

**SALISBURY TOWNSHIP,
LEHIGH COUNTY,
PENNSYLVANIA
FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Salisbury Township
Lehigh County, Pennsylvania

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Salisbury Township as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting or placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension information on pages 55 to 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salisbury Township's basic financial statements. The combining and individual nonmajor fund financial statements on pages 63 and 64 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Kirk, Summa & Co., LLP

January 10, 2019
East Stroudsburg, Pennsylvania

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-type Activities	Totals
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 1,229,005	\$ 1,803,521	\$ 3,032,526
Investments	3,542,041	3,876,147	7,418,188
Taxes receivable	48,736	-	48,736
Accounts receivable	381,864	1,231,550	1,613,414
Interest receivable	1,969	15,930	17,899
Total Current Assets	5,203,615	6,927,148	12,130,763
Capital Assets:			
Land and land improvements	3,803,909	-	3,803,909
Construction in progress	711,547	751,311	1,462,858
Buildings and building improvements	8,960,218	-	8,960,218
Infrastructure	687,404	-	687,404
Traffic signals	244,011	-	244,011
Vehicles and transportation equipment	2,085,062	604,353	2,689,415
Office equipment	122,849	-	122,849
Operating equipment	1,052,220	-	1,052,220
Water collection system	-	3,239,150	3,239,150
Sewer collection system	-	9,187,762	9,187,762
	17,667,220	13,782,576	31,449,796
Less: accumulated depreciation	(10,300,067)	(9,549,816)	(19,849,883)
Total Capital Assets, net of Accumulated Depreciation	7,367,153	4,232,760	11,599,913
TOTAL ASSETS	12,570,768	11,159,908	23,730,676
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Contributions subsequent to the measurement date	407,040	-	407,040
Differences between expected and actual experience	85,244	-	85,244
Changes in assumptions	166,476	-	166,476
Net difference between projected and actual earnings on pension plan investments	685,691	-	685,691
TOTA DEFERRED OUTFLOWS OF RESOURCES	1,344,451	-	1,344,451
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 13,915,219	\$ 11,159,908	\$ 25,075,127

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
GOVERNMENT-WIDE STATEMENT OF NET POSITION - continued
DECEMBER 31, 2016**

	Governmental Activities	Business-type Activities	Totals
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	\$ 224,190	\$ 466,851	\$ 691,041
Accrued expenses	115,443	56,728	172,171
Payroll taxes payable	49,641	-	49,641
Other liabilities	34,763	-	34,763
Current portion of long-term debt	106,750	198,250	305,000
Total Current Liabilities	530,787	721,829	1,252,616
Long-Term Liabilities:			
Compensated absences	675,656	-	675,656
Net pension liability	3,941,577	-	3,941,577
Bonds payable, net of current portion of long-term debt and unamortized premiums and discounts	2,050,368	3,981,019	6,031,387
Refundable deposits	-	100	100
Total Long-Term Liabilities	6,667,601	3,981,119	10,648,720
TOTAL LIABILITIES	7,198,388	4,702,948	11,901,336
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between expected and actual experience	986	-	986
TOTAL DEFERRED INFLOWS OF RESOURCES	986	-	986
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	5,210,035	53,491	5,263,526
Restricted	789,909	-	789,909
Unrestricted	715,901	6,403,469	7,119,370
TOTAL NET POSITION	6,715,845	6,456,960	13,172,805
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 13,915,219	\$ 11,159,908	\$ 25,075,127

The notes to financial statements are an integral part of these financial statements.

SALISBURY TOWNSHIP, LEHIGH COUNTY, PENNSYLVANIA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
General government and administration	\$ 867,735	\$ 428,734	\$ 556,301	\$ -	\$ 117,300	\$ -	\$ 117,300
Public safety	2,469,926	223,624	106,427	-	(2,139,875)	-	(2,139,875)
Public works - sanitation	-	-	50,085	-	50,085	-	50,085
Public works - highways and streets	1,569,157	-	437,869	-	(1,131,288)	-	(1,131,288)
Culture and recreation	317,524	7,118	-	245,700	(64,706)	-	(64,706)
Community development	48,046	-	-	-	(48,046)	-	(48,046)
Interest expense	57,318	-	-	-	(57,318)	-	(57,318)
Debt issuance costs	21,292	-	-	-	(21,292)	-	(21,292)
Unallocated depreciation	352,140	-	-	-	(352,140)	-	(352,140)
Unallocated and other	1,532,091	-	-	-	(1,532,091)	-	(1,532,091)
Total governmental activities	<u>7,235,229</u>	<u>659,476</u>	<u>1,150,682</u>	<u>245,700</u>	<u>(5,179,371)</u>	<u>-</u>	<u>(5,179,371)</u>
Business-type activities:							
Proprietary funds	<u>4,059,204</u>	<u>4,757,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>697,995</u>	<u>697,995</u>
Total business-type activities	<u>4,059,204</u>	<u>4,757,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>697,995</u>	<u>697,995</u>
Total Government	<u>\$ 11,294,433</u>	<u>\$ 5,416,675</u>	<u>\$ 1,150,682</u>	<u>\$ 245,700</u>	<u>(5,179,371)</u>	<u>697,995</u>	<u>(4,481,376)</u>
General (Expenses) Revenues							
Real estate taxes					2,582,381	-	2,582,381
Earned income taxes					2,284,551	-	2,284,551
Local services taxes					514,872	-	514,872
Real estate transfer taxes					546,512	-	546,512
Interest income					20,914	30,224	51,138
Rental income					58,796	-	58,796
Gain on sale of capital assets					15,218	-	15,218
Transfers in (out)					499,756	(499,600)	156
Unallocated and other					279,002	-	279,002
Total General (Expenses) Revenues					<u>6,802,002</u>	<u>(469,376)</u>	<u>6,332,626</u>
Change in Net Position					1,622,631	228,619	1,851,250
Net Position at Beginning of Year					9,283,062	4,270,012	13,553,074
Prior period adjustments (see note 9)					<u>(4,189,848)</u>	<u>1,958,329</u>	<u>(2,231,519)</u>
Net Position at End of Year					<u>\$ 6,715,845</u>	<u>\$ 6,456,960</u>	<u>\$ 13,172,805</u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 390,538	\$ -	\$ 838,467	\$ 1,229,005
Investments	3,542,041	-	-	3,542,041
Taxes receivable	42,050	-	6,686	48,736
Accounts receivable	381,864	-	-	381,864
Interest receivable	1,969	-	-	1,969
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 4,358,462	\$ -	\$ 845,153	\$ 5,203,615
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 284,389	\$ -	\$ 55,244	\$ 339,633
Payroll taxes payable	49,641	-	-	49,641
Other liabilities	34,763	-	-	34,763
Total Liabilities	368,793	-	55,244	424,037
	<hr/>	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u>				
Restricted	-	-	789,909	789,909
Unassigned	3,989,669	-	-	3,989,669
Total Fund Balances	3,989,669	-	789,909	4,779,578
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 4,358,462	\$ -	\$ 845,153	\$ 5,203,615
	<hr/>	<hr/>	<hr/>	<hr/>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET-MODIFIED ACCRUAL BASIS -
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total fund balance - total governmental funds	\$ 4,779,578
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the government funds balance sheet.	17,667,220
Accumulated depreciation from capital assets used in governmental activities are not current financial resources and therefore is not reported in the governmental funds balance sheet.	(10,300,067)
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in governmental-type fund:	
Contributions subsequent to the measurement date	407,040
Deferred outflow of differences between expected and actual experience	85,244
Deferred outflow of changes in assumptions	166,476
Deferred outflow of net difference between projected and actual earnings on pension plan investments	685,691
Accrued compensated absences are not accrued in governmental-type funds.	(675,656)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the government-type fund statements.	(3,941,577)
Long-term debt is not due and payable in the current period and, therefore, is not reported on the governmental-type fund's balance sheet:	
Bonds payable	(2,157,118)
Deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in governmental-type fund:	
Deferred inflow of differences between expected and actual experience	(986)
Total adjustments	<u>1,936,267</u>
Net position of governmental activities	<u><u>\$ 6,715,845</u></u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 5,574,724	\$ -	\$ 353,592	\$ 5,928,316
Licenses and permits	260,843	-	-	260,843
Fines and forfeits	108,343	-	-	108,343
Interest, rents and royalties	78,309	-	1,401	79,710
Intergovernmental	858,851	-	435,990	1,294,841
Charges for services	391,831	-	-	391,831
Miscellaneous	109,200	-	9,196	118,396
Total Revenues	<u>7,382,101</u>	<u>-</u>	<u>800,179</u>	<u>8,182,280</u>
Other Financing Sources				
Proceeds of general fixed asset disposition	15,218	-	-	15,218
Transfers in	499,756	1,933,890	52,460	2,486,106
Proceeds of general long-term debt	2,273,990	-	-	2,273,990
Refunds of prior year expenditures	160,606	-	-	160,606
Total Revenues and Other Financing Sources	<u>10,331,671</u>	<u>1,933,890</u>	<u>852,639</u>	<u>13,118,200</u>
Expenditures				
General government	921,224	-	-	921,224
Public safety	2,522,859	-	238,648	2,761,507
Public works - highways and streets	1,672,884	-	297,434	1,970,318
Culture and recreation	712,200	-	81,559	793,759
Community development	48,046	-	-	48,046
Debt service - principal	-	1,875,800	-	1,875,800
Debt service - interest	-	58,090	-	58,090
Debt issuance costs	21,292	-	-	21,292
Payroll taxes	173,935	-	-	173,935
Pension	657,272	-	-	657,272
Insurance and other benefits	1,087,674	-	-	1,087,674
Miscellaneous	411	-	785	1,196
Refund of prior year revenues	872	-	101	973
Transfers out	1,986,350	-	-	1,986,350
Total Expenditures	<u>9,805,019</u>	<u>1,933,890</u>	<u>618,527</u>	<u>12,357,436</u>
Excess of revenues and other financing sources over expenditures	<u>526,652</u>	<u>-</u>	<u>234,112</u>	<u>760,764</u>
Fund Balances at Beginning of Year	<u>3,516,101</u>	<u>-</u>	<u>560,644</u>	<u>4,076,745</u>
Prior Period Adjustments (See Note 9)	<u>(53,084)</u>	<u>-</u>	<u>(4,847)</u>	<u>(57,931)</u>
Fund Balances at End of Year	<u>\$ 3,989,669</u>	<u>\$ -</u>	<u>\$ 789,909</u>	<u>\$ 4,779,578</u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-MODIFIED ACCRUAL BASIS OF GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds	\$ 760,764
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,017,730
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(352,140)
Governmental-type funds do not accrue the changes in compensated absences on their statement of revenues, expenditures and changes in fund equity. However, this amount is accrued on the statement of activities.	204,736
Proceeds from issuance of debt are listed as revenues in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(2,273,990)
Repayment of bonds payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,876,572
Adjustment for pension contributions subsequent to the measurement date and change in net pension liability.	<u>388,959</u>
Total adjustments	<u>861,867</u>
Change in net position of governmental activities	<u><u>\$ 1,622,631</u></u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Water Fund	Sewer Fund	Refuse and Recycling Fund	Total Proprietary Funds
<u>ASSETS</u>				
Current Assets				
Cash and cash equivalents	\$ 687,386	\$ 764,803	\$ 351,332	\$ 1,803,521
Investments	2,830,894	1,045,253	-	3,876,147
Accounts receivable	362,413	657,016	212,121	1,231,550
Interest receivable	11,634	4,296	-	15,930
Total Current Assets	<u>3,892,327</u>	<u>2,471,368</u>	<u>563,453</u>	<u>6,927,148</u>
Capital Assets, Net of Accumulated Depreciation	<u>2,086,805</u>	<u>2,145,955</u>	<u>-</u>	<u>4,232,760</u>
Total Assets	<u><u>\$ 5,979,132</u></u>	<u><u>\$ 4,617,323</u></u>	<u><u>\$ 563,453</u></u>	<u><u>\$ 11,159,908</u></u>
<u>LIABILITIES AND NET POSITION</u>				
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	\$ 158,594	\$ 220,184	\$ 88,073	\$ 466,851
Accrued expenses	25,906	30,822	-	56,728
Current portion of long-term debt	149,450	48,800	-	198,250
Total Current Liabilities	<u>333,950</u>	<u>299,806</u>	<u>88,073</u>	<u>721,829</u>
Long-Term Liabilities				
Bonds payable, net of current portion of long-term debt and unamortized premiums and discounts	2,976,197	1,004,822	-	3,981,019
Refundable deposits	100	-	-	100
Total Long-Term Liabilities	<u>2,976,297</u>	<u>1,004,822</u>	<u>-</u>	<u>3,981,119</u>
Total Liabilities	<u><u>3,310,247</u></u>	<u><u>1,304,628</u></u>	<u><u>88,073</u></u>	<u><u>4,702,948</u></u>
<u>NET POSITION</u>				
Investment in capital assets, net of related debt	(1,038,842)	1,092,333	-	53,491
Unrestricted	3,707,727	2,220,362	475,380	6,403,469
Total Net Position	<u>2,668,885</u>	<u>3,312,695</u>	<u>475,380</u>	<u>6,456,960</u>
Total Liabilities and Net Position	<u><u>\$ 5,979,132</u></u>	<u><u>\$ 4,617,323</u></u>	<u><u>\$ 563,453</u></u>	<u><u>\$ 11,159,908</u></u>

