of a third party (individuals, private organizations, and/or other governments) and cannot be used to satisfy obligations of the Township, these funds are not incorporated into the government-wide financial statements. The Township's fiduciary funds are presented on the accrual basis of accounting.

The Township reports the following fiduciary funds:

- The Pension Trust Fund is a component unit of the Township account for the revenue (i.e., member contributions, Township contributions, and net investment income) and the expenses (i.e., contributions refunded, retirement allowances, and death benefits paid) of the Police Pension Trust Fund.
- The Custodial Funds that consist of Escrow Funds maintained with the Township for funds held for sewer and land development and fire.

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Township considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

2. Receivables and Payables

• Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are shown net of an allowance for doubtful accounts.

• Accounts Receivable

Accounts receivable consist of billed sewer charges that have not been collected at December 31. The Township evaluates the collectability of individual receivables and, if necessary, records an allowance for doubtful accounts. The Township's policy is to file a lien against the respective property for delinquent sewer customers; however, the Township is required to provide continuous service to these customers.

• Unbilled Revenue Receivable

The Township bills residential sewer customers on a quarterly basis. Revenue earned for services provided through December 31 but unbilled is recorded in the accompanying financial statements as Accounts Receivable.

3. Investments

Investments for the Township are reported at fair value.

4. Restricted Investments

Certain investments are classified as restricted investments on the balance sheet because they are maintained in separate accounts and their use is limited. These investments primarily relate to developer escrow accounts.

5. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment and infrastructure assets, with initial, individual costs that equal or exceed \$10,000 and estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In accordance with GASB Statement No. 34, the Township's infrastructure has been capitalized retroactively to 1980.



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlay of capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment and infrastructure assets are depreciated using the straight line method over the following intended useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-80
Library Books	10
Buildings and Improvements	30-50
Machinery and Equipment	5-15

6. Compensated Absences

Township policy permits employees to accumulate any earned, but unused sick time. These benefits are payable to employees upon separation of services. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported. The computed liability is in compliance with GASB 16, *Accounting for Compensated Absences*. Vacation carries over on a limited basis and is payable upon separation of service from the Township.

7. Long-Term Obligations

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

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

8. Unearned and Unavailable Revenues

Revenues that are received but not earned are recorded as unearned revenue in the government-wide and enterprise fund financial statements. In the Township's governmental funds, unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable and unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Position or Fund Balances (Continued)

monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Township has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

9. Net Position/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the Township, not restricted for any project or other purpose.

When both restricted and unrestricted funds are available, it is the County's policy to utilize restricted funds first, then unrestricted.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has two items that qualifies for reporting in this category, the deferred amount on refunding and those related to pensions. Deferred loss on refunding is the result of differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions are described further in Note 5. The components of deferred outflows of resources, other than the difference between the projected and actual investment earnings, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all members of the plan beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on plan investments is amortized over a 5 year closed period beginning the year in which the difference occurs (current year).

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Under the modified accrual basis of accounting, the governmental funds report unavailable revenue from property taxes as a deferred inflow of resources.

11. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable*- This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted*- This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed*- This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Township's Board of Supervisors who are the highest level of decision-making authority for the Township. These amounts cannot be used for any other purpose unless the Township's Board of Supervisors removes or changes the specified use by taking the same type of action (ordinance) that was employed when the funds were initially committed.
- *Assigned*- This classification includes amounts that are constrained by the Township's intent to be used for a specific purpose but are neither restricted nor committed. This intent can only be expressed by the Township's Board of Supervisors.
- *Unassigned*- This classification includes all other spendable amounts not included in other classifications.

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 for their intended purposes. The Township has not established a formal policy for its use of unrestricted fund balance amounts. As such, the Township uses Committed fund balances first, followed by Assigned resources, and then Unassigned resources, as appropriate opportunities arise.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

12. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

13. Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

14. Adoption of Governmental Accounting Standards

The Government Accounting Standards Board issued Statements No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", Statement No. 91, "Conduit Debt Obligations", Statement No. 92, "Omnibus 2020", Statement No. 93, "*Replacement of Interbank Offered Rates*" (regarding LIBOR), and Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32*". These statements were adopted by the Township for the year ended December 31, 2021 and had no effect on previously reported amounts.

15. Pending Changes in Accounting Principles

In June 2017, the GASB issued Statement No. 87, "*Leases*". The Township is required to adopt statement No. 87 for its calendar year 2022 financial statements.

The GASB issued Statement No. 91, "Conduit Debt Obligations". The Township is required to adopt statement No. 91 for its calendar year 2022 financial statements.

The GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". Statement No. 94 is effective for years beginning after December 31, 2023.

The GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*". Statement No. 96 is effective for years beginning after December, 2023.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

15. Pending Changes in Accounting Principles (Continued)

The GASB issued Statement No. 99, "*Omnibus 2022*,". The provisions related to leases, PPP's, and SBITA's are effective for the Township's calendar year 2023 financial statements, while the provisions relating to financial guarantees and the classification and reporting of derivative instruments are required to be adopted by the Township for its calendar year-ending 2024 statements.

In June 2022, The GASB issued Statement No. 100, "*Accounting Changes and Error Corrections*." The District is required to adopt this statement for its calendar year 2024 financial statements.

In June 2022, The GASB issued Statement No. 101, "*Compensated Absences*." The District is required to adopt this statement for its calendar year 2024 financial Statements.

