

**UPPER MACUNGIE TOWNSHIP**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2014*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

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**YEAR ENDED DECEMBER 31, 2014**

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Upper Macungie Township as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Upper Macungie 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.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 adverse audit opinion on the governmental activities and unmodified audit opinions on the business-type activities, discretely presented component unit, major funds and aggregate remaining fund information..

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

### ***Basis for Adverse Opinion on Governmental Activities***

As discussed in Note A to the financial statements, management has not recorded capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

### ***Adverse Opinion on Governmental Activities***

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of Upper Macungie Township, Pennsylvania, as of December 31, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinion on Business-Type Activities, Discretely Presented Component Unit, Major Funds and Aggregate Remaining Fund Information***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Upper Macungie Township, Pennsylvania, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

For the year ended December 31, 2014, Upper Macungie Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans--An Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

### ***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 6 through 16, budgetary comparison information on pages 45 and 46 and pension plan information on pages 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements.

To the Board of Supervisors  
Upper Macungie Township  
Breinigsville, Pennsylvania

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Macungie Township's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Maillie LLP

Oaks, Pennsylvania  
August 10, 2015



**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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This discussion and analysis of Upper Macungie Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Please read it in conjunction with the Township's basic financial statements, which begin on page 17.

**FINANCIAL HIGHLIGHTS**

- The assets of Upper Macungie Township exceeded its liabilities at the close of the most recent fiscal year by \$31,515,566 (representing its net position). Of this amount, \$19,117,911 (or its unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The Township's total net position increased by \$3,761,883.
- As of December 31, 2014, the Township's Governmental Funds reported combined ending fund balances of \$15,084,958, an increase of \$1,909,620 as compared to the prior year.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 17 and 18) 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 19. For governmental activities, these statements explain how services were financed in the short term as well as what remains for future spending. The Governmental and Proprietary Funds financial statements also report the Township's operations in more detail than the entity-wide statements by providing information about the Township's most significant funds. The remaining statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

**Entity-Wide Financial Statements**

The first two statements are entity-wide financial statements, the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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The entity-wide statements report information about the Township as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide statements report the Township's net position and how it has changed. Net position, the difference between the Township's assets and liabilities, is one way to measure the Township's financial health or position. In the long run, increases or decreases in the Township's net position are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Township, consideration must be made to additional nonfinancial factors, such as changes in the Township's property tax base and the adequacy of Township services.

Regarding the Township's tax base, the Township continues to experience new development and redevelopment of properties. Such development of a well-established Pennsylvania Township is quite unusual and bodes well for the economic and fiscal base of the Township. The rate of this new development and redevelopment has increased since years 2009 - 2011. In fact, the real estate transfer tax collected for 2014 was 30.3% higher than average as compared to the last 10 years.

The entity-wide financial statements of the Township are divided into two categories:

- **Governmental Activities** - All of the Township's basic services are included here, such as public safety, public works and administration. Property taxes and state grants and charges for services finance most of these activities.
- **Business-Type Activities** - The Township runs a Sewer Fund and charges fees to the customers of the utilities for operational expenses and tapping fees from new construction for capital related costs.

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the Township's general services were financed in the short term as well as what remains for future spending. Proprietary Funds statements offer short-term and long-term information about the activities that the Township operates like a business. Fiduciary Funds financial statements provide information about financial relationships where the Township acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Township's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short term view of the Township's operations and the services it provides.

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The Township's Governmental Funds include the General Fund, the Capital Reserve Fund, the Recreation Fund, the Highway Aid Fund, the Stormwater Fund and the Impact Fees Fund.

- **Proprietary Funds** - These funds are used to account for Township activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the Township charges customers for services it provides, whether to outside customers or to other units in the Township, these services generally are reported in the Proprietary Funds. The Township's Proprietary Fund is the Sewer Fund.
- **Fiduciary Funds** - The Township is the trustee, or fiduciary, for the Non-Uniformed Employees' Pension Plan and escrow funds. All of the Township's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations.