The notes to financial statements are an integral part of these financial statements

SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Water Fund	Sewer Fund	Refuse and Recycling Fund	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 1,683,022	\$ 1,725,038	\$ 1,342,335	\$ 4,750,395
Tapping fees	704	3,108	-	3,812
Miscellaneous	511	-	2,481	2,992
Total Operating Revenues	<u>1,684,237</u>	<u>1,728,146</u>	<u>1,344,816</u>	<u>4,757,199</u>
Operating Expenses				
Administrative	4,836	4,836	4,836	14,508
Audit fees	1,200	1,200	-	2,400
Computer expense	14,201	12,535	12,535	39,271
Contracted services	3,615	15,761	1,034,299	1,053,675
Contractual payments	-	73,317	-	73,317
Depreciation expense	29,462	123,423	-	152,885
Disposal costs	-	743,585	-	743,585
Engineering	3,196	14,590	-	17,786
Fiscal agent fees	32,787	10,873	-	43,660
Hydrant rental	12,390	-	-	12,390
Insurance	100,114	100,114	-	200,228
Legal services	-	19,013	-	19,013
Miscellaneous	1,150	419	-	1,569
Payroll taxes	19,283	19,282	2,059	40,624
Pension	36,777	36,777	-	73,554
Postage	3,819	3,035	3,035	9,889
Printing	1,311	568	568	2,447
Recycling costs	-	-	27,687	27,687
Repairs and maintenance	940	1,854	-	2,794
Small tools	3,206	1,035	-	4,241
Supplies	12,202	8,586	-	20,788
Telephone	1,503	417	-	1,920
Testing and calibration services	5,210	-	-	5,210
Transmission expense	-	20,109	-	20,109
Wages	242,095	242,093	26,326	510,514
Water purchases	851,381	-	-	851,381
Utilities	7,093	9,367	-	16,460
Vehicle expenses	8,493	8,669	-	17,162
Total Operating Expenses	<u>1,396,264</u>	<u>1,471,458</u>	<u>1,111,345</u>	<u>3,979,067</u>
Net Income From Operations	287,973	256,688	233,471	778,132
Non-Operating Revenues (Expenses)				
Interest income	20,444	8,854	926	30,224
Interest expense	(60,392)	(19,745)	-	(80,137)
Transfers in (out)	(152,500)	(152,500)	(194,600)	(499,600)
Total Non-Operating (Expenses)	<u>(192,448)</u>	<u>(163,391)</u>	<u>(193,674)</u>	<u>(549,513)</u>
Change in Net Position	95,525	93,297	39,797	228,619
Contributed Capital	906,400	2,201,036	-	3,107,436
Net Position Beginning of Year	330,745	396,248	435,583	1,162,576
Prior Period Adjustments (See Note 9)	<u>1,336,215</u>	<u>622,114</u>	<u>-</u>	<u>1,958,329</u>
Net Position End of Year	<u>\$ 2,668,885</u>	<u>\$ 3,312,695</u>	<u>\$ 475,380</u>	<u>\$ 6,456,960</u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Water Fund	Sewer Fund	Refuse and Recycling Fund	Total Proprietary Funds
Cash flows from operating activities:				
Cash received from customers	\$ 1,613,188	\$ 1,606,582	\$ 1,350,597	\$ 4,570,367
Cash received from other sources	1,215	3,108	2,481	6,804
Cash payments for materials and services	(1,044,904)	(1,031,682)	(1,080,778)	(3,157,364)
Cash payments for employment	(261,378)	(261,375)	(28,385)	(551,138)
Net cash provided by operating activities	<u>308,121</u>	<u>316,633</u>	<u>243,915</u>	<u>868,669</u>
Cash flows from capital and related financing activities:				
Proceeds of long-term debt	3,135,400	1,051,200	-	4,186,600
Acquisition of capital assets	(573,135)	(317,182)	-	(890,317)
Principal payment of long-term debt - 2010 GOB	(285,300)	-	-	(285,300)
Principal payment of long-term debt - 2016 GOB	(18,900)	-	-	(18,900)
Net cash provided by capital and related financing activities	<u>2,258,065</u>	<u>734,018</u>	<u>-</u>	<u>2,992,083</u>
Cash flows from investing activities:				
Purchase of investments	(2,821,746)	(1,048,229)	-	(3,869,975)
Interest income	20,444	8,854	926	30,224
Interest expense	(60,392)	(19,745)	-	(80,137)
Transfers in (out)	(152,500)	(152,500)	(194,600)	(499,600)
Net cash (used in) investing activities	<u>(3,014,194)</u>	<u>(1,211,620)</u>	<u>(193,674)</u>	<u>(4,419,488)</u>
Net increase (decrease) in cash and cash equivalents	(448,008)	(160,969)	50,241	(558,736)
Cash and cash equivalents at beginning of year	<u>1,135,394</u>	<u>925,772</u>	<u>301,091</u>	<u>2,362,257</u>
Cash and cash equivalents at end of year	<u><u>\$ 687,386</u></u>	<u><u>\$ 764,803</u></u>	<u><u>\$ 351,332</u></u>	<u><u>\$ 1,803,521</u></u>
Reconciliation of net income from operations to net cash provided by operating activities:				
Net income from operations	\$ 287,973	\$ 256,688	\$ 233,471	\$ 778,132
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation expense	29,462	123,423	-	152,885
(Increase) decrease in current assets:				
Accounts receivable	(69,834)	(118,456)	8,262	(180,028)
Interest receivable	(11,634)	(3,814)	-	(15,448)
Increase (decrease) in current liabilities:				
Accounts payable	54,148	35,860	2,762	92,770
Interest payable	(9)	-	-	(9)
Accrued expenses	25,906	30,822	-	56,728
Wages payable	(7,891)	(7,890)	(580)	(16,361)
Total Adjustments	<u>20,148</u>	<u>59,945</u>	<u>10,444</u>	<u>90,537</u>
Net cash provided by operating activities	<u><u>\$ 308,121</u></u>	<u><u>\$ 316,633</u></u>	<u><u>\$ 243,915</u></u>	<u><u>\$ 868,669</u></u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2016**

