

WORCESTER TOWNSHIP  
MONTGOMERY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

DECEMBER 31, 2014

(See Independent Auditors' Report)



WORCESTER TOWNSHIP

FINANCIAL STATEMENTS

December 31, 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Worcester Township  
Worcester, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Worcester, Pennsylvania, as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the Township's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

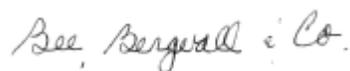
### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Worcester Township, Pennsylvania, as of December 31, 2014 and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund, state highway aid fund, and the investment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Other-Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, and the historical trend information on page 53 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 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.



Bee, Bergvall and Company, P.C.  
Certified Public Accountants

June 11, 2015

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

This narrative overview and analysis of the financial statements of Worcester Township, Montgomery County, Pennsylvania (the Township) for the calendar year ended December 31, 2014 has been prepared by the Township's Treasurer. The discussion and analysis of the Worcester Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Township's financial statements, which begin on page 17.

#### **FINANCIAL HIGHLIGHTS**

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

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

- The total net position (assets less liabilities) on a government-wide basis was \$24.4 million.
- Taxes and other revenues of the Township's governmental activities amounted to \$4.5 million and expenses equaled \$4.2 million.
- Revenues of the Township's business-type activities for 2014 were \$486,400 and business type expenses were \$679,100.

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

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

- At December 31, 2014, the Township's total government funds reported a fund balance of \$10.2 million, an increase of \$186,800 in comparison with the prior year.
- The Township's General Fund reported a fund balance of \$7.4 million, an increase of \$430,700 from December 31, 2013.

##### **General Financial Highlights**

The 2014 financial outcome was static. Interest rates remained low but revenues increased by 7%. The three categories representing the highest increase were earned income taxes, transfer taxes, and program revenues. Expenses increased \$900 thousand due to the severe winter resulting in road repairs and improvements of \$686 thousand over 2013 and several capital improvement projects of \$135 thousand. Expenses increased by 31%.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

The 2014 budget reflected capital improvement to the Worcester Township Community building including installation of air conditioning and interior renovation. The upstairs of the administration building was renovated to more efficiently utilize the area.

An extension to the Zacharias Trail was designed and construction started to connect Heebner Park in Worcester Township to Evansburg State Park in Skippack Township. The trail extension will be completed by fall of 2015.

The US Army Base located on Berks Road is still pending. Phase I & II soil studies have been completed and transfer of ownership is forth-coming.

The Wastewater Treatment Plant of Valley Green was updated to utilize modern technologies and expand the capacity to allow for future connections. Worcester Township has drawn on the \$2.5 million loan to complete the Valley Green Wastewater treatment plant.

**Using this Annual Report**

This annual report consists of two kinds of basic financial statements, each with a different view of the Township's finances. The Statement of Net Position and the Statement of Activities (on pages 17-19) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 20. For governmental activities, these statements indicate how services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the information about the Township's most significant funds. The remaining statements provide information on funds outside the government activities. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the pension plans.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

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

Our analysis of the Township as a whole begins on page 9. The question asked about the Township's finances is if the Township as a whole is better or worse as a result of the year's activities. The Statement of Net Position and the Statement of Activities report information about Worcester Township as a whole and about its activities in the a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net position and changes in them. Think of the Township's net position, the difference between assets and liabilities, as one way to measure the financial health or financial position. Over time, increases or decreases in the Township's net position are an indicator of whether the financial health is improving or deteriorating. Consideration needs to be given to other non-financial factors, however, such as the changes in the Township's property tax base, wage tax changes, and condition of the Township's roads, parks, and buildings to assess the overall health of the Township.

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

- Governmental activities – Most of the Township's basic services are reported here including administrative, permit and licenses, fire services, public works, parks and recreation, and community development. Property taxes, earned income tax, franchise fees, user fees and state grants finance most of these activities.
- Business-type activities – The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's wastewater (sewer) services are reported here.

#### **Reporting the Township's Most Significant Funds**

Our analysis of Worcester's major funds begins on page 14. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements begin on page 20 and provide detailed information about the most significant funds, not the Township as a whole. Some funds are required to be established by State law. However, the Township Board of Supervisors establishes other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities utilizing certain taxes, grants, and other money. The Township's two kinds of funds, governmental and proprietary, use different accounting approaches.

## WORCESTER TOWNSHIP

### MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

- **Governmental Funds** – Most of the Township's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds in reconciliations on pages 21 and 23.
- **Proprietary Funds** – When the Township charges customers for the services it provides, whether to outside customers or the other units of the Township, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, one of the Township's enterprise funds – Sewage Treatment (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flows for sewer operations.

#### **The Township as a Trustee**

The Township is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 28-29. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### **Infrastructure Assets**

Infrastructure (roads, bridges, storm sewers, etc.) is capitalized on a perspective basis beginning in 2004. The Township has chosen to depreciate assets over their useful life. If a road project is considered maintenance, the cost of the project will be expensed. An "overlay" of a road will be considered maintenance whereas a "rebuild" of a road will be capitalized.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**THE TOWNSHIP AS A WHOLE**

The following table reflects the condensed statement of net position:

**Table 1**  
**Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,899,672	\$ 10,659,932	\$ 276,034	\$ 903,378	\$ 11,175,706	\$ 11,563,310
Capital assets	<u>10,168,545</u>	<u>10,080,258</u>	<u>4,809,168</u>	<u>3,004,659</u>	<u>14,977,713</u>	<u>13,084,917</u>
Total assets	<u>21,068,217</u>	<u>20,740,190</u>	<u>5,085,202</u>	<u>3,908,037</u>	<u>26,153,419</u>	<u>24,648,227</u>
Other liabilities	303,151	205,543	114,475	73,211	417,626	278,754
Long term liabilities	<u>25,914</u>	<u>38,060</u>	<u>1,335,485</u>	<u>6,925</u>	<u>1,361,399</u>	<u>44,985</u>
Total liabilities	<u>329,065</u>	<u>243,603</u>	<u>1,449,960</u>	<u>80,136</u>	<u>1,779,025</u>	<u>323,739</u>
Net position:						
Net investment in capital assets	10,130,485	10,030,562	3,473,683	3,004,659	13,604,168	13,035,221
Restricted	129,095	3,450,897	-	-	129,095	3,450,897
Unrestricted	<u>10,479,572</u>	<u>7,015,128</u>	<u>161,559</u>	<u>823,242</u>	<u>10,641,131</u>	<u>7,838,370</u>
Total net position	<u>\$ 20,739,152</u>	<u>\$ 20,496,587</u>	<u>\$ 3,635,242</u>	<u>\$ 3,827,901</u>	<u>\$ 24,374,394</u>	<u>\$ 24,324,488</u>

For more detailed information see the Statement of Net Position (page 17).

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$24.4 million at year-end 2014. The largest portion of the Township's assets reflects cash and investments that will be used to fund future projects. The restricted net position portion represents resources that are subject to external restrictions on how they may be used. The unrestricted net position for governmental activities is the portion of net position for governmental activities that can be used to finance day-to-day operations without constraints established by enabling legislation, or other legal requirements.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**Normal Impacts**

There are basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

*Net Results of Activities* which will impact (increase/decrease) current assets and unrestricted net position.