The Township has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

E) Budgets and Budgetary Accounting

Legal Requirements

Commonwealth of Pennsylvania statutes require that Township Governments establish budgetary systems and adopt annual operating budgets. The Township's annual budget includes all the funds of the Township, and is based on estimates of revenues and expenditures approved by the Township Supervisors. The Township adopted the 2021 budget on the same basis of accounting as reported in the financial statements. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

Township Budget Process

1. During the fall, the Finance Director of the Township prepares a preliminary budget which is submitted to the Supervisors for review.
2. The Supervisors review the preliminary projections of revenues and expenditures incorporating any revisions or adjustments.
3. The supervisors advertise that the proposed budget is available for public inspection for 20 days prior to final adoption.
4. After the 20-day inspection period, but prior to December 31, the supervisors adopt the final budget by enacting an appropriate resolution.
5. Formal budgetary process is employed as a planning device. The adopted budget is on the modified accrual basis. Budget amounts are as originally adopted, or as amended by the supervisors.

Level of Control

The Township maintains budgetary control at the individual fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at year-end.

Management Amendment Authority

During the course of the year, departmental needs may change, emergencies may occur or additional revenue may arise. As a result, funds are transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by Township supervisors.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 2: DEPOSITS AND INVESTMENTS

The Township can deposit or invest funds as authorized for local government units by the Local Government Unit Debt Act.

Authorized types of investments include a) U.S. Treasury bills; b) obligations of the United States of America, the Commonwealth of Pennsylvania or any of their agencies or instrumentalities, which are secured by the full faith and credit of such entity; c) checking or savings accounts, certificates of deposit, or share accounts, provided such amounts are insured and the depository collateralizes any deposits in excess of such insurance; d) shares of a registered investment company, provided that investments of that company are in authorized investments as noted above; e) any investment authorized by 20 Pa.C.S Ch. 73 (relating to fiduciaries investments) for any pension or retirement fund.

The Township's Police Pension Plan Investment Policy states that the investment recommendations are intended to provide competitive results when measured against their peers, benchmarks and other established rating criteria.

As of December 31, 2021, all of the Township's Police Pension investments in Cash Equivalents were rated AAA by Standard & Poor's.

*Custodial Credit Risk.* For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2021, \$17,958,748 of the Township's deposits were exposed to custodial credit risk, as they were collateralized with securities held by the pledging financial institution's trust department or agent and uninsured. None of the Township's investments were exposed to custodial credit risk at December 31, 2021. The Township does not have a written policy to limit its exposure to custodial credit risk.

*Fair Value.* 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 the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Police Pension Plan investments in mutual funds of \$22,113,142 are valued using quoted market prices (Level 1 inputs).

NOTE 3: REAL ESTATE TAXES

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 based on the assessed value listed as of the prior December 31 for the real property located in the Township through April 30; face amount, May 1 through June 30, and 10% penalty after June 30. The Township bills these taxes which are collected by the Township and remitted to the Township. Real estate taxes levied for 2020 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2020 and expected to be collected within the first sixty (60) days of 2021 are recognized as revenue in 2021. Net receivables estimated to be collectible subsequent to March 1, are reflected in deferred revenue. Prior years levies are recorded using these same principles and remaining receivables are annually reevaluated as to collectability.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 3: REAL ESTATE TAXES (CONTINUED)

The rate of real estate taxation in 2021 was 4.85 mills for general purposes, 0.75 mills for street light purposes, 1.55 mills for fire purposes, .40 mills for recreation purposes, .43 mills for rescue squad purposes, and 6.10 mills for debt service purposes on a total Township taxable assessed valuation of \$218,711,230.

## NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 5,220,738	\$ -	\$ -	\$ 5,220,738
Intangibles	5,360	-	-	5,360
Total Capital Assets, Not Being Depreciated	<u>5,226,098</u>	<u>-</u>	<u>-</u>	<u>5,226,098</u>
Capital Assets, Being Depreciated				
Infrastructure	25,976,547	776,543		26,753,090
Library Books	692,948	71,473	38,612	725,809
Buildings and Improvements	6,410,597	114,351		6,524,948
Machinery and Equipment	5,618,464	282,990		5,901,454
Total Capital Assets, Being Depreciated	<u>38,698,556</u>	<u>1,245,357</u>	<u>38,612</u>	<u>39,905,301</u>
Less Accumulated Depreciation for:				
Infrastructure	19,098,572	734,792		19,833,364
Library Books	358,895	75,032	38,612	395,315
Buildings and Improvements	4,396,043	176,689		4,572,732
Machinery and Equipment	3,885,211	452,835		4,338,046
Total Accumulated Depreciation	<u>27,738,721</u>	<u>1,439,348</u>	<u>38,612</u>	<u>29,139,457</u>
Total Capital Assets, Being Depreciated, Net	<u>10,959,835</u>	<u>(193,991)</u>	<u>-</u>	<u>10,765,844</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 16,185,933</u>	<u>\$ (193,991)</u>	<u>\$ -</u>	<u>\$ 15,991,942</u>