	Police Pension Fund	Non-Uniform Pension Fund	Subdivison Escrow Fund	Total Fiduciary Funds
<u>ASSETS</u>				
Current Assets				
Cash	\$ 67,676	\$ -	\$ 405,083	\$ 472,759
Investments	4,654,823	6,150,269	-	10,805,092
Total Current Assets	<u>4,722,499</u>	<u>6,150,269</u>	<u>405,083</u>	<u>11,277,851</u>
Total Assets	<u><u>\$ 4,722,499</u></u>	<u><u>\$ 6,150,269</u></u>	<u><u>\$ 405,083</u></u>	<u><u>\$ 11,277,851</u></u>
<u>LIABILITIES AND NET POSITION</u>				
<u>LIABILITIES</u>				
Current Liabilities				
Refundable escrow deposits	\$ -	\$ -	\$ 131,548	\$ 131,548
Refundable escrow interest	-	-	7,651	7,651
Total Current Liabilities	-	-	139,199	139,199
<u>NET POSITION</u>				
Net position held in trust for pension benefits	4,722,499	6,150,269	265,884	11,138,652
Total Net Position	<u>4,722,499</u>	<u>6,150,269</u>	<u>265,884</u>	<u>11,138,652</u>
Total Liabilities and Net Position	<u><u>\$ 4,722,499</u></u>	<u><u>\$ 6,150,269</u></u>	<u><u>\$ 405,083</u></u>	<u><u>\$ 11,277,851</u></u>

The notes to financial statements are an integral part of these financial statements.

SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Police Pension Fund	Non-Uniform Pension Fund	Subdivision Escrow Fund	Total Fiduciary Funds
Revenues				
Contributions - state aid	\$ 139,989	\$ 407,040	\$ -	\$ 547,029
Contributions - members	44,578	-	-	44,578
Contributions - employer	182,209	-	-	182,209
Contributions - developer	-	-	6,993	6,993
Net increase in fair value of investments	201,738	-	-	201,738
Interest and dividends	127,819	337,776	781	466,376
Miscellaneous	-	54,954	-	54,954
Total Revenues	696,333	799,770	7,774	1,503,877
Expenses				
Benefit Payments	269,072	2,303,822	-	2,572,894
Investment expenses	28,009	-	-	28,009
Administrative expenses	750	-	-	750
Transfers out - General Fund	-	-	156	156
Total Expenses	297,831	2,303,822	156	2,601,809
Change in Net Position	398,502	(1,504,052)	7,618	(1,097,932)
Net Position at Beginning of Year	4,323,997	7,654,321	258,266	12,236,584
Net Position at End of Year	\$ 4,722,499	\$ 6,150,269	\$ 265,884	\$ 11,138,652

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 – NATURE OF ACTIVITY

Salisbury Township (the Township), Lehigh County, Pennsylvania, founded in 1753, has an approximate population of 13,505 based on a 2010 census report, living within an area of 11.1 square miles. The Township is in the southeastern portion of the Commonwealth of Pennsylvania and is located in Lehigh County.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The Township has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011.

B. Financial Reporting Entity

The Township is a Pennsylvania First Class Township which operates under a Board of Commissioners form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consist of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units, are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or entities which should be presented with the Township.

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. The statements include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods and services.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Basis of Presentation – continued

Fund Financial Statements

In the fund financial statements, financial transactions and accounts of the Township are organized on a basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity with a self-balancing set of accounts recording cash and/or other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

Total assets, liabilities, revenues or expenditures of that individual government or proprietary fund are at least 10% of the corresponding total for all funds of that category or type, and total assets, liabilities, revenues or expenditures of the individual governmental fund or proprietary fund are at least 5% of the corresponding total for all governmental and proprietary funds combined.

The Township may also report as a major fund any fund it believes to be of particular importance to the financial statement users.

The funds of the financial reporting entity are described below:

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. The acquisition, use and balances of the Township's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position rather upon net income determination.

General Fund – is the primary operating fund of the Township and is always classified as a major fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds – are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The reporting entity includes the following special revenue funds which are reported as major funds:

Liquid Fuels Fund – is used to account for the proceeds from the State Motor License Fund. Under the Act of June 1, 1956, P.L. 1944, No. 145, this Fund must be kept separate from all other funds and no other funds shall be commingled with this Fund. Expenditures are legally restricted to expenditures for highway purposes in accordance with the Department of Transportation regulations. County liquid fuels tax payments to the local government are not accounted for in this Fund.

Fire Protection Fund – accounts for taxes collected for specific purposes and expended for fire protection purposes.

Library Fund – accounts for taxes collected for specific purposes and expended for library operation purposes.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Basis of Presentation – continued

Fund Financial Statements – continued

Governmental Funds– continued:

Debt Service Fund – is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest (debt service). This Fund includes financial resources that are being accumulated for principal and interest maturing in future years and also includes financial resources that are legally mandated to be accounted for and reported in a debt service fund. The reporting entity includes the following debt service fund which is reported as a major fund:

Debt Service Fund – is used for the payment of debt related to the Township's General Obligation Bond, Series of 2010, and General Obligation Bond, Series of 2016.

Proprietary Funds:

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private-sector. The reporting entity includes the following enterprise funds which are reported as major funds:

Water Fund – is used to account for the operation of the water system which is operated as a public utility. All activities necessary to provide such services are accounted for but not limited to; administration, operations and maintenance, financing and related debt service, billing and collection.

Sewer Fund – is used to account for the operation of the sewer system which is operated as a public utility. All activities necessary to provide such services are accounted for but not limited to; administration, operations and maintenance, financing and related debt service, billing and collection.

Refuse and Recycling Fund – is used to account for the operation of trash collection for Township residents. All activities necessary to provide such services are accounted for but not limited to; administration, billing and collection.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Township reports the following fiduciary fund types:

Police Pension Fund – is a single-employer defined benefit pension plan. This Fund accounts for fiduciary resources legally held in trust for the receipts and distributions of retirement benefits for police employees.

Non-Uniform Pension Fund – is a single-employer defined benefit pension plan. This Fund accounts for fiduciary resources legally held in trust for the receipts and distributions of retirement benefits for non-uniformed employees.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Basis of Presentation – continued

Fund Financial Statements – continued

Fiduciary Fund Types – continued:

Agency Funds – are used to account for assets held in trust for the benefit of others, with the Township having no equity or ownership in the assets. The reporting entity includes the following agency funds:

Subdivision Escrow Fund – is used to record receipt of escrow deposits to be used as expense reimbursements for legal and engineering fees.

D. Measurement Focus and Basis of Accounting

The basic financial statements of the Township are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements
- Required supplementary information

Government-Wide Financial Statements

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statement. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (a) fees, fines and charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (b) 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.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Measurement Focus and Basis of Accounting - continued

Fund Financial Statements

The governmental fund financial statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. Since the governmental fund statements are presented on a difference measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities of the government-wide financial statements.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred except for unmatured interest on long-term, claims, judgments, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one type, funds must be expended for the specific purpose or project before any amounts will be paid to the Township, therefore, revenues are recognized based upon the expenditures incurred. In the other type, funds are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirement. These resources are reported as revenues as the time of receipt or earlier, if the susceptible-to-accrual criteria are met.

Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment income is recognized as earned.

The Township's Fiduciary Funds are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other local governments, litigants, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources

Cash

For the purpose of the statement of cash flows for proprietary funds, cash includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources - continued

Investments

The Board of Commissioners is authorized by statutes to invest its funds as defined in the Township Code. Authorized types of investments include the following:

- A. U.S. Treasury Bills.
- B. Short-term obligations of the U.S. Government or its agencies or instrumentalities.
- C. Insured savings and checking accounts and certificates of deposit in bank, savings and loan associations, and credit unions.
- D. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
- E. Shares of mutual funds, whose investments are restricted to the above categories.

Investments are carried at fair value.

Investments of pension trust funds are pursuant to the guidelines established by the Pension Board.

Due To and From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital outlays are recorded as expenditures in the General, Special Revenue and Capital Projects Funds and assets in the government-wide financial statements to the extent the Township's capitalization threshold is met. The Township has elected, under the provisions of GASB Statement No. 34, to capitalize infrastructure on a prospective basis beginning January 1, 2004, therefore, amounts expended for infrastructure prior to January 1, 2004 are not included in the financial statements.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation. The Township maintains a capitalization threshold of \$5,000 for all capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	25 to 40 years
Infrastructure	25 years
Traffic signals	25 years
Vehicles and transportation equipment	5 years
Office equipment	7 years
Operating equipment	5 years
Water collection system	40 years
Sewer collection system	40 years

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources - continued

Capital Assets - continued

The cost of normal repairs and maintenance that does not add to the value of the asset or materially extend its useful life is not capitalized.