*Spending of Non-borrowed Current Assets on New Capital* which will (a) reduce current assets and increase capital assets, and (b) will reduce unrestricted net position and increase invested in capital assets, net of debt.

*Reduction of Capital Assets through Depreciation* which will reduce capital assets and invested in capital assets, net of debt.

**Current Year Impacts**

The primary impact for governmental activities is the use of unrestricted net position to offset the gap between appropriations and revenues.

The overall net position of governmental activities increased by \$243,000 in 2014, which was \$758,000 lower than last year's change in net position. Expenses were substantially higher in 2014 by \$1.05 million, resulting in the lower change in net position.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

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

	<b>Table 2</b>					
	<b>Statement of Changes in Net Position</b>					
	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>						
Program Revenues						
Charges for services	\$ 513,657	\$ 352,258	\$ 481,430	\$ 429,012	\$ 995,087	\$ 781,270
Operating grants and contributions	406,304	410,831	-	-	406,304	410,831
Capital grants and contributions	-	-	-	-	-	-
General Revenue						
Property taxes	46,175	46,440	-	-	46,175	46,440
Other taxes	3,044,912	2,963,648	-	-	3,044,912	2,963,648
Investment income	24,633	28,054	5,008	4,519	29,641	32,573
Other	417,981	415,921	-	-	417,981	415,921
Total Revenues	<u>4,453,662</u>	<u>4,217,152</u>	<u>486,438</u>	<u>433,531</u>	<u>4,940,100</u>	<u>4,650,683</u>
<b>EXPENSES</b>						
Administrative	1,058,521	934,204	-	-	1,058,521	934,204
Permits and licenses	308,738	281,296	-	-	308,738	281,296
Fire service	332,354	261,174	-	-	332,354	261,174
Public works	2,273,353	1,409,572	-	-	2,273,353	1,409,572
Parks and recreation	238,131	275,302	-	-	238,131	275,302
Sewer	-	-	679,097	634,606	679,097	634,606
Total Expenses	<u>4,211,097</u>	<u>3,161,548</u>	<u>679,097</u>	<u>634,606</u>	<u>4,890,194</u>	<u>3,796,154</u>
Changes in net position	242,565	1,055,604	(192,659)	(201,075)	49,906	854,529
Net Position, beginning of year	<u>20,496,587</u>	<u>19,440,983</u>	<u>3,827,901</u>	<u>4,028,976</u>	<u>24,324,488</u>	<u>23,469,959</u>
Net Position, end of year	<u>\$ 20,739,152</u>	<u>\$ 20,496,587</u>	<u>\$ 3,635,242</u>	<u>\$ 3,827,901</u>	<u>\$ 24,374,394</u>	<u>\$ 24,324,488</u>

For more detail see Statement of Activities (pages 18-19).

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**Normal Impacts**

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

**Revenues:**

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

***Increase/Decrease in Township Approved Rates*** – While certain tax rates are set by statute, the Township Board of Supervisors has authority to impose and periodically increase/decrease rates (real estate tax millage, sewer fees, building fees, user fees, etc.). The real estate tax millage has remained at .05.

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

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

**Expenses:**

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

***Inflation*** – While overall inflation appears to be increasing, the Township is a major consumer of certain commodities such as supplies, fuels, and parts. Some functions may experience unusual commodity-specific fluctuations.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

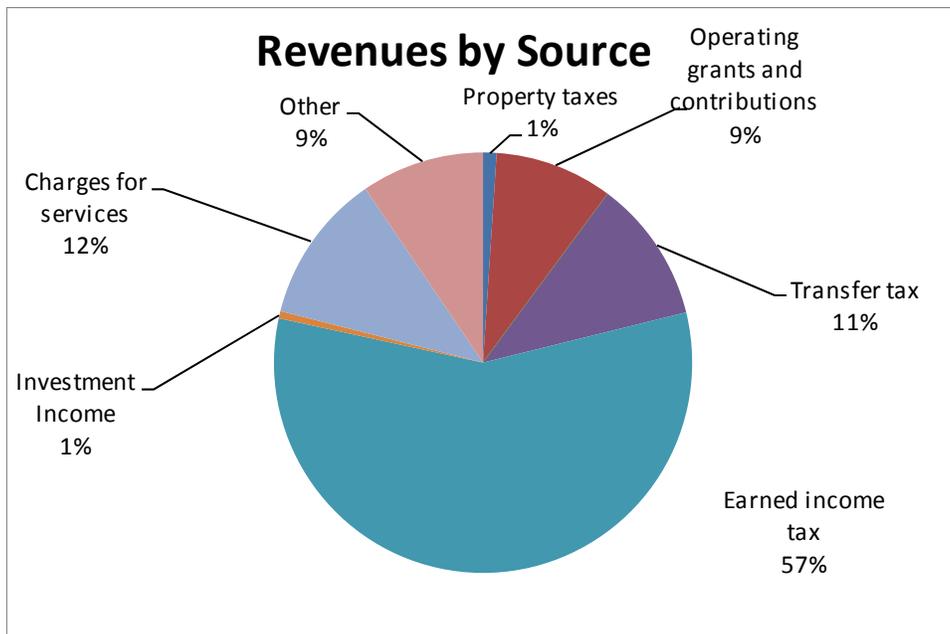
DECEMBER 31, 2014

**Current Year Impacts**

**Governmental Activities**

Revenues for the Township's governmental activities were \$4.5 million. Earned Income Taxes comprise the largest source of Township revenues (57%) amounting to \$2.6 million for 2014, increasing by \$73,000 from 2013 due to increased population. Property taxes represent \$46,000 (1% of total revenues) with transfer taxes for 2014 producing revenues of \$490,000 (11%), increasing \$54,000 from 2013 due to developers transferring lots to builders and re-sales due to lower mortgage rates.

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



The cost of all governmental activities this year was \$4.2 million consisting of administrative, code enforcement, safety, public works, and park expenses.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**Business-type Activities**

Total revenues of the Wastewater Treatment Operations were \$486,000 as compared to total costs of \$679,000 including non-cash depreciation expense of \$180,000. The Sewer operation receives its revenue through user charges. A complete analysis of the wastewater activities and facilities was performed in 2012 by the Township Engineers. An ordinance was passed December, 2013 increasing rates 10% for the next three consecutive years based on prior year losses and repayment of long term note.

**Table 3**

**Governmental/Business Type Activities**

	Total Cost of Services		Net Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Governmental Activities</b>				
Administrative	\$ 1,058,521	\$ 934,204	\$ 1,011,218	\$ 887,828
Code and Engineering	308,738	281,296	(23,152)	27,475
Emergency Services	332,354	261,174	220,471	145,081
Public Works	2,273,353	1,409,572	2,021,656	1,158,835
Parks	<u>238,131</u>	<u>275,302</u>	<u>60,943</u>	<u>179,240</u>
<b>Total Governmental Activities</b>	<u>\$ 4,211,097</u>	<u>\$ 3,161,548</u>	<u>\$ 3,291,136</u>	<u>\$ 2,398,459</u>
<b>Total Sewer - Business Type Activities</b>	<u>\$ 679,097</u>	<u>\$ 634,606</u>	<u>\$ 197,667</u>	<u>\$ 268,420</u>

**THE TOWNSHIP'S FUNDS**

As the Township completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$10.1 million. Of this amount \$3.1 million is committed for capital projects and maintenance and while \$129,000 is restricted for use on highway and roads. The balance represents the unreserved fund balance, or resources available for appropriation.