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 20,828	\$ -	\$ -	\$ 20,828
Total Capital Assets, Not Being Depreciated	<u>20,828</u>	<u>-</u>	<u>-</u>	<u>20,828</u>
Capital Assets, Being Depreciated				
Infrastructure	5,908,651	137,189		6,045,840
Buildings and Improvements	706,984	5,000		711,984
Machinery and Equipment	1,594,940	74,070		1,669,010
Total Capital Assets, Being Depreciated	<u>8,210,575</u>	<u>216,259</u>	<u>-</u>	<u>8,426,834</u>
Less Accumulated Depreciation for:				
Infrastructure	3,913,426	93,429		4,006,855
Buildings and Improvements	556,228	24,780		581,008
Machinery and Equipment	1,081,141	118,878		1,200,019
Total Accumulated Depreciation	<u>5,550,795</u>	<u>237,087</u>	<u>-</u>	<u>5,787,882</u>
Total Capital Assets, Being Depreciated, Net	<u>2,659,780</u>	<u>(20,828)</u>	<u>-</u>	<u>2,638,952</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 2,680,608</u>	<u>\$ (20,828)</u>	<u>\$ -</u>	<u>\$ 2,659,780</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General Government	\$ 51,044
Public Safety	364,940
Public Works	798,837
Culture and Recreation	<u>224,527</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 1,439,348</u>

Business-Type Activities

Sewer Operations	<u>\$ 237,087</u>
Total Depreciation Expense, Business-Type Activities	<u>\$ 237,087</u>

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 5: EMPLOYEES RETIREMENT PLANS

A. Police Pension Trust FundPlan Description

*Plan administration.* The Township administers a single employer defined benefit plan covering substantially all full-time members of the police force. Employees become eligible for participation in a plan upon employment and become vested after twelve years of service in the Police Pension Plan. The Police Pension Plan was established by municipal ordinance with the authority for municipal contributions required by Act 205, of the Pennsylvania legislature.

The police pension trust fund is under the direction of the Township Supervisors.

*Plan Membership.* At December 31, 2021, police pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	34
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<div style="border-top: 1px solid black; display: inline-block; width: 100px;"></div> 28
	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100px;"></div> 64

*Benefits provided.* The Police Pension Plan provides normal retirement, disability, and death benefits.

Participants are eligible for normal retirement after attainment of age 51 and completion of 25 years of service. Normal monthly retirement benefits are calculated as 50% of average monthly pay, based on last 36 months of employment, plus a service increment of \$100 per month if the participant has completed 26 years of service plus an additional service increment of \$50 per month for each year of service in excess of 26 years of service. The maximum total service increment is \$300.

If a participant is totally and permanently disabled in the line of duty, he is eligible for disability pension. The disability pension is greater of 50% of the officer's average monthly pay for the last 36 months of employment or 50% of the officer's salary at the time of disability.

If a participant is eligible for retirement at the time of death, a monthly death benefit is payable to their surviving spouse, or eligible child, equal to 75% of the normal monthly retirement benefit.

An annual cost-of-living increase equal to 1% is made to retirees with a maximum total cost-of-living increase of 10%.

*Contributions.* Act 205 of the Pennsylvania legislature establishes actuarial funding standards for all municipal pension systems. Member contributions are established by the contractual requirements of the collectively bargained agreement with the police force and may be amended by subsequent collectively bargained agreements, subject to the applicable laws in the Commonwealth of Pennsylvania.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

CONTRIBUTIONS (CONTINUED)

In accordance with Act 205, the Township's contribution is actuarially determined on an annual basis using the entry age normal method. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Township is required to contribute the difference between the actuarially determined contribution and the contribution of plan members.

Members of the Police Pension Plan are required to contribute 5% of actual earnings and contributed \$191,487 in 2021. An interest rate of 4.0% is applied to the employees' accounts. If a return of member contributions is paid as a death benefit, member contributions are credited with 6% annual interest.

In addition, the Commonwealth of Pennsylvania allocates General Municipal Pension System State Aid to individual municipalities annually under Act 205 of the Pennsylvania legislature. The monies received must be contributed to the pension plans within a certain period of time. Including the State Aid, the Township contributed \$1,389,061 in 2021.

Investments

Investments in the plans are managed by the Morgan Stanley Investments and American Funds. Investments are recorded at fair value based on quoted market prices.

*Investment policy.* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Supervisors by a majority vote of its members. It is the policy of the Board of Supervisors to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	60%
International Equity	5%
Fixed Income	25%
Cash	10%
	100%

*Rate of return.* For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.48%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option Program (DROP) for a period of not less than one year nor more than five years. Monthly pensions under this program are calculated as of the date of participation in the program and are distributed in a lump sum at retirement. The DROP balance held in the Police Pension Plan at December 31, 2021 was \$137,476.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Net Pension Liability

Changes in the Township's net pension liability for the year ended December 31, 2021 were as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balances at 12/31/20</b>	\$ 24,945,778	\$ 20,712,202	4,233,576
<b>Changes for the year:</b>			
Service Cost	392,100	-	392,100
Interest	2,171,577	-	2,171,577
Changes in benefit terms	-	-	-
Difference between expected and actual experience	278,228	-	278,228
Current year pension expense recognition			
Changes in assumptions	-	-	-
Current year pension expense recognition			
Contributions - employer	-	1,389,061	(1,389,061)
Contributions - employee	-	191,487	(191,487)
Net investment income	-	2,585,743	(2,585,743)
Adjustment for projected investment earnings	-	-	-
Current year pension expense recognition	-	-	-
Benefit payments, including refunds of employee contributions	(1,016,748)	(1,016,748)	-
Administrative expense	-	(10,035)	10,035
Other changes	-	-	-
<b>Net Changes</b>	<u>1,825,157</u>	<u>3,139,508</u>	<u>(1,314,351)</u>
<b>Balances at 12/31/21</b>	<u>\$ 26,770,935</u>	<u>\$ 23,851,710</u>	<u>\$ 2,919,225</u>