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.

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.

Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Debt issuance costs, except any portion related to prepaid insurance costs, are reported as debt service expenditures in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column in the statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources. Proprietary fund types recognize long-term debt and other long-term obligations as liabilities in the statement of net position.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources - continued

Compensated Absences

Township employees are allowed sick leave in varying amounts based on their length of employment. Employees covered under the respective collective bargaining agreements accumulate sick and vacation pay as defined in the agreement.

E. Equity

Government-Wide Statements

The Township classifies net position into the following three components:

Net Investment in Capital Assets – this component consists of all capital assets, net of accumulated depreciation, and is reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Debt related to unspent proceeds is excluded from this component.

Restricted – this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability related to restricted assets if the assets result from a resource flows that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. This component of net position includes constraints that are placed thereon by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling litigation.

Unrestricted – this component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of “net investment in capital assets” or “restricted,” as noted above.

The Township’s policy is to first use restricted net position prior to the use of unrestricted net position when expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental Fund Financial Statements

The Township reports fund balances in the governmental funds into the following five components:

Nonspendable – this classification consists of amounts that cannot be spent because they are either not in spendable form or are legally required to be maintained intact.

Restricted – this classification consists of amounts that are restricted to specific purposes either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation. The restriction is binding unless removed with the consent of the resource provider.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Equity - continued

Governmental Fund Financial Statements - continued

Committed – this classification consists of amounts used for specific purposes imposed by formal action of the Township’s highest level of decision-making authority. The commitment is binding unless removed in the same manner imposed. Formal action must occur prior to fiscal year-end; however, the amount may be determined subsequent to year-end.

Assigned – this classification consists of amounts constrained by the Township’s intent to be used for specific purposes that are neither restricted nor committed.

Unassigned – this classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive, unassigned fund balance.

F. Revenues and Expenditures

Program Revenues

All revenues are recognized when received.

In the statement of activities, revenues that are derived directly from each activity or from parties outside the Township’s taxpayers are program revenues. Amounts reported as program revenues include (a) charges to customers or applicants for goods and services or privileges provided, (b) operating grants and contributions and (c) capital grants and contributions, including special assessments. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

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

Proprietary funds distinguish operating revenues and expenditures from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary funds are usage charges. The Township also recognizes as operating revenues in the Sewer Fund, allocation fees intended to recover the cost of connecting new customers to the system. Operating expenses of the proprietary funds include the cost of the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Township’s proprietary funds are interest income and capital contributions.

Intergovernmental Revenues

Intergovernmental revenues are received from the Commonwealth of Pennsylvania, federal agencies and local governmental units, generally to fund specific programs, and are recognized when received.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

G. Internal and Interfund Balances and Activities

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories, is reported as follows in the fund financial statements:

Interfund Services – sales or purchases of goods and services between funds are reported as revenues and expenditures.

Interfund Reimbursements – repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures in the respective funds.

Interfund Transfers – flow of assets from one fund to another where payment is not expected is reported as transfers in and out.

H. Use of Estimates

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

I. Recent Statements Issued by GASB

The GASB has issued the following Statements which became effective in the current year as shown below:

Statement No. 72 “*Fair Value Measurement and Application*” The primary objective of this Statement is to improve accounting and financial reporting by applying fair value measurements to certain investments and liabilities using a consistent and appropriate valuation technique for which sufficient data is available. The Statement became effective for financial statements for periods beginning after June 15, 2015. This Statement has no impact on the Township’s financial statements.

Statement No. 74 “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*” The primary objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions. The Statement is effective for financial statements for fiscal years beginning after June 15, 2016. This Statement has no impact on the Township’s financial statements.

Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*” The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for financial statements for fiscal years beginning after June 15, 2017. This Statement has no impact on the Township’s financial statements.

Statement No. 76 “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*” The primary objective of this Statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles. The Statement became effective for financial statements for periods beginning after June 15, 2015. This Statement has no impact on the Township’s financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

I. Recent Statements Issued by GASB – continued

Statement No.77 “*Tax Abatement Disclosures*” The objective of this Statement is to give users of the financial statements essential information that is not consistently or comprehensively reported to the public. These disclosures will make tax abatements, and their economic impact, more transparent. The Statement became effective for financial statements for fiscal years beginning after December 15, 2015. This Statement has no impact on the Township’s financial statements.

Statement No. 78 “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*” The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68. The Statement became effective for reporting periods beginning after December 15, 2015. This Statement has no impact on the Township’s financial statements.

Statement No. 79 “*Certain External Investment Pools and Pool Participants*” The objective is to improve financial reporting by enhancing comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurements. The Statement became effective for reporting periods beginning after December 15, 2015. This Statement has no impact on the Township’s financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Township’s available cash is invested in demand deposit accounts, money market accounts and the Pennsylvania Local Government Investment Trust. Pension fund assets are invested in mutual funds. The carrying amounts of cash and investments at December 31, 2016 consist of the following:

Cash deposits	\$ 3,504,325
Petty cash	960
Investments and certificates of deposits	18,223,280
	<u>\$ 21,728,565</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Reconciliation to Statement of Net Position/Balance Sheet

Cash:	
Governmental	\$ 1,229,005
Business-type	1,803,521
Fiduciary	405,083
	<u>3,437,609</u>
Investments and certificates of deposit:	
Governmental	3,542,041
Business-type	3,876,147
Fiduciary	10,872,768
	<u>18,290,956</u>
	<u>\$ 21,728,565</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, the Township's deposits may not be returned to the Township. The Pennsylvania Local Government Code and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provisions for deposits: Pennsylvania Act 72 requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies.

At December 31, 2016, the carrying amount of the Township's bank deposits and certificates of deposit was \$6,499,616 and the corresponding bank balances were \$7,325,514, of which \$250,000 was covered by Federal Depository Insurance. The remaining \$7,075,514 of deposits was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

Investments

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

	Fair Value	Investment Maturities (in Years)		Rating as of Year-End AAAm by Standard & Poor's
		Less Than One Year	One Through Five Years	
Pennsylvania Local Government Investment Trust	<u>\$ 4,355,221</u>	<u>\$ 4,355,221</u>	<u>\$ -</u>	

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investments – continued

As of December 31, 2016, the Township's pension trust funds have the following investments:

<u>Fund</u>	<u>Fair Market Value</u>
Police Pension Fund:	
Cash	\$ 67,676
Fixed Income	1,654,156
Equities	1,833,415
Common Stocks	1,167,252
Total Police Pension Fund	<u>4,722,499</u>
Non-Uniform Pension Fund	
Equities and Fixed Income	<u>6,150,269</u>
Total Non-Uniform Pension Fund	<u>6,150,269</u>
Totals	<u>\$ 10,872,768</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Township limits the type of investments permitted as defined in the Township Code. Permitted investments are defined in Note 2. When making investments, the Township can combine monies from more than one fund under the Township's control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

Interest Rate Risk

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

Custodial Credit Risk

For an investment, 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. As of December 31, 2016, \$10,872,768 is held by the investment's counterparties, not in the name of the Township.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 – CAPITAL ASSETS

Capital asset activity is as follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 3,793,613	\$ 10,296	\$ -	\$ 3,803,909
Construction in progress	-	711,547	-	711,547
Total capital assets not being depreciated	3,793,613	721,843	-	4,515,456
Capital assets being depreciated:				
Buildings and building improvements	8,947,676	12,542	-	8,960,218
Infrastructure	687,404	-	-	687,404
Traffic signals	244,011	-	-	244,011
Vehicles and transportation equipment	1,858,796	226,266	-	2,085,062
Office equipment	122,849	-	-	122,849
Operating equipment	995,141	57,079	-	1,052,220
Total capital assets being depreciated	12,855,877	295,887	-	13,151,764
Less accumulated depreciation	9,947,927	352,140	-	10,300,067
Total capital assets being depreciated, net	2,907,950	(56,253)	-	2,851,697
Total governmental activities capital assets, net	\$ 6,701,563	\$ 665,590	\$ -	\$ 7,367,153

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 – CAPITAL ASSETS - continued

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 751,311	\$ -	\$ 751,311
Capital assets being depreciated:				
Water collection system	3,234,969	4,181	-	3,239,150
Sewer collection system	9,104,751	83,011	-	9,187,762
Vehicles and transportation equipment	552,539	51,814	-	604,353
Total capital assets being depreciated	12,892,259	139,006	-	13,031,265
Less accumulated depreciation	9,396,931	152,885	-	9,549,816
Total capital assets being depreciated, net	3,495,328	(13,879)	-	3,481,449
Total business-type activities capital assets, net	<u>\$ 3,495,328</u>	<u>\$ 737,432</u>	<u>\$ -</u>	<u>\$ 4,232,760</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2016 are as follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016	Current Portion
Governmental activities:					
Bonds payable:					
Series of 2002, General Obligation Bond, initial issue \$3,555,000, interest rate averaging 2.945% per annum, maturing December 2029	\$ 1,759,700	\$ -	\$ 1,759,700	\$ -	\$ -
Series of 2016, General Obligation Bond, initial issue \$6,440,000, interest rate ranging from 2.00%-4.00% per annum, maturing December 2035	-	2,253,400	116,100	2,137,300	106,750
Premium	-	65,670	2,462	63,208	-
Discount	-	(45,080)	(1,690)	(43,390)	-
Total governmental activities					
Long-term activities	<u>\$ 1,759,700</u>	<u>\$ 2,273,990</u>	<u>\$ 1,876,572</u>	<u>\$ 2,157,118</u>	<u>\$ 106,750</u>

Total governmental activities interest expense for the year ended December 31, 2016 was \$57,318.