**General Fund Budgetary Highlights**

The General Fund revenues compared to budget for the year end was \$815 thousand over budget with the largest variance occurring in earned income tax. Earned income tax exceeded budget by \$543,000, as a result of increased population and stronger economic conditions, in addition to the property transfer taxes exceeding the budget by \$214,000.

General Fund expenses were \$403,000 over budget, with the largest variance being highway and roads of \$258,000 over budget due to the harsh winter. Organized sports and recreational activities were under budget by \$52,000 due to personnel change resulting in lapse of promotion of activities.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**Capital Assets**

At the end of 2014, on a government-wide basis, the Township had \$15 million invested in a broad range of capital assets, including buildings, park facilities, open space, and wastewater facilities and lines (see table below). Significant additions this year were the upgrade of the Valley Green Wastewater Plant and the Zacharias Trail.

The following reconciliation summarizes the Capital Assets, which is presented in detail on pages 41-42 of the Notes.

**Table 4**  
**Change in Capital Assets**  
**Governmental Activities**

	Beginning Balance 1/1/2014	Net Additions/ Deletions	Ending Balance 12/31/2014
<b>Non-Depreciable Assets</b>			
Land	\$ 4,871,637	\$ -	\$ 4,871,637
Easements	569,088	-	569,088
<b>Other Capital Assets</b>			
Building and improvements	2,239,710	-	2,239,710
Infrastructure	2,937,577	72,407	3,009,984
Land improvements	732,659	159,842	892,501
Office equipment	165,829	41,674	207,503
Machinery and equipment	331,114	47,151	378,265
Vehicles	581,862	80,705	662,567
Traffic signal	215,127	-	215,127
Accumulated depreciation	<u>(2,564,345)</u>	<u>(313,492)</u>	<u>(2,877,837)</u>
<b>Total Governmental Capital Assets</b>	<u>\$ 10,080,258</u>	<u>\$ 88,287</u>	<u>\$ 10,168,545</u>
<b>Business-Type Activities</b>			
<b>Other Capital Assets</b>			
Construction in progress	\$ 132,158	\$ 1,972,225	\$ 2,104,383
Building and improvements	1,137,262	-	1,137,262
Improvements/sewer lines	3,440,155	-	3,440,155
Machinery and equipment	555,525	12,697	568,222
Accumulated depreciation	<u>(2,260,442)</u>	<u>(180,412)</u>	<u>(2,440,854)</u>
<b>Total Business-Type Capital Assets</b>	<u>\$ 3,004,658</u>	<u>\$ 1,804,510</u>	<u>\$ 4,809,168</u>
<b>Total Government-Wide Capital Assets</b>	<u>\$ 13,084,916</u>	<u>\$ 1,892,797</u>	<u>\$ 14,977,713</u>

The Worcester Township Board of Supervisors has placed significant resources in the area of infrastructure improvements with expenditures in roads, bridges, and trails.

WORCESTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

**Debt**

At the end of the year, Worcester Township general government is debt free. The Business Activities (Wastewater Treatment Fund) has negotiated a thirty year loan of \$1.3 million, and repaid interest only in 2014 with principal not due until 2015.

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

The elected officials of Worcester Township maintained a conservative approach when preparing the calendar-year 2015 budget with emphasis on infrastructure improvements.

The 2015 General Fund budget is 17% or \$565,000 higher than the 2014 budget.

**CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT**

If you have questions about this report or need additional financial information, contact the Treasurer at Worcester Township, P.O. Box 767, 1721 Valley Forge Road, Worcester, PA 19490 or go to the web site [www.Worcestertwp.com](http://www.Worcestertwp.com).

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION

December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,090,526	\$ 226,238	\$ 5,316,764
Investments	4,077,000	-	4,077,000
Restricted cash (escrows)	596,974	-	596,974
Receivables	1,135,172	36,034	1,171,206
Notes receivable	-	13,762	13,762
Land	4,871,637	-	4,871,637
Easements	569,088	-	569,088
Other capital assets (net of accumulated depreciation)	4,727,820	4,809,168	9,536,988
Total Assets	<u>21,068,217</u>	<u>5,085,202</u>	<u>26,153,419</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	153,345	27,167	180,512
Internal balances	(27,764)	27,764	-
Deposits	165,424	-	165,424
Non-current liabilities:			
Due within one year	12,146	59,544	71,690
Due after one year	25,914	1,335,485	1,361,399
Total Liabilities	<u>329,065</u>	<u>1,449,960</u>	<u>1,779,025</u>
<u>NET POSITION</u>			
Net investment in capital assets	10,130,485	3,473,683	13,604,168
Restricted			
Highways	129,095	-	129,095
Unrestricted	10,479,572	161,559	10,641,131
Total Net Position	<u>\$ 20,739,152</u>	<u>\$ 3,635,242</u>	<u>\$ 24,374,394</u>

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

WORCESTER TOWNSHIP

STATEMENT OF ACTIVITIES

December 31, 2014

	<u>Governmental Activities</u>		
	<u>Total</u>	<u>Administrative</u>	<u>Permits &amp; Licenses</u>
Expenses:			
Program expenses	\$ 3,895,815	\$ 984,464	\$ 308,738
Depreciation	313,492	72,267	-
Interest on debt	1,790	1,790	-
Total Expenses	<u>4,211,097</u>	<u>1,058,521</u>	<u>308,738</u>
Program revenues:			
Charges for services	513,657	-	331,890
Operating grants and contributions	406,304	47,303	-
Total Program Revenues	<u>919,961</u>	<u>47,303</u>	<u>331,890</u>
Net (Expense) Revenue	(3,291,136)	(1,011,218)	23,152
General Revenues:			
Taxes:			
Property	46,175		
Transfer tax	489,756		
Earned income tax	2,549,203		
Other	5,953		
Investment earnings	24,633		
Miscellaneous	417,981		
Total General Revenues	<u>3,533,701</u>		
Change in net position	242,565		
Net position - beginning	<u>20,496,587</u>		
Net position - ending	<u>\$ 20,739,152</u>		

Governmental Activities			Business-Type Activities
Fire Services	Public Works	Park & Recreation	Sewage Treatment
\$ 332,354	\$ 2,105,854	\$ 164,405	\$ 484,518
-	167,499	73,726	180,412
-	-	-	14,167
<u>332,354</u>	<u>2,273,353</u>	<u>238,131</u>	<u>679,097</u>
4,579	-	177,188	481,430
107,304	251,697	-	-
<u>111,883</u>	<u>251,697</u>	<u>177,188</u>	<u>481,430</u>
(220,471)	(2,021,656)	(60,943)	(197,667)
			-
			-
			-
			-
			5,008
			-
			<u>5,008</u>
			(192,659)
			<u>3,827,901</u>
			<u>\$ 3,635,242</u>