**UPPER MACUNGIE TOWNSHIP**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2014**

**ENTITY-WIDE FINANCIAL ANALYSIS OF THE TOWNSHIP**

The Township's total net position was \$31,515,566 at December 31, 2014. This is an increase of \$3,761,883 from the previous year. There was a \$1,932,459 increase in the Governmental Funds. The remaining \$1,829,424 of this increase is in the Proprietary Funds. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's governmental and business-type activities.

<b>Table 1 - Statement of Net Position</b>			
<b>December 31, 2014</b>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Current and other assets	\$ 15,402,517	\$ 9,057,385	\$ 24,459,902
Capital assets	-	8,453,778	8,453,778
<b>TOTAL ASSETS</b>	<u>15,402,517</u>	<u>17,511,163</u>	<u>32,913,680</u>
<b>LIABILITIES</b>			
Other liabilities	<u>294,720</u>	<u>1,103,394</u>	<u>1,398,114</u>
<b>NET POSITION</b>			
Investment in capital assets	-	8,453,778	8,453,778
Restricted	790,200	-	790,200
Unrestricted	<u>14,317,597</u>	<u>7,953,991</u>	<u>22,271,588</u>
<b>TOTAL NET POSITION</b>	<u>\$ 15,107,797</u>	<u>\$ 16,407,769</u>	<u>\$ 31,515,566</u>

**UPPER MACUNGIE TOWNSHIP**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2014**

**Table 2 - Changes in Net Position**  
**Year Ended December 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 4,432,788	\$ 7,585,436	\$ 12,018,224
Operating grants and contributions	1,592,034	-	1,592,034
General revenues			
Real estate taxes	2,736,181	-	2,736,181
Real estate transfer taxes	1,298,845	-	1,298,845
Earned income tax	5,135,418	-	5,135,418
LST tax	1,245,021	-	1,245,021
Investment earnings	382,478	16,506	398,984
Other	130,155	-	130,155
	<u>16,952,920</u>	<u>7,601,942</u>	<u>24,554,862</u>
<b>EXPENSES</b>			
General government	3,399,139	-	3,399,139
Public safety	6,327,243	-	6,327,243
Highways and streets	2,442,449	-	2,442,449
Sanitation	1,970,377	-	1,970,377
Culture and recreation	881,253	-	881,253
Sewer operations	-	5,772,518	5,772,518
	<u>15,020,461</u>	<u>5,772,518</u>	<u>20,792,979</u>
<b>CHANGE IN NET POSITION</b>	1,932,459	1,829,424	3,761,883
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>13,175,338</u>	<u>14,578,345</u>	<u>27,753,683</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 15,107,797</u>	<u>\$ 16,407,769</u>	<u>\$ 31,515,566</u>

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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**Governmental Activities**

The net increase from the Township's governmental activities of \$1,932,459 accounts for 51% of the total increase in net position of the Township. Table 2 shows the changes in net position for the year ended December 31, 2014.

The cost of all governmental activities this year was \$15,020,461. As shown in the Statement of Activities on page 18, the amount the Township's taxpayers ultimately financed for these activities through Township taxes was \$10,415,465. Other costs were paid by those who directly benefited from the programs in the amount of \$4,432,788, or by other governments and organizations that subsidized certain programs with intergovernmental aid and contributions in the amount of \$1,592,034. Other income totaling \$512,633 breaks down as follows: Pennsylvania State Police building rental - \$333,684; land rentals - \$27,277; interest earnings - \$21,517; and gain on sale of assets - \$130,155.

Total revenue for governmental activities in 2014, was \$16,952,920. Charges for services, earned income taxes, real estate taxes, real estate transfer taxes and local services tax provide the majority of the sources of revenue for governmental activities within the Township. As seen on the previous page, these sources account for \$14,848,253 or 87.6% of total revenue. Additionally, operating grants and contributions, investment earnings and other sources account for the remainder of \$2,104,667 or 12.4%.

Comparative revenue totals for 2014 versus 2013 reflect an increase of \$2,357,777 or 16.2%.