*Actuarial assumptions.* The total pension liability was measured as of December 31, 2021 and determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	4.50%, average, including inflation
Investment Rate of Return	7.50%, including inflation
Postretirement Cost of Living Increase	1.00%, maximum of 10%

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

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

*Expected long-term rate of return.* The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	5.50% - 7.50%
International Equity	4.50% - 6.50%
Fixed Income	1.00% - 3.00%
Cash	0.00% - 1.00%

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The pension plan's 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 the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Township, calculated using the discount rate of 7.5%, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Plan's Net Pension Liability	\$ 5,844,798	\$ 2,919,225	\$ 472,420

*Pension expense and deferred outflows of resources related to pensions:* For the year ended December 31, 2021, the Township recognized pension expense of \$780,719. At December 31, 2021 the Township reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 458,580	\$ -
Change in assumptions	90,358	-
Net difference between projected and actual earnings on pension plan investments	-	1,034,571
	<u>\$ 548,938</u>	<u>\$ 1,034,571</u>

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

*Pension expense and deferred outflows of resources related to pensions (continued)*

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

2022	\$	110,343
2023		(386,955)
2024		(99,453)
2025		(155,940)
2026		46,372
Thereafter		-
		\$ (485,633)

B. Non-Uniform Plan

As established by municipal ordinance, the Township provides a defined contribution pension plan for all employees that are not eligible for the Police Pension Plan. Members are not required to contribute. The Township contributes on behalf of each member who was a participant on the last day of the plan year at 5% of the participant's total compensation and 5.7% for compensation in excess of \$20,000. At December 31, 2021 there were 40 plan members. Township contributions to the plan were \$191,566 for the year ended December 31, 2021.

NOTE 6: COMPENSATED ABSENCES

Vacation days not used in the calendar year earned may be accumulated and available to be used by Township police officers in the first quarter of the following calendar year. The remaining full-time Township employees earn vacation to be used by the end of the calendar year or it may be carried over into the following year, limited to the number of days equal to one year's vacation allowance.

Township police officers are entitled to accrue unlimited days of sick leave benefits and at retirement, are entitled to payment for all unused sick time up to a maximum of 40 days plus one unused sick day for each year of service at the pay rate in effect at retirement. In addition, the remaining Township employees accrue sick leave benefits up to a maximum of 12 days and at time of retirement are paid for each unused sick day up to a maximum of 12 days at the rate of pay in effect at retirement.

Applicable GASB pronouncements require accrual of sick pay that meet certain specific conditions. The Township has determined that such conditions apply to accumulated sick pay of Governmental Funds. To the extent sick pay liabilities in Governmental Funds are to be liquidated with available resources, they are accounted for as fund liabilities in the Fund Financial Statements; the remainder of the obligation is accounted for as a liability in the Government-wide financial statements.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 7: LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities</u>					
Bonds and Notes Payable:					
General Obligation Bonded Debt	\$ 7,530,000	\$ -	\$ 1,270,000	\$ 6,260,000	\$ 1,305,000
Note Payable	21,526	-	21,526	-	-
Capital Lease	102,063	-	33,053	69,010	34,011
Unamortized Bond Premium	135,826	-	29,681	106,145	29,681
Total Bonds and Note Payable	<u>7,789,415</u>	<u>-</u>	<u>1,354,260</u>	<u>6,435,155</u>	<u>1,368,692</u>
Other Liabilities:					
Liability for Other Postemployment Benefits	1,427,238	205,444	-	1,632,682	-
Net Pension Liability	4,233,576	-	1,314,351	2,919,225	-
Compensated Absences	909,304	95,940	160,043	845,201	-
Total Other Liabilities	<u>6,570,118</u>	<u>301,384</u>	<u>1,474,394</u>	<u>5,397,108</u>	<u>-</u>
Governmental Activities Long-term Liabilities	<u>\$ 14,359,533</u>	<u>\$ 301,384</u>	<u>\$ 2,828,654</u>	<u>\$ 11,832,263</u>	<u>\$ 1,368,692</u>
<u>Business-Type Activities</u>					
Other Liabilities:					
Compensated Absences	\$ 112,777	\$ -	\$ -	\$ 112,777	\$ -
Total Other Liabilities	<u>112,777</u>	<u>-</u>	<u>-</u>	<u>112,777</u>	<u>-</u>
Business-Type Activities Long-term Liabilities	<u>\$ 112,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,777</u>	<u>\$ -</u>

For the governmental funds, compensated absences are generally liquidated by the general fund. For Business-Type Activities, compensated absences are liquidated by the Sewer Fund.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

An analysis of debt service requirements to maturity on the governmental activities obligations follows:

Year Ended December 31:	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2022	1,305,000	166,564	1,471,564
2023	1,345,000	128,475	1,473,475
2024	1,385,000	87,525	1,472,525
2025	1,425,000	45,375	1,470,375
2026	800,000	12,000	812,000
Total	<u>\$ 6,260,000</u>	<u>\$ 439,939</u>	<u>\$ 6,699,939</u>