Bond principal and interest payments are paid from the Debt Service Fund which is funded by transfers in from the General Fund.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 – LONG-TERM LIABILITIES - continued

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016	Current Portion
Business-type activities:					
Bonds payable:					
Series of 2002, General Obligation Bond, initial issue \$3,555,000, interest rate averaging 2.945% per annum, maturing December 2029	\$ 285,300	\$ -	\$ 285,300	\$ -	\$ -
Series of 2016, General Obligation Bond, initial issue \$6,440,000, interest rate ranging from 2.00%-4.00% per annum, maturing December 2035	-	4,186,600	18,900	4,167,700	198,250
Premium	-	104,916	3,934	100,982	-
Discount	-	(92,897)	(3,484)	(89,413)	-
Total business-type activities					
Long-term activities	<u>\$ 285,300</u>	<u>\$ 4,198,619</u>	<u>\$ 304,650</u>	<u>\$ 4,179,269</u>	<u>\$ 198,250</u>

Total business-type activities interest expense for the year ended December 31, 2016 was \$80,137.

Aggregate maturities required on long-term debt at December 31, 2016 are as follows:

Governmental Activities

Year Ending December 31,	Series of 2016 General Obligation Bond	
	Principal	Interest
2017	\$ 106,750	\$ 55,616
2018	108,500	52,414
2019	113,750	48,144
2020	119,000	43,524
2021	124,250	38,764
2022-2026	651,000	155,946
2027-2031	602,000	87,064
2032-2035	312,050	24,192
	<u>\$ 2,137,300</u>	<u>\$ 505,664</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 – LONG-TERM LIABILITIES - continued

Business-Type Activities

Year Ending December 31,	Series of 2016 General Obligation Bond	
	Principal	Interest
2017	\$ 198,250	\$ 103,287
2018	201,500	97,339
2019	211,250	89,409
2020	221,000	80,829
2021	230,750	71,989
2022-2026	1,209,000	289,615
2027-2031	1,118,000	161,690
2032-2035	777,950	44,933
	<u>\$ 4,167,700</u>	<u>\$ 939,091</u>

Total Government-Wide

Year Ending December 31,	Series of 2016 General Obligation Bond		
	Principal	Interest	Total
2017	\$ 305,000	\$ 158,903	\$ 463,903
2018	310,000	149,753	459,753
2019	325,000	137,553	462,553
2020	340,000	124,353	464,353
2021	355,000	110,753	465,753
2022-2026	1,860,000	445,561	2,305,561
2027-2031	1,720,000	248,754	1,968,754
2032-2035	1,090,000	69,125	1,159,125
	<u>\$ 6,305,000</u>	<u>\$ 1,444,755</u>	<u>\$ 7,749,755</u>

Substantially all of the Township's assets are pledged as collateral for the outstanding long-term debt.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 6 – INTERFUND TRANSFERS AND BALANCES

Transfers to/from other funds for the year ended December 31, 2016 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 499,756	\$ 1,986,350
Fire Protection Fund	52,460	-
Water Fund	-	152,500
Sewer Fund	-	152,500
Refuse and Recycling Fund	-	194,600
Debt Service Fund	1,933,890	-
Subdivision Escrow Fund	-	156
	<u>\$ 2,486,106</u>	<u>\$ 2,486,106</u>

Transfers in and transfers out from (to) other funds in the statement of revenues, expenditures and changes in fund balances represent transfers between funds. Semiannual bond payments are funded by transfers from the General Fund to the Debt Service Fund. The remaining transfers represent funding for fixed asset acquisition.

NOTE 7 – FUND BALANCE

The Township established and will maintain reservations of Fund Balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Policy applies to the Township's General Fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned and unassigned amounts.

Fund balance information is used to identify the available resources to repay long-term debt, add new governmental programs, expand existing programs or enhance the financial position of the Township in accordance with policies established by the Board of Commissioners.

The details of governmental fund balances as of December 31, 2016 are presented below:

General Fund

The General Fund has an unassigned fund balance of \$3,989,669.

Fire Protection Fund

The restricted fund balance in the fire protection fund of \$387,505 represents tax collection from Township residents that is restricted in use to expenditures related to the Township's fire protection.

Library Fund

The restricted fund balance in the library fund of \$96,767 represents tax collections from Township residents that is restricted in use to expenditures related to the Township's library operations.

Highway Fund

The restricted fund balance in the liquid fuels highway aid fund of \$305,637 represents state gas taxes received from the state of Pennsylvania that is restricted to use in highway and street construction and repairs.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS

GENERAL INFORMATION – POLICE PENSION

Plan Description

The Salisbury Township Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Codified Ordinances adopted pursuant to Act 600. The Plan is governed by the Salisbury Township which may amend plan provisions, and which is responsible for the management of plan assets. Salisbury Township has delegated the authority to manage certain plan assets to PNC Institutional Asset Management.

Salisbury Township filed an actuarial valuation report Form 201C with Public Employee Retirement Commission. The report dated January 1, 2015, was the most recently certified by the municipality's chief administrative officer. This report indicated the municipality maintains a pension plan to provide pension or retirement benefits for Uniform employees.

Employees Covered by the Plan

As of January 1, 2016, the following employees were covered by the benefit terms:

	<u>2016</u>
Active employees	16
Retirees and beneficiaries currently receiving benefits	10
Terminated employees entitled to benefits but not yet receiving them	<u>0</u>
TOTAL	26

Benefit Provisions

The following is a summary of the Plan's benefit provisions:

Eligibility

All full-time policemen working at least forty (40) hours per week at a definite salary.

Retirement Dates

Normal Retirement Date – a participant may retire upon the attainment of age fifty (50) and completion of twenty-five (25) years of service.

Disability Retirement Date – the existence of a permanent and total disability from performing police work provided the police officer was honorably discharged as a result of the disability.

Retirement Benefits

Normal Retirement Benefit – fifty percent (50%) of the participant's average monthly salary during the last thirty-six (36) months of employment. Effective 1/02/07, a service increment equal to one hundred dollars (\$100) per month for each full year of service in excess of twenty-five (25) years shall be added to the normal retirement benefit. The maximum service increment shall be five hundred dollars (\$500) per month.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

GENERAL INFORMATION – POLICE PENSION – continued

Benefit Provisions – continued

Retirement Benefit – continued

Disability Retirement Benefit – in the event of a permanent service-related injury, the benefit shall be equal to 75% of the average monthly salary during the last thirty-six (36) months of employment or if greater, 50% of the participant's monthly salary at the time of disability. The benefit would be payable as if the date of disability had been his/her normal retirement date. This benefit is reduced by any benefits or payments received by such participant under the Social Security Administration for the same injury.

Accrued Benefit

The Normal Retirement Benefit multiplied by the fraction of years of services to date over total expected years of service to retirement.

Vested Benefits

Non-Vested Benefit – any participant, who for any reason, shall be ineligible to receive a pension after having contributed, shall be entitled to a refund of his/her contributions plus interest at the rate of five percent (5%) per annum upon discontinuance of his employment.

Vested Benefit – upon discontinuance of employment after completing twelve (12) years of service where such termination is for reasons other than disability, death or retirement, the member receives full vesting of the Accrued Benefit.

Death Benefits

Pre-Retirement – the widow of a participant who was vested or was still employed after having met the age and service requirements shall receive 50% of the pension the participant would have received had he/she been retired at the time of his/her death.

Post-Retirement Survivors Benefit – the widow of a participant who has attained eligibility for retirement, or a participant who retired on pension, shall receive during the spouse's lifetime, fifty percent (50%) of the pension the participant was receiving or would have been receiving had he been retired at the time of his death.

If no such widow survives, or if the spouse survives and subsequently dies or remarries, then the children under the age of eighteen (18) or are attending college and have not yet attained age twenty three (23), shall be entitled to the same benefit described above.

Monthly Salary

The amount of monthly compensation paid to a participant by the Township each and every month.

Employee Contributions

Each participant shall contribute to the fund not less than five percent (5%) or more than eight percent (8%). The Township may, on an annual basis, reduce or eliminate participant contributions to the fund. These contributions will be made in accordance with IRC Section 414(h)(2).

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

GENERAL INFORMATION – POLICE PENSION – continued

Actuarial Methods and Assumptions

Actuarial Methods

Liabilities – all plan benefits are valued using the entry age normal cost valuation method.

Actuarial Assumptions

- a. Investment Return – 7% per annum, net of investment expenses.
- b. Salary Increases – 5% compounded annually.

Demographic Assumptions

- a. Mortality –
 - Pre-Retirement – None
 - Post-Retirement – the Blue Collar RP-2000 Mortality Table projected to 2015 using Scale AA
- b. Termination – none assumed
- c. Disability – none assumed
- d. Retirement Age – normal retirement age, or age on valuation date if greater.
- e. Marital Status – 80% of active members are assumed to be married. Female spouse is assumed to be 3 years younger than male spouse.
- f. Form of Annuity – 50% joint and survivor.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

GENERAL INFORMATION – POLICE PENSION – continued

Contributions

Act 205 requires that annual contributions to the Plan be based upon the Plan's Minimum Municipal Obligation (MMO), which is based on the Plan's biennial actuarial valuation. In accordance with the Plan's governing document, employees are required to contribute 3.04% of compensation to the Plan. The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – POLICE PENSION FUND

Basis of Accounting

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

Valuation of Investments

The pension Plan's assets are valued at fair market value.