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

WORCESTER TOWNSHIP

BALANCE SHEET  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2014

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Government Funds (Highway Aid)</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 3,401,846	\$ 1,559,585	\$ 129,095	\$ 5,090,526
Restricted cash	596,974	-	-	596,974
Investments	2,985,000	1,092,000	-	4,077,000
Receivables	690,437	-	-	690,437
Due from other funds	36,880	-	-	36,880
Total Assets	<u>\$ 7,711,137</u>	<u>\$ 2,651,585</u>	<u>\$ 129,095</u>	<u>\$ 10,491,817</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable and accrued wages	\$ 153,345	\$ -	\$ -	\$ 153,345
Due to other funds	9,116	-	-	9,116
Deposits	165,424	-	-	165,424
Total Liabilities	<u>327,885</u>	<u>-</u>	<u>-</u>	<u>327,885</u>
Fund Balances				
Restricted for:				
Highways	-	-	129,095	129,095
Committed for:				
Maintenance	431,550	-	-	431,550
Capital projects	-	2,651,585	-	2,651,585
Unassigned	6,951,702	-	-	6,951,702
Total Fund Balances	<u>7,383,252</u>	<u>2,651,585</u>	<u>129,095</u>	<u>10,163,932</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>				
	<u>\$ 7,711,137</u>	<u>\$ 2,651,585</u>	<u>\$ 129,095</u>	<u>\$ 10,491,817</u>

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

WORCESTER TOWNSHIP

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

For the Year Ended December 31, 2014

Amounts reported for governmental activities in the statement of net position (page 17)  
are different because:

Total fund balances--total governmental funds (page 20)	\$ 10,163,932
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	444,735
Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds.	
Cost of capital assets	\$ 13,046,382
Accumulated depreciation	<u>(2,877,837)</u> 10,168,545
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	-
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Leases payable	<u>(38,060)</u>
Total net position for governmental activities (page 17)	<u>\$ 20,739,152</u>

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

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2014

	<u>General</u>	<u>Capital Reserve</u>	<u>Other Governmental Funds (Highway Aid)</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes:				
Property	\$ 46,175	\$ -	\$ -	\$ 46,175
Transfer	489,756	-	-	489,756
Earned income	2,593,368	-	-	2,593,368
Other	5,953	-	-	5,953
Fees, licenses and permits	318,080	-	-	318,080
Investment income and rent	168,390	3,614	910	172,914
Intergovernmental revenues	227,757	-	251,697	479,454
Fines and forfeitures	4,579	-	-	4,579
Program revenues	386,248	-	-	386,248
Other	1,300	-	-	1,300
Total Revenues	<u>4,241,606</u>	<u>3,614</u>	<u>252,607</u>	<u>4,497,827</u>
<b>Expenditures</b>				
Current:				
General government	901,442	1,105	217	902,764
Public safety	641,970	-	-	641,970
Highways and roads	1,447,601	-	479,513	1,927,114
Culture and recreation	164,405	-	-	164,405
Miscellaneous	122,496	-	-	122,496
Debt service:				
Principal	11,636	-	-	11,636
Interest	1,790	-	-	1,790
Capital projects	538,845	-	-	538,845
Total Expenditures	<u>3,830,185</u>	<u>1,105</u>	<u>479,730</u>	<u>4,311,020</u>
Excess (Deficiency) of Revenues				
Over expenditures	<u>411,421</u>	<u>2,509</u>	<u>(227,123)</u>	<u>186,807</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	19,312	-	-	19,312
Operating transfers out	<u>-</u>	<u>(19,312)</u>	<u>-</u>	<u>(19,312)</u>
Total Other Financing Sources (Uses)	<u>19,312</u>	<u>(19,312)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	430,733	(16,803)	(227,123)	186,807
Fund Balance - Beginning	<u>6,952,519</u>	<u>2,668,388</u>	<u>356,218</u>	<u>9,977,125</u>
Fund Balance - Ending	<u>\$ 7,383,252</u>	<u>\$ 2,651,585</u>	<u>\$ 129,095</u>	<u>\$ 10,163,932</u>

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

WORCESTER TOWNSHIP

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

For the Year Ended December 31, 2014

Amounts reported for governmental activities in the statement of activities (page 18-19)  
are different because:

Net change in fund balances--total governmental funds (page 22)	\$	186,807
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		(44,165)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	401,779	
Depreciation expense	<u>(313,492)</u>	88,287

The issuance of long-term debt (e.g. bonds, leases) provides current financial  
resources to governmental funds, while the repayment of the principal of  
long-term debt consumes the current financial resources of governmental  
funds. Neither transaction, however, has any effect on net assets. Also,  
governmental funds report the effect of issuance costs, premiums, discounts,  
and similar items when debt is first issued, whereas these amounts are  
deferred and amortized in the statement of activities. This amount is the  
net effect of these differences in the treatment of long-term debt and  
related items.

New lease	-	
Repayment of leases	<u>11,636</u>	<u>11,636</u>

Net change in net position - governmental activities (page 18)	\$	<u><u>242,565</u></u>
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The notes to the financial statements are an integral part of this statement

WORCESTER TOWNSHIP

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL

For the Year Ended December 31, 2014

	GENERAL FUND			Variance with Final Budget Over (under)
	Budgeted Amounts		ACTUAL	
	Original	Final		
Revenues				
Taxes:				
Property	\$ 47,391	\$ 47,391	\$ 46,175	\$ (1,216)
Transfer	275,000	275,000	489,756	214,756
Earned income	2,050,100	2,050,100	2,593,368	543,268
Other	5,400	5,400	5,953	553
Fees, licenses and permits	242,320	242,320	318,080	75,760
Interest and rent	164,536	164,536	168,390	3,854
Intergovernmental revenues	389,628	389,628	227,757	(161,871)
Fines and forfeitures	13,000	13,000	4,579	(8,421)
Program revenues	231,000	231,000	386,248	155,248
Other	8,500	8,500	1,300	(7,200)
Total Revenues	<u>3,426,875</u>	<u>3,426,875</u>	<u>4,241,606</u>	<u>814,731</u>
Expenditures				
Current:				
General government	870,827	870,827	901,442	30,615
Public safety	631,991	631,991	641,970	9,979
Highways and roads	1,189,269	1,189,269	1,447,601	258,332
Culture and recreation	216,700	216,700	164,405	(52,295)
Miscellaneous	111,000	111,000	122,496	11,496
Debt service	-	-	13,426	13,426
Capital projects	407,088	407,088	538,845	131,757
Total Expenditures	<u>3,426,875</u>	<u>3,426,875</u>	<u>3,830,185</u>	<u>403,310</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>411,421</u>	<u>411,421</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	19,312	19,312
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>19,312</u>	<u>19,312</u>
Net Change in Fund Balance	-	-	430,733	430,733
Fund Balance-beginning	6,952,519	6,952,519	6,952,519	
Fund Balance-ending	<u>\$ 6,952,519</u>	<u>\$ 6,952,519</u>	<u>\$ 7,383,252</u>	