The following is a summary of the governmental activities portion of general obligation debt outstanding:

<u>Year</u>	<u>Amount of Original Issue</u>	<u>Purpose</u>	<u>Balance Outstanding December 31, 2021</u>
2018	4,975,000	General Bond Series, 2018 – General Obligation Bonds with interest rates ranging from 2.15% to 3.00%; principal payments due annually starting from May 15, 2020 through May 15, 2026.	\$ 4,965,000
2010	13,355,000	General Bond Series, 2010 – General Obligation Bonds with interest rates ranging from 2.00% to 2.75%; principal payments due annually through November 15, 2022 for the current refunding of the General Obligation Bond Series 2002 and the advance refunding of the General Obligation Bonds, Series of 2002A, and the costs of issuing and insuring the bonds.	\$ 1,295,000
Total Governmental Activities			<u>\$ 6,260,000</u>



LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances consisted of the following for the year ended December 31, 2021:

	Due From Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ 1,533,867	\$ -
General Obligation	\$ -	87,555
Capital Reserve Fund	-	1,176,781
Total Governmental Funds	<u>1,533,867</u>	<u>1,264,336</u>
Proprietary Fund:		
Sewer Fund	-	269,531
Total	<u>\$ 1,533,867</u>	<u>\$ 1,533,867</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

## NOTE 9: INTERFUND OPERATING TRANSFERS

Interfund operating transfers consisted of the following for the year ended December 31, 2021:

	Transfer From Other Funds	Transfer to Other Funds
Governmental Funds:		
General Fund	\$ -	\$ 240,000
Rescue Squad	240,000	-
Total	<u>\$ 240,000</u>	<u>\$ 240,000</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorization, including amounts provided as subsidies or matching funds for various grant programs, and to move restricted amounts to the funds meeting the restriction.

## NOTE 10: COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Township and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Township's financial position at year-end.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 11: POSTEMPLOYMENT BENEFIT PLAN

*Plan Description.* The Township administers a single-employer postemployment benefit plan (the Plan) that covers health and life insurance benefits for eligible retirees. In April 1981, the Township through binding arbitration established the benefit provisions for the Plan. The Plan does not issue a publicly available financial report.

*Medical Benefits Payable upon Retirement:* Police Officers who retire before 1/1/2017 and have attained age 51 and completion of 25 years of service will receive fully paid medical and prescription drug coverage for retiree, spouse and any eligible dependents for 5 years. If the 5 years of paid benefits are exhausted and the member and/or spouse have not yet reached Medicare age, the member and/or spouse may continue receiving benefits by paying the full premium. Police Officers who retire after 1/1/2017 but before 1/1/2018 and have attained age 51 and completion of 25 years of service will receive fully paid medical and prescription drug coverage for retiree, spouse and dependents for 6 years. The Officer may continue coverage for 2 additional years but must pay the full premium. However, if during the 2 additional years the Officer is over 65, the Township will reimburse the Officer 50% of the costs.

Police Officers who retire after 1/1/2018 and have attained age 51 and completion of 25 years of service will receive fully paid medical and prescription drug coverage for retiree, spouse and any eligible dependents until the earlier of 6 years or age 65. If the Officer is under age 65, the Officer may continue coverage for 2 additional years by paying the full premium. In the event that an active Police Officer becomes disabled, the Township will provide medical prescription drug, and dental coverage for the member, spouse and any eligible dependents until the earlier of 6 years or age 65. If the Officer is under age 65, the Officer may continue coverage for 2 additional years by paying the full premium.

*Medical Benefits Payable upon Death:* If an active Police Officer dies, the spouse and any eligible dependents will receive fully paid medical prescription drug, and dental coverage for 6 years. If a retiree dies while receiving benefits, the spouse may continue to receive fully paid benefits for medical and prescription drug coverage for the remainder of the 6 years

*Life Insurance Benefits Payable upon Retirement:* Police Officers who are eligible to retire are provided with a \$25,000 life insurance benefit paid fully by the Township for a period of 3 years after date of retirement or as defined in individual contracts with the Township.

As of December 31, 2020, the following participants were covered by the benefit term:

Active Participants	32
Vested Former Participants	0
Retired Participants	<u>4</u>
Total	36

*Funding Policy.* The contribution requirements of the Township are established and may be amended by resolution of the Board of Supervisors. The Plan does not require any contributions from Plan members. The Township funds the Plan on a pay-as-you-go basis.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 11: POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

Changes in the Total OPEB Liability

The Total OPEB Liability of the plan for measurement date December 31, 2020, was as follows:

	<u>Total OPEB Liability</u>
Balance at 1/1/2021	\$ 1,427,238
Service Cost	71,587
Interest	47,490
Changes in Benefit Terms	-
Differences between Expected and Actual Experience	31,424
Changes of Assumptions	132,619
Benefit Payments	(77,676)
Other Changes	-
Net Changes	<u>205,444</u>
Balances at 12/31/2021	<u>\$ 1,632,682</u>
 Covered Payroll	 \$ 3,705,630
 Total OPEB Liability as a % of Covered Payroll	 44.06%

Actuarial Methods

Actuarial assumptions and other inputs used in the January 1, 2019, actuarial valuation, are as follows:

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 11: POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

## ACTUARIAL METHODS (CONTINUED)

Actuarially determined contribution rates are calculated as of January 1, 2021.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age normal
Discount Rate	1.93% based on S&P Municipal Bond 20 Year High Grade Rate Index at 1/1/2021.
Salary	3% cost of living adjustment and 1.5% real wage growth
Mortality	IRS 2017 Static Combined Table for Small Plans (incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.)
Disability	SOA 87 Table
Retirement	Latest of age 54, age at completion of 28 years of service, or age on valuation date.
Percent Married at Retirement	80% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.
Spouse Age	Wives are assumed to be two years younger than their husbands.
Duration of Benefits	If the member retired prior to 1/1/2017, then all benefits are assumed to be fully paid for by the township for 5 years. If the five years of benefits are exhausted, it is assumed that members and/or spouses who have not reached Medicare eligibility will not elect any self-paid coverage. If the members retired after 1/1/2017, but before 1/1/2018, then all benefits are assumed to be fully paid for by the Township until the earlier 6 years or Medicare eligibility. If the member retired after 1/1/2018, then all benefits are assumed to be fully paid for by the township until the earlier of 6 years or Medicare eligibility. If the 6 years of benefits are exhausted, it is assumed that members and/or spouses who have not yet reached Medicare eligibility will not elect an self-paid coverage. Non-spouse dependent coverage until age 26 or when the retiree's subsidized benefits are exhausted, whatever is earlier.
Percent of Eligible Retirees Electing Coverage in Plan	100% if employees eligible for benefits elect coverage.
Actuarial Value of Assets	Equal to the Market Value of Assets
Retiree Contributions	Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate

Changes of Assumptions

The discount rate changed from 3.26% to 1.93%.

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

## NOTE 11: POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB 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 in Discount Rate (0.93%)	Current Discount Rate (1.93%)	1% Increase in Discount Rate (2.93%)
Township's Net OPEB Liability (Asset)	<u>\$1,739,464</u>	<u>\$ 1,632,682</u>	<u>\$1,531,961</u>

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
Township's Net OPEB Liability (Asset)	<u>\$1,482,277</u>	<u>\$ 1,632,682</u>	<u>\$1,806,636</u>

OPEB Expense and Future Deferred Outflows and (Inflows) to be Recognized as OPEB Expense (Income)

For the year ended December 31, 2021, the Township recognized OPEB expense of \$139,318. At December Amounts reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 176,644	\$ -
Benefit Payment Subsequent to the Measurement Date	68,280	-
Differences between Expected and Actual Experience	28,282	569
Changes of Assumptions	-	29,948
	<u>\$ 273,206</u>	<u>\$ 30,517</u>

LOWER SOUTHAMPTON TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021

NOTE 11: POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

OPEB Expense and Future Deferred Outflows and (Inflows) to be Recognized as OPEB Expense (Income) (Continued)

Amounts reported as deferred outflows of resources for Benefit Payments Subsequent to Measurement Date will be recognized in OPEB expense in the subsequent year and other Deferred Outflows of Resources will be recognized in OPEB expense as follows:

2022	\$	20,241
2023		20,241
2024		20,241
2025		20,241
2026		20,241
Thereafter		<u>73,204</u>
		<u>\$ 174,409</u>

NOTE 12: RISKS AND UNCERTAINTIES

As the effects of the Coronavirus pandemic to evolve and are dependent upon future developments, the impact of the Coronavirus on the Township's operations and financial results are uncertain at this time.

NOTE 13: SUBSEQUENT EVENTS

The Township has evaluated the need for disclosures and/or adjustments resulting from subsequent events through report issue date of **September 23, 2022**, the date the financial statements were available to be issued. During this period, there were no subsequent events that required recognition and/or disclosure in the financial statements.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