INVESTMENTS – POLICE PENSION FUND

Investment Policy

The pension Plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. The investment policy of the Plan is to maximize the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investments in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent.

The Plan's investment policy establishes that the portfolio may be invested in the following asset classes with the following target asset allocation:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity Large Cap	29%
Domestic Equity Mid Cap	29%
Domestic Equity Small Cap	2%
International Equity	3%
Fixed Income	35%
Cash	2%
Total	100%

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

INVESTMENTS – POLICE PENSION – continued

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.92 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

DEFERRED RETIREMENT OPTION PROGRAM – POLICE PENSION FUND

The Plan does not provide a Deferred Retirement Option Program.

PENSION LIABILITY – POLICE PENSION FUND

Net Pension Liability

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

Total Pension Liability (TPL)	\$ 6,416,641
Plan Fiduciary Net Position	\$ 4,722,499
Net Pension Liability (NPL)	\$ 1,694,142
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.6%

Actuarial Assumptions

An actuarial valuation of the total pension liability is performed biennially. The total pension liability was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the Plan's fiscal year ending December 31, 2016. This report was based upon the Plan's actuarial assumptions, asset valuation method and cost method.

Long-Term Expected 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 pension plan investment expense and inflation of 2.25%) 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 allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity Large Cap	6.58%
Domestic Equity Mid Cap	7.39%
Domestic Equity Small Cap	7.39%
International Equity	7.34%
Fixed Income	3.09%
Emerging Markets	10.93%
Cash	0.75%

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

PENSION LIABILITY – POLICE PENSION – continued

Discount Rate

The discount rate used to measure the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net position liability would be if it were calculated using a different rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability	\$ 2,544,360	\$ 1,694,142	\$ 981,152

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2015	\$ 6,000,058	\$ 4,323,997	\$ 1,676,061
Changes for the year:			
Service Cost	257,073	-	257,073
Interest	428,582	-	428,582
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Changes of Assumptions	-	-	-
Contributions – Employer	-	182,209	(182,209)
Contributions – State Aid	-	139,989	(139,989)
Contributions – Member	-	44,578	(44,578)
Net Investment Income	-	301,548	(301,548)
Benefit Payments	(269,072)	(269,072)	-
Administrative Expense	-	(750)	750
Other Changes	-	-	-
Balances at 12/31/2016	\$ 6,416,641	\$ 4,722,499	\$ 1,694,142

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

PENSION LIABILITY – POLICE PENSION – continued

Pension Expense for Fiscal Year Ended December 31, 2016

Service Cost	\$ 257,073
Interest in Total Pension Liability	428,582
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Employee Contributions	(44,578)
Projected Earnings on Pension Plan Investments	(300,435)
Differences Between Projected and Actual Earnings on Investments	55,919
Administrative Expense	750
Other Changes in Fiduciary Net Position	-
Total Pension Expense	<u>\$ 397,311</u>

Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2016, the municipality recognized a pension expense of \$397,311. At December 31, 2016, the municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	167,538	-
Total	<u>\$ 167,538</u>	<u>\$ -</u>

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

Year Ended December 31:	
2017	\$ 55,919
2018	55,919
2019	55,921
2020	(221)
2021	-
Thereafter	-
Total	<u>\$ 167,538</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION

Plan Description

Salisbury Township's pension plan is a single-employer cash balance pension plan controlled by the provisions of Ordinance No. 102 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multi-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS website and can be obtained by contacting the PMRS accounting office.

Benefit Provisions - The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

The following table contains the number of active participants, deferred vested participants, and participants currently receiving a benefit from the Plan based upon the most recent actuarial valuation date of December 31, 2014:

Active members	31
Retirees and beneficiaries currently receiving benefits	28
Inactive employees entitled to benefits but not yet receiving them	<u>3</u>
Total	<u><u>62</u></u>

Summary of Significant Accounting Policies

Basis of Accounting - The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Long-Term Expected Rate of Return on Plan Assets

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. There are four steps to the method:

- 1) Expected future real rates of return are based primarily on the 20 year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the Board's opinion, any such asset classes are expected in the future to significantly vary from its 20 year historical returns. These nominal rates of return further assume that investment expenses will be offset by the additional return performance derived from active investment management.
- 2) The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
- 3) The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the chart below labeled "System Nominal and Real Rates of Return by Asset Class."
- 4) These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the Board has been determined to be 70%. The chart below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

System Nominal and Real Rates of Return by Asset Class

Asset Class	Target Asset Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic Equities (large capitalized firms)	25%	9.9%	6.9%
Domestic Equities (small capitalized firms)	15%	9.8%	6.8%
International Equities (international developed markets)	15%	7.0%	4.0%
International Equities (emerging markets)	10%	10.6%	7.6%
Real Estate	20%	10.1%	7.1%
Fixed Income	15%	5.4%	2.4%
Total Portfolio	100%	8.9%	5.9%

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Confidence Levels for System Nominal and Real Rates of Return

Target Asset Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95%	3.6%	0.6%
90%	4.6%	1.6%
85%	5.3%	2.3%
80%	5.5%	2.5%
75%	5.9%	2.9%
70%	6.3%	3.3%
50%	8.2%	5.2%

Based on the four part analysis, the Board established the System's Long-Term Expected Rate of Return at 7.5%.

In addition to determining the System's Long-Term Expected Rate of Return, PMRS also develops a Long-Term Expected Rate of Return for individual participating municipalities. The Long-Term Expected Rate of Return for individual participating municipalities is also referred to as the Regular Interest Rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the Board is obligated to apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the Long-Term Expected Rate of Return for individual participating municipalities is equal to the Regular Interest Rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described section below labeled "Discount Rate." As of December 31, 2015, this rate is equal to 5.5%.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Discount Rate

While it is often common practice to establish an actuarial Discount Rate that is equal to the Long-Term Expected Rate of Return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

- 1) Retiree Plan liability as a percentage of total Plan liability
- 2) Active Plan participant liability as a percentage of total Plan liability
- 3) Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates
- 4) PMRS System Long-Term Expected Rate of Return
- 5) PMRS administrative expenses

The formula using these factors is as follows:

Regular Interest Rate = (Retiree Liability Percentage X Smoothed PBGC Annuity Rates) + (Active Employee Liability Percentage X System Long-Term Expected Rate of Return) – (Administrative Expenses as a percentage of assets)

The Board may then adjust the Regular Interest Rate derived from the formula due to a variety of qualitative factors such as the desire to minimize Regular Interest Rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The Discount Rate adopted by the Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2015 was 5.5%.

This required equivalence between the Regular Interest Rate and the actuarial Discount Rate will likely result in a System Long-Term Expected Rate of Return that will be higher than the actuarial Discount Rate and higher than the Long-Term Expected Rate of Return for individual participating municipalities. Should the System experience a prolonged period of investment return in excess of the Regular Interest Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the Discount Rate was required ("depletion testing"), used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's Long-Term Expected Rate of Return will be used in the depletion testing of projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Net Pension Liability

The net pension liability represents the liability for employees' for projected pension payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

The Pennsylvania Municipal Retirement System (PMRS) is an agent multiple-employer defined benefit pension plan. The Measurement Date for the Net Pension Liability (NPL) is December 31, 2015, which is no earlier than the end of the employer's prior fiscal year as allowed by Paragraph 20 of GASB 68. The table below provides a summary of the key results during this measurement period:

	12/31/2015	12/31/2014
Net Pension Liability	\$ 2,247,435	\$ 1,387,792
Deferred Inflows	986	-
Deferred Outflows	(769,873)	(153,396)
Net Impact on Statement of Net Position	\$ 1,478,548	\$ 1,234,396
Total Pension Expense (\$ Amount)	\$ 636,848	\$ 417,191
Total Pension Expense (% of Payroll)	30.16%	21.22%

Any contributions between the Measurement Date and the Reporting Date would be reported as deferred outflows to offset the cash outflow reported. The final Total Pension Liability (TPL) for the Employer is measured as of December 31, 2015 based upon the actuarial valuation one year prior and then projected to this date. The TPL reflects the assumption changes as passed by the Board of Trustees effective for actuarial valuations as of December 31, 2015. The beginning of year TPL as of December 31, 2014 is based upon the actuarial valuation of the same date. It is our understanding that there were no other significant changes during this projected period, such as plan changes to the pension benefits.

A breakdown of the components of the net pension expense is shown later in the report.

Determination of Discount Rate

The discount rate used to measure the Total Pension Liability was 5.50%.

PMRS develops a Long-Term Expected Rate of Return for individual participating municipalities, which is also referred to as the Regular Interest Rate.

We have assumed that the employees will continue to contribute to the Plan at the current rates and the employers will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. See the latest Act 205 Form for details on the closed period.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Determination of Discount Rate - continued

A formal cash flow projection as described under Paragraph 41 of GASB Statement 67 was not performed. However, Paragraph 43 allows for alternative methods to confirm the sufficiency of the Net Position if the evaluations “can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan.” In our professional judgment, adherence to the actuarial funding policy described above will result in the pension plan’s projected Fiduciary Net Position being greater than or equal to the benefit payments projected for each future period.

Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

The table below shows the changes in the Total Pension Liability, the Plan Fiduciary Net Position (i.e., fair value of Plan assets), and the Net Pension Liability as of the Measurement Date:

	Increase/(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/2014	\$ 13,940,263	\$ 12,552,471	\$ 1,387,792
Adjustments	(1,232)	-	(1,232)
Changes for the year:			
Service cost	326,459	-	326,459
Interest	768,776	-	768,776
Changes of benefits	-	-	-
Changes of assumptions*	208,095	-	208,095
Differences between expected and actual experience	-	-	-
Contributions – employer	-	391,296	(391,296)
Contributions – PMRS assessment	-	1,400	(1,400)
Contributions – member	-	-	-
PMRS investment income	-	690,377	(690,377)
Market value investment income**	-	(610,438)	610,438
Transfers	-	-	-
Benefit payments	(583,305)	(583,305)	-
PMRS administrative expense	-	(1,400)	1,400
Additional administrative expense	-	(28,780)	28,780
Balances at 12/31/2015	\$ 14,659,056	\$ 12,411,621	\$ 2,247,435

*Assumption changes reflect the liability impact of the Board of Trustee approved changes as of December 31, 2015.

**Reflects the net investment income/ (loss) of (\$722,419) and the income/ (loss) due to the difference between expected and actual asset values of \$111,981, which includes the impact from allocation of assets in support of the underlying retiree liabilities.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Changes in Net Pension Liability - continued

This report does not reflect changes in benefits or assumptions after January 1, 2016 because the beginning and end of year TPL are based upon different actuarial valuation dates, there is no difference between expected and actual experience reported this year, per GASB 68 paragraph 22. The beginning of year TPL is based upon the January 1, 2015 actuarial valuation, with liabilities measured at December 31, 2014. The end of year TPL is based upon the same actuarial valuation with liabilities rolled forward to December 31, 2015 and reflecting the impact of the assumption changes. Except as noted below, the TPL as of December 31, 2015 was based upon the data, actuarial methods and assumptions, and plan provisions.

According to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68, PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer “plan fiduciary net position.” PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning Fiduciary Net Position balance adjusted for cash flows throughout the year. The “Additional administrative expenses” are the expenses in excess of the “PMRS administrative expense” (i.e. \$20 per participant expense paid by each plan). The “PMRS investment income” is based upon the regular and excess interest used to credit accounts manually. The “Market value investment income” reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of the underlying retiree liabilities.

Sensitivity of Net Pension Liability to Changes in Discount Rate

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. The table below shows the sensitivity of the NPL to the discount rate with two additional measures, plus and minus one percent from the rate used for disclosure.

	1% Decrease 4.50%	Discount Rate 5.50%	1% Increase 6.50%
Total Pension Liability	\$ 16,285,832	\$ 14,659,056	\$ 13,254,063
Plan Fiduciary Net Position	12,411,621	12,411,621	12,411,621
Net Pension Liability	<u>\$ 3,874,211</u>	<u>\$ 2,247,435</u>	<u>\$ 842,442</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>76.2%</u>	<u>84.7%</u>	<u>93.6%</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Deferred Outflows and Deferred Inflows of Resources

The impact of investment gains or losses for expensing is recognized over a period of five years. The impact of experience gains or losses and assumption changes on the TPL are recognized in the collective pension expense over the average expected remaining service life of all active and inactive members of the Plan, as provided below.

There were experience gains or losses between the beginning of year and end of year liabilities because the liabilities are based upon two different actuarial valuation dates. Also, assumption changes as of the Measurement Date have been reflected.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 85,244	\$ 986
Changes in Assumptions	166,476	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	518,153	-
Total	<u>\$ 769,873</u>	<u>\$ 986</u>

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

Year Ended December 31:	
2016	\$ 201,810
2017	201,810
2018	201,810
2019	163,457
2020	-
Thereafter	-
Total	<u>\$ 768,887</u>

The recognition period for experience and assumptions change gains/losses is 5.00 years.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 – PENSION PLANS – continued

NON-UNIFORM PENSION – continued

Calculation of Collective Pension Expense

The annual pension expense recognized can be calculated two different ways. First, it is the change in the amounts reported on for the Employer's Statement of Net Position that relate to the plan and are not attributable to employer contributions. That is, it is the change in NPL plus the changes in deferred outflows and deferred inflows plus employer contributions.

Alternatively, annual pension expense can be calculated by its individual components. While GASB does not require or suggest the organization of the individual components shown in the table below, we believe it helps to understand the level and volatility of pension expense.

	Measurement Year Ending	
	12/31/2015	12/31/2014
Change in Net Pension Liability	\$ 859,643	\$ 306,245
Change in Deferred Outflows	(616,477)	(153,396)
Change in Deferred Inflows	986	-
Employer Contributions	392,696	264,342
Pension Expense	<u>\$ 636,848</u>	<u>\$ 417,191</u>
Pension Expense as % of Payroll	30.16%	21.22%
Operating Expenses:		
Service cost	\$ 326,459	\$ 309,455
Employee contributions	-	-
PMRS administrative expense	1,400	1,240
Additional administrative expense	28,780	26,693
Total	<u>356,639</u>	<u>337,388</u>
Financing Expenses:		
Interest cost	768,776	737,497
Expected return on assets	(690,377)	(696,043)
Total	<u>78,399</u>	<u>41,454</u>
Changes:		
Benefit changes	-	-
Recognition of assumption changes	41,619	-
Recognition of liability gains and losses	28,168	28,414
Recognition of investment gains and losses	132,023	9,935
Total	<u>201,810</u>	<u>38,349</u>
Pension Expense	<u>\$ 636,848</u>	<u>\$ 417,191</u>

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 9 – RESTATEMENT OF PRIOR PERIOD FUND BALANCES AND NET POSITION

The following prior period adjustments resulted in the restatement of net position:

Governmental Activities

Net position at December 31, 2015	\$ 9,283,062
Governmental fund adjustment real estate tax receivable	(57,931)
Government-wide adjustment fixed assets and accumulated depreciation	(2,438,721)
Government-wide adjustment pension contributions subsequent to the measurement date of 12/31/15	(300,288)
Government-wide adjustment deferred outflows	630,943
Government-wide adjustment deferred inflows	223,584
Government-wide adjustment net pension liability	(2,247,435)
Total adjustments	<u>(4,189,848)</u>
Net position at December 31, 2015, restated	<u>\$ 5,093,214</u>

Business-Type Activities

Net position at December 31, 2015	\$ 4,270,012
Business-type adjustment fixed assets and accumulated depreciation	1,958,811
Business-type adjustment interest receivable	(482)
Total adjustments	<u>1,958,329</u>
Net position at December 31, 2015, restated	<u>\$ 6,228,341</u>

NOTE 10 – SUBSEQUENT EVENTS

In preparing these financial statements, management of Salisbury Township has evaluated events and transactions subsequent to December 31, 2016 through January 10, 2019 the date these financial statements were available to be issued. Based on the definitions and requirements of the Subsequent Events Topics of the FASB Accounting Standards Codification, management of Salisbury Township is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budget	Final Budget
			Basis	Positive
				(Negative)
Revenues				
Taxes	\$ 5,293,500	\$ 5,293,500	\$ 5,574,724	\$ 281,224
Licenses and permits	243,400	243,400	260,843	17,443
Fines and forfeits	93,000	93,000	108,343	15,343
Interest, rents and royalties	65,300	65,300	78,309	13,009
Intergovernmental	963,100	963,100	858,851	(104,249)
Charges for services	381,300	381,300	391,831	10,531
Miscellaneous	100,200	100,200	109,200	9,000
Total Revenues	7,139,800	7,139,800	7,382,101	242,301
Other Financing Sources				
Proceeds of general fixed asset disposition	-	-	15,218	15,218
Transfers in	499,600	499,600	499,756	156
Proceeds of general long-term debt	-	-	2,273,990	2,273,990
Refunds of prior year expenditures	548,200	548,200	160,606	(387,594)
Total Other Financing Sources	1,047,800	1,047,800	2,949,570	1,901,770
Total Revenues and Other Financing Sources	8,187,600	8,187,600	10,331,671	2,144,071
Expenditures				
General government	1,015,950	1,015,950	921,224	94,726
Public safety	2,619,100	2,619,100	2,522,859	96,241
Public works - highways and streets	1,535,800	1,535,800	1,672,884	(137,084)
Culture and recreation	755,100	755,100	712,200	42,900
Community development	60,950	60,950	48,046	12,904
Debt service - principal	4,500	4,500	-	4,500
Debt service - interest	100	100	-	100
Debt issuance costs	-	-	21,292	(21,292)
Payroll taxes	170,700	170,700	173,935	(3,235)
Pension	657,300	657,300	657,272	28
Insurance and other benefits	1,126,200	1,126,200	1,087,674	38,526
Miscellaneous	2,900	2,900	411	2,489
Refund of prior year revenues	-	-	872	(872)
Transfers out	239,000	239,000	1,986,350	(1,747,350)
Total Expenditures	8,187,600	8,187,600	9,805,019	(1,617,419)
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	526,652	\$ (526,652)
Fund Balances at Beginning of Year			3,516,101	
Prior Period Adjustments (See Note 9)			(53,084)	
Fund Balances at End of Year			\$ 3,989,669	

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
SCHEDULE OF CHANGES IN PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS*
POLICE PENSION PLAN
DECEMBER 31, 2016**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service cost (beginning of year)	\$ 257,073	\$ 244,831	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest (includes interest on service cost)	428,582	401,553	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between expected and actual experience	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of assumptions	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of member contributions	(269,072)	(275,931)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Change in Total Pension Liability	416,583	370,453	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Pension Liability - Beginning	6,000,058	5,629,605	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Pension Liability - Ending	<u>\$ 6,416,641</u>	<u>\$ 6,000,058</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Plan Fiduciary Net Position										
Contributions - employer	\$ 182,209	\$ 166,980	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions - state aid	139,989	133,308	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions - member	44,578	31,519	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net investment income	301,548	13,984	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of member contributions	(269,072)	(275,931)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expense	(750)	(5,875)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Change in Plan Fiduciary Net Position	398,502	63,985	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position - Beginning	4,323,997	4,260,012	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position - Ending	<u>4,722,499</u>	<u>4,323,997</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Net Pension Liability - Ending	<u>\$ 1,694,142</u>	<u>\$ 1,676,061</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.60%	72.07%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered Employee Payroll	\$ 1,418,269	\$ 1,418,760	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan's Net Pension Liability as a Percentage of Covered Employee Payroll	119.45%	118.14%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

None.

* Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
SCHEDULE OF CHANGES IN PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS
NON-UNIFORM PENSION PLAN
DECEMBER 31, 2016**

The schedules of Required Supplementary Information will eventually build up to 10 years of information. The schedule below shows the changes in NPL and related ratios required by GASB.

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total Pension Liability										
Service cost (beginning of year)	\$ 326,459	\$ 309,455	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest (includes interest on service cost)	768,776	737,497	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between expected and actual experience*	(1,232)	142,072	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of assumptions	208,095	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Transfers	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of member contributions	(583,305)	(687,496)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Change in Total Pension Liability	718,793	501,528	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Pension Liability - Beginning	13,940,263	13,438,735	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Pension Liability - Ending	\$ 14,659,056	\$ 13,940,263	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position										
Contributions - employer	\$ 391,296	\$ 264,342	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions - PMRS assessment	1,400	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions - member	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PMRS investment income	690,377	696,043	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Market value investment income	(610,438)	(49,673)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Transfers	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of member contributions	(583,305)	(687,496)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PMRS administrative expense	(1,400)	(1,240)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Additional administrative expense	(28,780)	(26,693)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Change in Plan Fiduciary Net Position	(140,850)	195,283	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position - Beginning	12,552,471	12,357,188	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position - Ending	12,411,621	12,552,471	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Pension Liability - Ending	\$ 2,247,435	\$ 1,387,792	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.67%	90.04%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered Employee Payroll	\$ 2,111,508	\$ 1,966,279	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan's Net Pension Liability as a Percentage of Covered Employee Payroll	106.44%	70.58%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

Plan Changes: None

Assumption Changes: None

*Includes adjustments to beginning amounts, if applicable

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND RELATED RATIOS
LAST 10 FISCAL YEARS
POLICE PENSION PLAN
DECEMBER 31, 2016**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 322,198	\$ 300,288	\$ 295,572	\$ 262,000	\$ 258,273	\$ 222,285	\$ 219,168	\$ 129,610	\$ 108,413	\$ 97,960
Contribution made	322,198	300,288	295,572	262,000	258,273	222,285	219,168	129,610	108,413	97,960
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,418,269	\$ 1,418,760	\$ 1,338,311	\$ 1,238,387	\$ 1,218,922	\$ 1,121,277	\$ 1,063,519	\$ 936,249	\$ 784,540	\$ 743,800
Contributions as a percentage of covered- employee payroll	22.72%	21.17%	22.09%	21.16%	21.19%	19.82%	20.61%	13.84%	13.82%	13.17%

Notes to Schedule:
None.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND RELATED RATIOS
LAST 10 FISCAL YEARS
NON-UNIFORM PENSION PLAN
DECEMBER 31, 2016**

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which confirms to these standards.

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$ 392,556	\$ 264,322	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in Relation to the Actuarially Determined Contribution*	392,696	264,342	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution Deficiency/(Excess)	\$ (140)	\$ (20)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Participant Payroll**	\$ 2,111,508	\$ 1,966,279	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Participant Payroll	18.60%	13.44%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*Information provided by PMRS and not reconciled to determine the cause of any deviation from the Actuarially Determined Contribution (if applicable).

**Beginning in 2015, amount is actual payroll. In 2014, amount is expected payroll based on the most recent actuarial valuation.

Notes to Schedule:

Valuation Date

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the Actuarially Determined Contribution for the calendar year 2015 is based upon the January 1, 2013 actuarial valuation.

A summary of the key assumptions and methods used to determine the 2015 contributions rates:

- Actuarial Cost Method: Entry age
- Amortization Period: level dollar based upon the amortization periods in Act 205
- Asset valuation method: based upon the municipal reserves
- Discount Rate: 5.50%
- Inflation: 3.0%
- Salary increases: age related scale with merit and inflation component
- COLA increases: 3.0% for those eligible for a COLA
- Pre-Retirement Mortality: Males - RP 2000 with 1 year set back, Females - RP 2000 with 5 year set back
- Post-Retirement Mortality: sex distinct RP-2000 Combined Healthy Mortality

Plan Changes

None.

Assumption Changes

The Board approved new assumptions effective for the December 31, 2015 measurement date.

SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS*
POLICE PENSION PLAN
DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual money-weighted rate of return, net of investment expenses	0.37%	6.92%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

None.

* Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016**

NOTE 1 – BUDGETARY COMPLIANCE

The annual budget is prepared and adopted by the Township's Commissioners. Subsequent amendments are also prepared and adopted by the Township's Commissioners. Unexpended appropriations lapse at year end. Encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America for the General Fund. The Township follows procedures outlined below in establishing the budget reflected in the financial statements:

1. At least 30 days prior to budget adoption, the Township prepares a proposed budget for the ensuing year.
2. Notification of the proposed budget and hearings on it are held by the Township prior to adoption.
3. Prior to December 31st, the budget is legally enacted by the Township and the tax levy ordinance is adopted.
4. The Township, during the budget year, is authorized to modify the budget through either budget transfers or supplemental appropriations.
5. The budget lapses at the end of the year.

The budget has been adopted on the activity basis; expenditures at this level in excess amounts budgeted are a violation of the Pennsylvania First Class Township Code. Comparison of actual results of operations to the budget of the General Fund as adopted by the Township's Commissioners is included in the required supplemental information of the basic financial statements.

For the year ended December 31, 2016, expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

Object Category	Expenditures Exceeding Appropriations
Public works – highways and streets	\$ 137,084
Debt issuance costs	\$ 21,292
Payroll taxes	\$ 3,235
Refund of prior year revenues	\$ 872
Transfers out	\$ 1,747,350

NOTE B – PENSION INFORMATION

Changes in Benefit Terms

None.

Changes in Assumptions

None.

SUPPLEMENTARY INFORMATION

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
COMBINING BALANCE SHEETS
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Fire Protection Fund	Library Fund	Highway Aid Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 386,471	\$ 136,054	\$ 315,942	\$ 838,467
Taxes receivable	5,176	1,510	-	6,686
Total Assets	<u>\$ 391,647</u>	<u>\$ 137,564</u>	<u>\$ 315,942</u>	<u>\$ 845,153</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 4,142	\$ 40,797	\$ 10,305	\$ 55,244
Total Liabilities	<u>4,142</u>	<u>40,797</u>	<u>10,305</u>	<u>55,244</u>
<u>FUND BALANCES</u>				
Restricted	387,505	96,767	305,637	789,909
Total Fund Balances	<u>387,505</u>	<u>96,767</u>	<u>305,637</u>	<u>789,909</u>
Total Liabilities and Fund Balances	<u>\$ 391,647</u>	<u>\$ 137,564</u>	<u>\$ 315,942</u>	<u>\$ 845,153</u>

The notes to financial statements are an integral part of these financial statements.

**SALISBURY TOWNSHIP
LEHIGH COUNTY, PENNSYLVANIA
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Fire Protection Fund	Library Fund	Highway Aid Fund	Total Other Governmental Funds
Revenues				
Taxes	\$ 273,693	\$ 79,899	\$ -	\$ 353,592
Interest, rents and royalties	579	239	583	1,401
Intergovernmental	-	-	435,990	435,990
Miscellaneous	9,152	44	-	9,196
Total Revenues	<u>283,424</u>	<u>80,182</u>	<u>436,573</u>	<u>800,179</u>
Other Financing Sources				
Transfers in	52,460	-	-	52,460
Total Revenues and Other Financing Sources	335,884	80,182	436,573	852,639
Expenditures				
Public safety	238,648	-	-	238,648
Public works - highways and streets	-	-	297,434	297,434
Culture and recreation	-	81,559	-	81,559
Miscellaneous	608	177	-	785
Refund of prior year revenues	76	25	-	101
Total Expenditures	<u>239,332</u>	<u>81,761</u>	<u>297,434</u>	<u>618,527</u>
Excess of revenues and other financing sources over expenditures	96,552	(1,579)	139,139	234,112
Fund Balances at Beginning of Year	293,727	100,419	166,498	560,644
Prior Period Adjustments (See Note 9)	<u>(2,774)</u>	<u>(2,073)</u>	<u>-</u>	<u>(4,847)</u>
Fund Balances at End of Year	<u>\$ 387,505</u>	<u>\$ 96,767</u>	<u>\$ 305,637</u>	<u>\$ 789,909</u>

The notes to financial statements are an integral part of these financial statements.