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

WORCESTER TOWNSHIP

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

For the Year Ended December 31, 2014

	<u>Business-Type Activities</u> <u>Sewage Treatment</u>
<u>ASSETS</u>	
Current Assets	
Cash	\$ 226,238
Receivables	
Sewer rents	36,034
Notes	13,762
Due from other funds	9,044
Total Current Assets	<u>285,078</u>
Long-Term Assets	
Notes receivable	-
Capital Assets (net of accumulated depreciation)	<u>4,809,168</u>
Total Assets	<u>5,094,246</u>
<u>LIABILITIES</u>	
Current Liabilities	
Current maturities	59,544
Accounts payable and accrued wages	27,167
Due to other funds	36,808
Total Current Liabilities	<u>123,519</u>
Long-Term Debt	
Long-term note and bonds payable	<u>1,335,485</u>
Total Long-Term Debt	<u>1,335,485</u>
Total Liabilities	<u>1,459,004</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	3,473,683
Unrestricted	161,559
Total Net Position	<u>\$ 3,635,242</u>

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

WORCESTER TOWNSHIP

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION – PROPRIETARY FUNDS

For the Year Ended December 31, 2014

	<u>Business-Type Activities Sewage Treatment</u>
Operating Revenues	
Sewer service charges	\$ 458,144
Other revenues	5,759
Total Operating Revenues	<u>463,903</u>
Operating Expenses	
Sewer operations	427,800
Administrative	56,718
Depreciation expense	180,412
Total Operating Expenses	<u>664,930</u>
Operating Income (Loss)	<u>(201,027)</u>
Nonoperating Revenues (Expense)	
Net earnings on investments	5,008
Interest expense	(14,167)
Tapping fees	17,527
Total Nonoperating Revenues (Expense)	<u>8,368</u>
Change in Net Position	(192,659)
Total Net Position-Beginning	<u>3,827,901</u>
Total Net Position-Ending	<u>\$ 3,635,242</u>

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

WORCESTER TOWNSHIP

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

For the Year Ended December 31, 2014

	<u>Business-Type Activities</u> <u>Sewage Treatment</u>
Cash flows from operating activities	
Cash received from customers	\$ 452,087
Cash paid to employees for services	(26,772)
Cash paid to suppliers for goods and services	(476,026)
Net cash provided by (used in) operating activities	<u>(50,711)</u>
Cash flows from capital and related financing activities	
Proceeds from long term debt	1,388,104
Payment on notes receivable	19,539
Interest paid on long-term debt	(14,167)
Tap and connection fees	17,527
Acquisition and construction of capital assets	(1,984,922)
Net cash provided by (used in) capital and related financing activities	<u>(573,919)</u>
Cash flows from investing activities	
Interest and dividends on investments	5,008
Proceeds from sale of investments of investments	442,000
Net cash provided by (used in) investing activities	<u>447,008</u>
Net increase (decrease) in cash and cash equivalents	(177,622)
Beginning cash and cash equivalents	<u>403,860</u>
Ending cash and cash equivalents	<u>\$ 226,238</u>

**Reconciliation of Net Operating Income (Loss)  
to Net Cash Provided by (Used in) Operating Activities**

Net operating income (loss)	<u>\$ (201,027)</u>
Adjustments to reconcile net operating (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	180,412
Changes in assets and liabilities	
(Increase) decrease in receivables	(11,816)
Increase (decrease) in accounts payable	(23,540)
Increase (decrease) in due to/from	5,260
Net adjustments	<u>150,316</u>
Cash provided by (used in) operating activities	<u>\$ (50,711)</u>

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

WORCESTER TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

December 31, 2014

	<u>Pension Trust Fund</u>
<u>ASSETS</u>	
Current Assets	
Pennsylvania State Association of Boroughs	\$ 1,001,371
Total Current Assets	<u>1,001,371</u>
 Total Assets	 <u>\$ 1,001,371</u>
 <u>NET POSITION</u>	
Net Position restricted for Pension Benefits	<u>\$ 1,001,371</u>

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

WORCESTER TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

For the Year Ended December 31, 2014

	<u>Pension Trust Funds</u>
Additions	
Municipal contributions	\$ 11,650
State contributions	42,599
Total Contributions	<u>54,249</u>
Investment Earnings	
Net appreciation (depreciation) in fair value of investments	41,139
Dividends	11,264
Interest	4,144
Total Earnings	<u>56,547</u>
Less: Investment Expense	<u>(7,783)</u>
Net Investment Earnings	<u>48,764</u>
Total Additions	<u>103,013</u>
Deductions	
Benefits	29,606
Administrative expenses	1,475
Total Deductions	<u>31,081</u>
Net Increase	71,932
Net Position restricted for Pension Benefits:	
Beginning of Year	<u>929,439</u>
End of Year	<u>\$ 1,001,371</u>

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies**

**A. *Reporting entity***

Worcester Township is a municipal corporation existing and operating under the Second Class Township code of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Township (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Township have been addressed. Financial accountability is present if the Township appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. Based upon the application of these criteria, there are currently no component units of Worcester Township.

**B. *Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***C. Measurement focus, basis of accounting, and financial statement presentation***

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, and licenses associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds on the governmental fund financial statements:

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

The *capital reserve fund* accounts for capital purchases and construction to enhance and improve the property throughout the Township.

The government reports the following major proprietary funds:

The *sewage treatment fund* provides wastewater treatment services throughout the Township.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

**C. *Measurement focus, basis of accounting, and financial statement presentation* (continued)**

Additionally, the government reports the following fiduciary fund types:

The *pension trust fund* accounts for the activities of the Non Uniformed Pension plans, which accumulate resources for pension benefit payments to qualified employees.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government, if existing. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund and sewer capital fund are charges to customers for services.

The sewer capital fund also recognizes as operating revenues the portion of tapping fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's practice to use restricted resources first, then unrestricted resources as they are needed.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity***

***1. Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

With the exception of Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity.

The law also allows for the Government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

The government invests in obligations and agencies of the United States of America. These investments are comprised of collateralized mortgage obligations, U.S. Treasury obligation, and money market mutual funds. The government recognizes interest rate risk and extension risk with some of these obligations. The government has stratified their portfolio so that the investments with extension risk are comprised of monies needed on a long-term basis. Investments with interest rate risk are selected so that the risk of interest decline below area savings accounts rates is minimal.

The law provides that the government's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the government to be prudent.

Investments for the government are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectibles. At December 31, 2014, all tax receivables were deemed to be fully collectible. There is no tax receivable allowance due to the materiality of the outstanding receivables.

Property taxes are levied as of January 1 on property values assessed as of the same date. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through June 30; and a 10% penalty after June 30. The township employs an elected tax collector to collect the property tax levied. The tax collector remits Township taxes at least monthly and is paid a commission. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

***3. Use of estimates***

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

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***4. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 for infrastructure and intangible assets and \$5,000 for all other capital assets, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized as the standard was applied prospectively.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7-30
Roads and bridges	30-50
Guiderails, manholes, and curbing	20-30
Storm sewer pipes	50
Sewer pipes	50
Utility and heavy equipment	10-18
Vehicles and equipment	5-15
Signs and traffic signals	7-15

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***5. Long-term obligations***

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If bond premiums or discounts exist, they are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of any applicable bond premium or discount. Issuance costs are expensed as incurred.