Revenue items deserving recognition include:

- Earned income tax, which is collected from any Township resident at the rate of 1.0% of their wage and is divided equally between the Township and Parkland School District, increased \$620,473 or 12.1% from the amount collected in 2013. This equates to an increase in Township resident payroll of \$124.1 MM from 2013 to 2014.
- Real estate transfer tax, a tax of 0.5% assessed to any property purchase within the Township, increased \$554,069 or 91.5% in 2014. Purchased property in 2014 within the Township totaled \$110.8 MM more than 2013.
- Code permit fees in 2014, including fire, plumbing and electrical, decreased a combined total of \$320,131. The number of permits issued in 2014 totaled 823 versus 976 issued the previous year.
- Pennsylvania Liquid Fuels funding totaled \$572,526 in 2014, an increase of \$43,822, due primarily to increased funding from the Commonwealth. These funds are used exclusively for maintenance and construction of Township roads.

Expenses for general government activities in 2014 totaled \$15,020,461, which exceeded 2013 expenses by \$2,621,266. General government expenses of \$3,399,139 exceeded similar expenses in 2013 by \$452,132.

- Wages and benefits associated with these activities totaled \$1,277,422 or an increase of \$105,561 or 8.8% from expenses incurred in 2013.

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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- Engineering fees for 2014 exceeded 2013 by \$257,461 or an increase of 48.2%.
- Building maintenance costs were less in 2014 by \$54,737.

Public safety expenses in 2014 totaled \$6,327,243 or an increase of \$1,385,549 (28.0%).

- Wages and benefits associated with police services, fire services and zoning and planning expenses for 2014 were \$4,791,222 or \$1,315,923 more than 2013. Pension costs of \$1,450,084 exceeded 2013 costs by \$1,076,430.
- Salaries and wages for planning and zoning personnel decreased \$51,257 as a result of the reduction of their staff by one person.
- Fire equipment costs for a new Spartan pumper fire truck totaled \$500,000, which caused total expenses for 2014 to exceed 2013 by \$518,581.

Refuse and recycling expenses increased \$379,765 or 23.9% in 2014. Expenses associated with this increase are listed below.

- The purchase of a tub grinder for recycling totaled \$154,474 in 2014, as compared to no equipment purchases in 2013.
- The third party cost of both trash and recycling costs increased \$176,455 or 13.2% due to servicing more residential customers. This is also evident in the cost of recycling bins, which in 2014 increased \$34,114.

Public works expenses for 2014 increased \$511,205 or 26.5% versus 2013.

- General road construction, including the widening of Route 100, Industrial Boulevard and Fogelsville Dam capital maintenance totaled \$1,213,961 in 2014. This amount exceeded 2013 by \$757,154.
- The acquisition of a new dump truck and two Ford pickups added costs of \$109,937 to 2014.
- Salt and anti-skid materials totaled \$40,293 less than in 2013.
- Asphalt patching materials for 2014 totaled \$81,536 less than 2013.

The Parks and Recreation Department expenses decreased by \$107,485 in 2014.

- Ruppsville Park improvements decreased by \$231,758.
- Other park improvements subsidized by grant proceeds increased by \$210,959.

**Business-Type Activities**

The net increase in revenue over expenses from the Township's business-type activities, Sewer Fund, was \$1,829,424 compared to \$1,897,604 in 2013; a decrease of \$68,180 or 3.6%.

**UPPER MACUNGIE TOWNSHIP**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2014**

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The cost of the Authority's activities was \$5,772,518 compared to \$4,897,258 in 2013.

- Major costs, paid to the Lehigh County Authority, associated with the treatment of the Township's sewer waste totaled \$3,682,007 in 2014 versus \$2,920,510 in 2013.

As shown in Table 2, Changes in Net Position, the amount the Township residential and commercial customers financed through fees was \$7,585,436 compared to \$6,762,693 in 2013. Total fees charged to these customers for both commercial and residential service were \$5,088,923 and \$2,205,185, respectively. Corresponding fees paid in 2013 were \$4,381,665 and \$2,114,115.