**LOWER SOUTHAMPTON TOWNSHIP**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS – LAST 10 YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>								
Service Cost	392,100	375,347	359,184	\$ 328,816	\$ 314,656	\$ 287,884	\$ 275,487	\$ 317,150
Interest	2,171,577	1,754,136	1,690,507	1,587,352	1,534,890	1,428,208	1,363,867	1,316,910
Changes of benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	278,228	-	163,077	-	107,743	-	453,190	-
Changes of assumptions	-	-	90,356	-	542,138	-	-	-
Benefit payments, including refunds of employee contributions	(1,016,748)	(1,006,168)	(1,006,855)	(1,350,193)	(883,305)	(1,488,851)	(679,500)	(653,746)
<b>Net change in total pension liability</b>	<u>1,825,157</u>	<u>1,123,315</u>	<u>1,460,365</u>	<u>565,975</u>	<u>1,616,122</u>	<u>227,241</u>	<u>1,413,044</u>	<u>980,314</u>
<b>Total pension liability - beginning</b>	<u>24,945,778</u>	<u>23,822,463</u>	<u>22,362,098</u>	<u>21,796,123</u>	<u>20,180,001</u>	<u>1,413,044</u>	<u>-</u>	<u>17,559,402</u>
<b>Total pension liability - ending (a)</b>	<u>26,770,935</u>	<u>24,945,778</u>	<u>23,822,463</u>	<u>\$ 22,362,098</u>	<u>\$ 21,796,123</u>	<u>\$ 1,640,285</u>	<u>\$ 1,413,044</u>	<u>\$ 18,539,716</u>
<b>Plan fiduciary net position</b>								
Contributions - employer	1,389,061	1,247,186	1,226,642	\$ 998,858	\$ 950,096	\$ 927,904	\$ 931,658	\$ 925,152
Contributions - employee	191,487	167,922	171,503	154,923	152,626	141,088	131,073	131,059
Net investment income	2,585,743	1,492,094	2,636,824	(700,257)	1,797,389	895,581	(195,527)	766,428
Benefit payments, including refunds of employee contributions	(1,016,748)	(1,006,168)	(1,006,855)	(1,350,193)	(883,305)	(1,488,851)	(679,500)	(653,746)
Administrative expense	(10,035)	(11,135)	(2,183)	(1,424)	-	(4,600)	(7,655)	(5,561)
Other	-	-	-	-	-	(12,498)	(8,938)	-
<b>Net change in plan fiduciary position</b>	<u>3,139,508</u>	<u>1,889,899</u>	<u>3,025,931</u>	<u>(898,093)</u>	<u>2,016,806</u>	<u>458,624</u>	<u>171,111</u>	<u>1,163,332</u>
<b>Plan fiduciary net position - beginning</b>	<u>20,712,202</u>	<u>18,822,303</u>	<u>15,796,372</u>	<u>16,694,465</u>	<u>14,677,659</u>	<u>171,111</u>	<u>-</u>	<u>12,884,592</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>23,851,710</u>	<u>20,712,202</u>	<u>18,822,303</u>	<u>\$ 15,796,372</u>	<u>\$ 16,694,465</u>	<u>\$ 629,735</u>	<u>\$ 171,111</u>	<u>\$ 14,047,924</u>
<b>Township's net pension liability - ending (a) - (b)</b>	<u>\$ 2,919,225</u>	<u>\$ 4,233,576</u>	<u>\$ 5,000,160</u>	<u>\$ 6,565,726</u>	<u>\$ 5,101,658</u>	<u>\$ 1,010,550</u>	<u>\$ 1,241,933</u>	<u>\$ 4,491,792</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	89.10%	83.03%	79.01%	70.64%	76.59%	38.39%	12.11%	75.77%
<b>Covered - employee payroll</b>	\$ 3,741,797	\$ 3,227,610	\$ 3,251,449	\$ 3,026,118	\$ 2,857,174	\$ 2,830,965	\$ 2,644,285	\$ 2,420,799
<b>Township net pension liability as a percentage of covered - employee payroll</b>	78.02%	131.17%	153.78%	216.97%	178.56%	35.70%	46.97%	185.55%

**Notes to Schedule**

The Township adopted GASB 67 on a prospective basis in 2014, therefore only eight years of information is available.

For 2017, there was a change in assumptions for mortality rates from the RP2000 Tables for males and females to the IRS 2017 Static Combined Table for Small Plans.



## LOWER SOUTHAMPTON TOWNSHIP

## SCHEDULE OF EMPLOYER CONTRIBUTIONS – LAST 10 YEARS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 1,377,473	\$ 1,247,186	\$ 1,226,642	\$ 998,858	\$ 950,096	\$ 927,904	\$ 931,059	\$ 925,152	\$ 736,629	\$ 694,456
Contributions in relation to the actuarially determined contribution	1,389,061	1,247,186	1,226,642	998,858	950,096	927,904	931,657	925,152	736,629	694,456
Contribution deficiency (excess)	\$ (11,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (598)	\$ -	\$ -	\$ -
Covered - employee payroll	3,741,797	3,227,610	3,251,449	3,026,118	2,857,174	2,830,965	2,644,285	2,477,142	2,490,756	2,490,756
Contributions as a percentage of covered - employee payroll	37.12%	38.64%	37.73%	33.01%	33.25%	32.78%	35.23%	37.35%	29.57%	27.88%

## Notes to Schedule

Valuation date: January 1, 2021

Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which contributions are reported.

## Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	4 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Inflation	3.00%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.50%
Retirement age	Normal Retirement Age
Mortality	IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Series AA to reflect mortality improvement.

LOWER SOUTHAMPTON TOWNSHIP  
 SCHEDULE OF INVESTMENT RETURNS – LAST 10 YEARS

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.48%	9.02%	17.52%	-4.50%	13.46%	7.40%	-1.54%	6.40%

The Township adopted GASB 67 on a prospective basis in 2014, therefore only eight years of information is available.

LOWER SOUTHAMPTON TOWNSHIP  
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

LAST 10 YEARS\*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service Cost	71,587	63,911	66,726	60,404
Interest	47,490	49,897	44,086	50,046
Changes in Benefit Terms	-	-	-	-
Differences between Expected and Actual Experience	31,424	-	(812)	-
Changes of Assumptions	132,619	40,542	(42,782)	41,421
Benefit Payments	(77,676)	(74,197)	(105,915)	(119,235)
Other Changes	-	-	-	-
Net Changes	<u>205,444</u>	<u>80,153</u>	<u>(38,697)</u>	<u>32,636</u>
Total OPEB Liability Beginning	<u>1,427,238</u>	<u>1,347,085</u>	\$ 1,385,782	\$ 1,353,146
Total OPEB Liability- Ending	<u>\$ 1,632,682</u>	<u>\$ 1,427,238</u>	<u>\$ 1,347,085</u>	<u>\$ 1,385,782</u>
Covered Payroll	\$ 3,705,630	\$ 3,446,324	\$ 3,446,324	\$ 2,958,308
Total OPEB Liability as a % of Covered Payroll	44.06%	41.41%	39.09%	46.84%

\*In accordance with GASB Statement No. 75, this schedule has been prepared prospectively in 2018. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

Note to Schedule – The Discount Rate changed from 3.26% to 1.93%.