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

***6. Net Position***

In the government-wide financial statements, net position is classified in the following categories:

**Net investment in capital assets** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance of this category.

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

**Unrestricted net position** - This category represents net position of the entity, not restricted for any project or other purpose.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**I. Summary of significant accounting policies (Continued)**

***D. Assets, liabilities, and net position or equity (continued)***

***7. Fund Balance***

Governmental funds report fund balance in classifications based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

**Nonspendable Fund Balance** - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

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

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

**Assigned Fund Balance** - includes amounts intended to be used by the Township for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board of Supervisors or (b) a body (a budget, finance committee, or Township Manager and Finance Director) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed. The governing body, the Board of Supervisors, has by resolution authorized the finance director to assign fund balance.

**Unassigned Fund Balance** - this residual classification is used for all negative fund balances in Special Revenue, Capital Projects, and Debt Service funds; or any residual amounts in the General Fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**II. Stewardship, compliance, and accountability**

***A. Budgetary information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Township funds all annual appropriations lapse at fiscal year end.

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

1. During November, the Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them.
2. All budget revisions require the approval of the Township Board of Supervisors. There were no budget amendments during 2014. All appropriations lapse at year-end.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Proprietary Funds. Budgetary control is maintained at the fund level.

***B. Excess of expenditures over appropriations***

For the year ended December 31, 2014 expenditures exceed appropriations in the general government, public safety, highway and roads, miscellaneous, debt service and capital projects categories of the general fund by \$30,615, \$9,979, \$258,332, \$11,496, \$13,426 and \$131,757, respectively. These over expenditures were funded by revenues which were larger than expected.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds**

**A. *Deposits and investments***

As of December 31, 2014, the government had the following investments:

	<u>Maturities</u>	
GOVERNMENTAL FUNDS		
Externally Pooled Investments		\$ 3,097,675
Certificates of Deposit	< 1 year	3,567,000
Certificates of Deposit	1-5 years	<u>510,000</u>
		<u>\$ 7,174,675</u>
FIDUCIARY FUNDS		
State Investment Pool (Pension)		<u>\$ 1,001,371</u>

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

*Credit Risk.* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described in Section I Note D. The government's investment in the external investment pools was rated AAAM by Standard & Poor's.

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the government's policy that the fiduciary assets may not be invested in more than 5% of the total equity portfolio in the common stock of one corporation and not more than 25% of the stock value at market may be held in any one industry.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2014, the government's carrying amount of deposits was \$2,815,813 and the bank balance was \$2,872,198. Of the bank balance, \$500,000 was covered by federal depository insurance. Any balances exceeding federal depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the government's name. Externally pooled investments are considered a cash equivalent.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

**A. *Deposits and investments (continued)***

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are “held in the name of the government” and thus not exposed to custodial credit risk.

**B. *Receivables***

Receivables as of the year end for the government’s individual major funds in the aggregate are as follows:

	<u>General</u>	<u>Sewer</u>	<u>Total</u>
Receivables:			
Taxes	\$ 529,013	\$ -	\$ 529,013
Accounts	161,424	36,034	197,458
Special assessments	-	<u>13,762</u>	<u>13,762</u>
Total Receivables	<u>\$ 690,437</u>	<u>49,796</u>	<u>\$ 740,233</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

**C. *Capital assets***

Capital asset activity for the year ended December 31, 2014 was as follows:

<b>Primary Government</b>	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,871,637	\$ -	\$ -	\$ 4,871,637
Easements	569,088	-	-	569,088
Total capital assets, not being depreciated	<u>5,440,725</u>	<u>-</u>	<u>-</u>	<u>5,440,725</u>
Capital assets, being depreciated:				
Buildings and improvements	2,239,710	-	-	2,239,710
Land improvements	732,659	159,842	-	892,501
Infrastructure	2,937,577	72,407	-	3,009,984
Traffic signal	215,127	-	-	215,127
Office equipment	165,829	41,674	-	207,503
Equipment	331,114	47,151	-	378,265
Vehicles	581,862	80,705	-	662,567
Total capital assets being depreciated	<u>7,203,878</u>	<u>401,779</u>	<u>-</u>	<u>7,605,657</u>
Less accumulated depreciation for:				
Buildings and improvements	886,826	83,444	-	970,270
Land improvements	289,714	59,501	-	349,215
Infrastructure	459,835	76,954	-	536,789
Traffic signal	79,382	14,342	-	93,724
Office equipment	153,822	12,338	-	166,160
Equipment	232,784	37,003	-	269,787
Vehicles	461,982	29,910	-	491,892
Total accumulated depreciation	<u>2,564,345</u>	<u>313,492</u>	<u>-</u>	<u>2,877,837</u>
Total capital assets, being depreciated, net	<u>4,639,533</u>	<u>88,287</u>	<u>-</u>	<u>4,727,820</u>
Governmental activities capital assets, net	<u>\$ 10,080,258</u>	<u>\$ 88,287</u>	<u>\$ -</u>	<u>\$ 10,168,545</u>

(continued)

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

**C. *Capital assets (continued)***

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 132,158	\$ 1,972,225	\$ -	\$ 2,104,383
Total capital assets, not being depreciated	<u>132,158</u>	<u>1,972,225</u>	<u>-</u>	<u>2,104,383</u>
Capital assets, being depreciated:				
Buildings	1,137,262	-	-	1,137,262
Improvements	3,440,155	-	-	3,440,155
Machinery and equipment	<u>555,525</u>	<u>12,697</u>	<u>-</u>	<u>568,222</u>
Total capital assets being depreciated	<u>5,132,942</u>	<u>12,697</u>	<u>-</u>	<u>5,145,639</u>
Less accumulated depreciation for:				
Buildings	552,565	37,910	-	590,475
Improvements	1,361,504	120,897	-	1,482,401
Machinery and equipment	<u>346,373</u>	<u>21,605</u>	<u>-</u>	<u>367,978</u>
Total accumulated depreciation	<u>2,260,442</u>	<u>180,412</u>	<u>-</u>	<u>2,440,854</u>
Total capital assets, being depreciated, net	<u>2,872,500</u>	<u>(167,715)</u>	<u>-</u>	<u>2,704,785</u>
Business-type activities capital assets, net	<u>\$ 3,004,658</u>	<u>\$ 1,804,510</u>	<u>\$ -</u>	<u>\$ 4,809,168</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administrative	\$ 72,267
Public works	167,499
Parks	<u>73,726</u>
Total depreciation expense-governmental activities	<u>\$ 313,492</u>
Business-type activities	
Sewer treatment	<u>\$ 180,412</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

***D. Interfund receivables, payables, and transfers***

The interfund balances and transfers for the year ended December 31, 2014 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 36,880	\$ 9,116
Sewer Fund	<u>9,044</u>	<u>36,808</u>
Total	<u>\$ 45,924</u>	<u>\$ 45,924</u>

Interfund balances represent expenses paid for one fund on behalf of another.

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund	\$ 19,312	\$ -
Capital Reserve	<u>-</u>	<u>19,312</u>
Total	<u>\$ 19,312</u>	<u>\$ 19,312</u>

Interfund transfers are primarily to fund capital projects in another fund.

***E. Long term debt***

**General Obligation Notes and Bonds**

The government issues general obligation notes and bonds to provide funds for the acquisition, construction, and improvement of facilities and the purchase of equipment and open space. General obligation notes and bonds have been issued for the governmental activities only. In 2013, the government issued \$2,500,000 in a general obligation notes. General obligation notes and bonds are direct obligations and pledge the full faith and credit of the government. These notes and bonds are generally issued as 20-30 year serial notes and bonds with varying amounts of principal maturing each year.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

***E. Long term debt (continued)***

General obligation notes and bonds and guaranteed sewer notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business activities	2.7%	\$ <u>1,395,029</u>

The annual debt service requirements to maturity, including principal and interest, for long term debt, as of December 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 59,544	\$ 55,650
2016	73,242	64,990
2017	75,244	62,988
2018	77,301	60,931
2019	79,415	58,818
2020-2024	430,848	260,315
2025-2029	493,046	198,116
2030-2034	564,225	126,939
2035-2039	647,135	45,489
	<u>\$ 2,500,000</u>	<u>\$ 934,236</u>

As of December 31, 2014, only \$1,395,029 has been drawn down on the loan.

**Capital Leases**

Certain equipment has been acquired under capital lease obligations to third-party lessor. The liabilities incurred through such arrangements are accounted for in the entity-wide statements as capital leases payable.

The following is an analysis of the leased assets included in property and equipment as of December 31, 2014:

Equipment	\$ 61,720
Less: accumulated depreciation	<u>(24,688)</u>
	<u>\$ 37,032</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**III. Detailed notes on all funds (Continued)**

***E. Long term debt (continued)***

The following is a schedule of the future minimum lease payments required under the lease obligation with their present value as of December 31, 2014:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,146	\$ 1,280	\$ 13,426
2016	12,679	747	13,426
2017	13,235	191	13,426
Total value of minimum lease payments	<u>\$ 38,060</u>	<u>\$ 2,218</u>	40,278
Less: amount representing interest			<u>(2,218)</u>
Present value of minimum lease payments			<u>\$ 38,060</u>

**Changes in long-term liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Capital leases	\$ 49,696	\$ -	\$ 11,636	\$ 38,060	\$ 12,146
Long-term liabilities	<u>\$ 49,696</u>	<u>\$ -</u>	<u>\$ 11,636</u>	<u>\$ 38,060</u>	<u>\$ 12,146</u>
<b>Business Type activities:</b>					
Notes payable	<u>\$ 6,925</u>	<u>\$ 1,388,104</u>	<u>-</u>	<u>\$ 1,395,029</u>	<u>\$ 59,544</u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information**

**A. *Contingent liabilities***

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

In the normal course of business, there are various relatively minor claims and suits pending against the Township, none of which materially affect the financial position of the Township. At the present time, there are no significant litigation matters pending.

**B. *Employee retirement pension plan***

Defined Benefit Pension Plan

The Township of Worcester Non-Uniform Pension plan is a single-employer defined benefit pension. The Plan was established and entered into a Joiner Agreement with the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSANMRT) effective January 1, 1993. The Plan was restated by Ordinance No. 2003-187, effective December 31, 2002. The Plan is governed by the Board of Supervisors of the Township of Worcester which may amend the plan provisions, and which is responsible for the management of Plan assets. The Board of Supervisors has delegated authority to manage certain Plan assets to the PSABMRT. The plan is required to file Form PC-203C biennially with the Public Employee Retirement Commission (PERC). The most recent filing was January 1, 2013. All full time employees participate in the plans. Details from the valuation are discussed below. The plan is reported as Pension Trust Funds in the accompanying financial statements and does not issue a stand-alone report.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

***1. Plan Description***

At January 1, 2013, Worcester Township's Pension Plan consisted of the following:

Inactive employees (or their beneficiaries)	
currently receiving benefits	8
Inactive employees entitled to benefits	
but not yet receiving them	2
Active employees	<u>12</u>
Total members	<u><u>22</u></u>

**Description of the Non Uniform Pension Plan**

The pension plan provides retirement benefits as well as death benefits to plan members and their beneficiaries. The normal retirement benefit is a monthly benefit equal to 1.3 percent of the Average Monthly Compensation multiplied by years of credited service after January 1, 1993. Compensation is averaged over the last 60 months of employment. Pennsylvania law establishes benefits and contribution provisions. All benefits are vested at 20% after the completion of three years of service, increasing by 20% per year to a maximum of 100 percent after seven years of Service. Participants as of September 1, 1993 were 100% vested as of September 1, 1993. Employees, who retire at or after age 65, are entitled to an annual retirement benefit, payable monthly, equal to 1.3 percent of Average Monthly Compensation multiplied by Years of Credited Service after January 1, 1993.

Covered employees are not required to contribute to the Pension Fund. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Fund. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

***2. Summary of Significant Accounting Policies and Plan Asset Matters***

Measurement Focus and Basis of Accounting: Pension Plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

***2. Summary of Significant Accounting Policies and Plan Asset Matters (continued)***

Method Used to Value Investments: Pension Plan equity security fixed income securities are reported at fair value, investment income is recognized as earned. Fair value is based on quoted market values. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Gains and losses on sales and exchanges of fixed income securities are recognized on the transaction date. Market related value of assets is used to determine the indicated contribution.

**Investments**

*Investment Policy:* The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. It is the policy of the PSABMRT General Balanced Fund to invest approximately 55% of assets in equities, approximately 40% of assets in fixed income investments (with a maximum individual maturity of 40 years) and approximately 5% of assets in alternative investments.

*Credit Risk:* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2014, all plan assets were invested in the PSABMRT General Balanced Fund, which is not rated. However, the formal investment policy of the PSABMRT requires fixed income securities within the portfolio to be rated BBB or higher at the time of purchase, and requires any asset-backed or mortgage-backed securities within the portfolio to be rated AAA at the time of purchase.

*Concentration of Credit Risk:* This is the risk of loss attributed to the magnitude of an investment in a single issuer. The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2014 the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

*Interest Rate Risk:* This is the risk that a change in interest rates will adversely affect the fair value of an investment. For the General Balanced Fund, approximately 40% of assets will be invested in interest-bearing securities with a maximum individual maturity of 40 years.

*Rate of Return:* For the year ended December 31, 2014, the annual money-weighted rate of return on Plan investments, net of investment expense was 6.13 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

Net Pension Liability

The components of the net pension liability of participating entities at December 31, 2014 were as follows:

Total pension liability	\$ 970,386
Plan fiduciary net position	<u>(1,001,371)</u>
Net pension liability	<u>\$ (30,985)</u>
Plan fiduciary net position as a percentage of the total pension liability	103%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

*Actuarial Assumptions:* The total pension liability in the January 1, 2013 actuarial valuation for the Plan was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	5.00% (including inflation)
Investment rate of return	7.25%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment. Rates are projected to improve with 75% of scale AA.