LOWER SOUTHAMPTON TOWNSHIP  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND  
 ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 8,999,910	\$ 8,999,910	\$ 9,573,635	\$ 573,725
Licenses and Permits	880,600	880,600	624,777	(255,823)
Fines and Forfeitures	86,200	86,200	63,165	(23,035)
Interest and Rents	149,300	149,300	117,024	(32,276)
Intergovernmental	574,224	574,224	1,232,510	658,286
Charges for Services	1,421,660	1,421,660	2,500,997	1,079,337
Miscellaneous Income	173,050	173,050	100,664	(72,386)
<b>Total Revenues</b>	<u>12,284,944</u>	<u>12,284,944</u>	<u>14,212,772</u>	<u>1,927,828</u>
<b>Expenditures</b>				
<b>Current:</b>				
General Government - Administration	1,495,620	1,495,620	1,390,692	104,928
Public Safety	8,645,958	8,645,958	8,181,220	464,738
Sanitation	2,290,015	2,290,015	1,768,993	521,022
Public Works	1,087,072	1,087,072	858,701	228,371
Culture and Recreation	1,693,977	1,693,977	983,112	710,865
Principal	-	-	21,526	(21,526)
Interest	-	-	-	-
Capital Outlay	-	-	227,551	(227,551)
<b>Total Expenditures</b>	<u>15,212,642</u>	<u>15,212,642</u>	<u>13,431,795</u>	<u>1,780,847</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(2,927,698)</u>	<u>(2,927,698)</u>	<u>780,977</u>	<u>3,708,675</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Equipment	-	-	-	-
Operating Transfer (Out)	(240,000)	(240,000)	(240,000)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(240,000)</u>	<u>(240,000)</u>	<u>(240,000)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ (3,167,698)</u>	<u>\$ (3,167,698)</u>	<u>\$ 540,977</u>	<u>\$ 3,708,675</u>

OTHER  
SUPPLEMENTARY  
INFORMATION

LOWER SOUTHAMPTON TOWNSHIP  
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street Light	Fire Protection	Rescue Squad	Highway Aid (Liquid Fuels)	
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 136,843	\$ 28,140	\$ 1,894	\$ 870,878	\$ 1,037,755
Receivables:					
Taxes	12,738	19,247	6,621	-	38,606
Total Assets	\$ 149,581	\$ 47,387	\$ 8,515	\$ 870,878	\$ 1,076,361
<u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</u>					
Deferred Inflow of Resources:					
Unavailable Revenue - Property Taxes	10,850	16,341	5,622	-	32,813
Total Deferred Inflow of Resources	10,850	16,341	5,622	-	32,813
Fund Balances:					
Restricted For:					
Street Light	138,731	-	-	-	138,731
Fire Protection	-	31,046	-	-	31,046
Rescue Squad	-	-	2,893	-	2,893
Highway Aid	-	-	-	870,878	870,878
Total Fund Balances	138,731	31,046	2,893	870,878	1,043,548
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 149,581	\$ 47,387	\$ 8,515	\$ 870,878	\$ 1,076,361

LOWER SOUTHAMPTON TOWNSHIP  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2021

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Street Light	Fire Protection	Rescue Squad	Highway Aid	
<b>REVENUES</b>					
Taxes	\$ 164,737	\$ 340,456	\$ 94,449	\$ -	\$ 599,642
Intergovernmental	-	117,462	-	545,699	663,161
Interest and Rents	-	-	-	4,870	4,870
Miscellaneous Income	27,088	-	-	18,482	45,570
<b>Total Revenues</b>	<b>191,825</b>	<b>457,918</b>	<b>94,449</b>	<b>569,051</b>	<b>1,313,243</b>
<b>EXPENDITURES</b>					
Current:					
Public Safety	-	458,303	335,501	-	793,804
Public Works	164,865	-	-	587,990	752,855
Capital Projects	-	-	-	95,000	95,000
<b>Total Expenditures</b>	<b>164,865</b>	<b>458,303</b>	<b>335,501</b>	<b>682,990</b>	<b>1,641,659</b>
Excess of Revenues Over (Under) Expenditures	26,960	(385)	(241,052)	(113,939)	(328,416)
<b>Other Financing Sources (Uses)</b>					
Operating Transfer In (Out)	-	-	240,000	-	240,000
Total Other Financing Sources (Uses)	-	-	240,000	-	240,000
<b>Net Change in Fund Balances</b>	<b>26,960</b>	<b>(385)</b>	<b>(1,052)</b>	<b>(113,939)</b>	<b>(88,416)</b>
Fund Balances - January 1, 2021	111,771	31,431	3,945	984,817	1,131,964
Fund Balances - December 31, 2021	<b>\$ 138,731</b>	<b>\$ 31,046</b>	<b>\$ 2,893</b>	<b>\$ 870,878</b>	<b>\$ 1,043,548</b>