The actuarial assumptions used in the January 1, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2011 to December 31, 2012.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

The net pension liability for plan was measured as of December 31, 2014 and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2013. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

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) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equities	55%	6.3%
Fixed Income	40%	2.0%
Cash	5%	0.0%

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive Plan members. 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. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of participating entities calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Net pension liability	\$ 75,575	\$ (30,985)	\$ (121,353)

**Funded Status and Funding Progress Pension Plan**

The funded status of each plan as of January 1, 2013, the most recent actuarial valuation date, is as follows:

	Actuarial Accrued Liability <u>of Net Assets</u>	Actuarial Liability <u>Obligation</u>	Unfunded Actuarial Accrued Liability <u>Liability</u>	Funded Ratio <u>Ratio</u>	Projected Annual Covered Payroll <u>Payroll</u>	Liability as a percentage of payroll <u>of payroll</u>
1/1/2013	\$ 785,384	\$ 817,442	\$ 32,058	96.1%	\$ 572,356	5.6%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**Funding Policy:**

For 2014, no member contributions were required. The pension plan is funded by contributions from the Township and annual entitlements received from the Commonwealth of Pennsylvania.

The plans did not have any investment transaction with related parties during the year.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement pension plan (continued)***

***3. Contributions***

The Plan follows the funding policy prescribed by ACT 205 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state contributions must be funded by the employer.

***4. Annual Pension Cost and Net Pension Obligation***

The Township's annual pension cost and net pension obligation to the Pension Plan for the current year were as follows:

	<u>NonUniform</u>
Annual required contribution	\$ 54,249
Interest on net pension obligation	(677)
Adjustments to annual required contribution	<u>1,004</u>
Annual pension cost	54,576
Contribution made	<u>(54,249)</u>
Increase (decrease) in net pension obligation	327
Net pension obligation(asset) at beginning of year	<u>(9,332)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (9,005)</u></u>

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***B. Employee retirement systems and pension plan (continued)***

The annual required contribution for the current year was determined as part of the January 1, 2013 actuarial valuation using the following assumptions:

	<u>NonUniform</u>
Date of actuarial valuation	1/1/2013
Investment rate of return	7.25%
Projected salary increases due to inflation	5%
Cost method	Entry Age
Amortization method	Level Dollar- closed
Aggregate remaining amortization period (years)	8
Cost of living increases	3%

**5. Three-Year Trend Information**

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension Obligation <u>(Asset)</u>
12/31/2012	\$ 50,145	>100%	\$ (9,637)
12/31/2013	60,087	99.5%	(9,332)
12/31/2014	54,576	99.4%	(9,005)

***C. Escrow cash deposits and investments***

The Township acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Township and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Township. At December 31, 2014, \$596,974 represents the balance of these monies held in escrow.

WORCESTER TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

**IV. Other information (Continued)**

***D. New Accounting Pronouncements***

GASB Statement No. 67 – *Financial Reporting for Pension Plans* was issued in June 2012. This Statement is effective for fiscal year beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*. As a result of implementing this Statement, the pension disclosures and required supplementary information schedules for pensions in this financial statement have been expanded to include the new requirements.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* was issued in June 2012. This Statement is effective for fiscal years beginning after June 15, 2014. The objective of this Statement is to measure and recognize liabilities, deferred outflows of resources, deferred inflows or resources, and expense/expenditures for defined benefit pension plans that more closely match the benefits attributable to the employees' periods of service. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 50, *Pension Disclosures*. This Statement will be implemented in 2015.

***E. Subsequent events***

The Township has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

REQUIRED SUPPLEMENTAL INFORMATION

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniform Pension Plan

December 31, 2014

**SCHEDULE OF FUNDING PROGRESS**

Valuation Date	Actuarial Value of Net Assets	Actuarial Liability Obligation	Unfunded Actuarial Liability	Funded Ratio	Projected Annual Covered Payroll	Liability as a percentage of payroll
1/1/2009	\$ 500,187	\$ 619,698	\$ 119,511	80.7%	\$ 532,007	22.5%
1/1/2011	699,307	722,392	23,085	96.8%	585,787	3.9%
1/1/2013	785,384	817,442	32,058	96.1%	572,356	5.6%

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES**

Calendar Year	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2009	\$ 41,248	\$ 41,248	100.00%
2010	55,687	55,687	100.00%
2011	61,190	61,190	100.00%
2012	50,145	59,782	119.22%
2013	59,782	59,782	100.00%
2014	54,249	54,249	100.00%

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniform Pension Plan

December 31, 2014

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS**

	<u>2014</u>
<b>Total pension liability</b>	
Service cost	\$ 77,873
Interest	127,810
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(52,739)</u>
Net change in total pension liability	152,944
<b>Total pension liability - beginning</b>	<u>817,442</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 970,386</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 54,249
Contributions - employee	-
Net investment income	48,764
Benefit payments, including refunds of employee contributions	(29,606)
Administrative expense	(1,475)
Other	<u>-</u>
Net change in plan fiduciary net position	71,932
<b>Plan fiduciary net position - beginning</b>	<u>929,439</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 1,001,371</u>
<b>Township's net pension liability - ending (a)-(b)</b>	<u>\$ (30,985)</u>
Plan fiduciary net position as a percentage of the total pension liability	103.2%
Covered-employee payroll	\$ 587,864
Township's net pension liability as a percentage of covered-employee payroll	-5.3%

Change in benefit terms: None since 1/1/2013

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniform Pension Plan

December 31, 2014

**SCHEDULE OF CONTRIBUTIONS**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 54,249	\$ 59,782	\$ 50,145	\$ 61,190	\$ 55,687	\$ 41,248
Contributions in relation to the actuarially determined contribution	\$ 54,249	\$ -	\$ 59,782	\$ 61,190	\$ 55,687	\$ 41,248
Contribution deficiency (excess)	\$ -	\$ -	\$ (9,637)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 587,864	\$ 572,356	\$ 572,356	\$ 585,787	\$ 585,787	\$ 532,007
Contributions as a percentage of covered-employee payroll	9.2%	10.4%	8.8%	10.4%	9.5%	7.8%

**Notes to Schedule:**

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

Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar - closed
Remaining amortization period	8 years (aggregate)
Asset valuation method	Fair value
Inflation	3%
Salary increases	5% (including inflation)
Investment rate of return	7.25% (net of investment expenses not funded through the MMO, and including inflation)
Retirement age	Normal Retirement Age
Mortality	RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment Rates are projected to improve with 75% of scale AA

Change in benefit terms: None since 1/1/2013

(1) - covered employee payroll taken from 1/1/2009 through 1/1/2013 actuarial valuations

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

WORCESTER TOWNSHIP

Required Supplemental Information – Non-Uniform Pension Plan

December 31, 2014

**SCHEDULE OF INVESTMENT RETURNS**

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	6.13%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.