	<u>2014</u>	<u>2013</u>
<b>RESIDENTIAL</b>		
Base rate (annually)	\$ 356	\$ 356
Per gallon additional use over 27,000 gallons per quarter	4.18	4.18
<b>COMMERCIAL</b>		
Base rate (monthly)	105.09	105.09
Per 1,000 gallon additional	4.90	4.90
BOD (per pound)	0.47	0.44
TSS (per pound)	0.43	0.38
TKN (per pound)	0.69	0.67
FOG (per pound)	0.52	0.52

**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

Most of the Township's activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can be readily converted to cash. Governmental Funds include the General Fund, Capital Reserve Fund, Recreation Fund, Liquid Fuels Fund, Stormwater Fund and Impact Fee Fund. Most activity occurs in the Township General Fund.

As of December 31, 2014, the Township's Governmental Funds reported combined ending balances of \$15,084,958. Approximately, \$10,048,751 represents unrestricted fund balance, which is available for spending at the Township's discretion. The remainder of the fund balance is broken down into four categories: Nonspendable, Restricted for, Committed to and Assigned to. The chart on page 19 depicts items under each category.

**General Fund**

The General Fund is the chief operating fund of Upper Macungie Township. As of December 31, 2014, the total fund balance of the General Fund, was \$10,080,170. The assets of the Township are predominately held in bank accounts as cash and cash equivalents.



**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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**Capital Reserve Fund**

The Capital Reserve Fund is used to account for financial resources planned for use for the acquisition of capital equipment and capital improvements for the Township. Current Fund balance for this fund totals \$3,153,677, restricted for capital projects.

**Highway Aid Fund**

The Township's highway aids fund is used to separately account for both revenue received from the Commonwealth of Pennsylvania and the expenses associated with road improvements, snow removal and capital purchases for the Public Works Department. The cash balance held in this account totals \$1,851,111 as of December 31, 2014.

**Recreation Capital Fund**

Revenue for this fund is provided by developer fees and federal, state and local dollars to be spent on the Township's park capital maintenance programs. The ending fund balance totals \$496,907.

**Stormwater Maintenance Fund**

This fund accumulates developer fees for the anticipated costs associated with storm water runoff. The current balance for this fund is \$317,568.

**Impact Fees Fund**

Revenue for this fund accrues from various escrow accounts that have been partially funded by both developers and through state grants for traffic improvements. The ending fund balance is \$246,436.

**Fiduciary Fund**

The Fiduciary Fund is used to segregate the assets and account for the earnings and expenses of the Township's Non-Uniformed Employees' Defined Benefit Pension Plan. The current net position at December 31, 2014, totals \$5,948,765.

**Propriety Funds**

The Township's Propriety Fund (Sewer Fund) is accounted for as a business-type activity.

The unrestricted net position of the Sewer Fund at the end of the year is \$7,953,991 as compared to \$5,858,357 in 2013. Factors concerning the finances of this fund have already been addressed in the discussion of the Township's business-type activities.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The statement comparing the Township's budget and actual results can be found on page 45. The Board of Supervisors of the Township annually adopt the budget for all funds. No amendments may be made without the approval of the governing body.

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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**Revenue**

The Township's final 2014 General Fund Budget was passed in December 2013, but was reopened in January 2014 as allowed by municipal law. The budget was amended and finally reapproved on February 13, 2014, with funding totaling \$11,196,300.

- Real estate taxes, earned income taxes (EIT), real estate transfer taxes and Local Services Taxes (LST) provided the bulk of the revenues at 71.7%.
- Intergovernmental sources accounted for 13.4% of revenues, including PA State Liquid Fuels receipts.
- Charges for services accounted for 7.6% of revenue, which was derived primarily from permits, inspections and developer fees.
- Investment earnings accounted for 5.4% of revenue, including Township property rentals and investment income.

**Expenditures**

Corresponding expenses associated with the 2014 General Fund Budget totaled \$13,518,700.

- General government administration costs of \$3,870,900 or 28.6% of budget, including Supervisor expenses, financial, clerical, management, accounting and engineering expenses.
- Public safety expenses of \$4,796,800 or 35.5% of budget for police, fire and code enforcement.
- Public works expenses, including sanitation and highway and streets of \$4,011,700 or 29.7% of budget.
- Culture and recreation expenses of \$839,300 or \$6.2% of budget.

**BUDGET COMPARISON**

Actual revenue for the year exceeded budgeted revenue by \$5,169,298. Conversely, actual expenditures exceeded budgeted expenditures by \$672,181, resulting in an excess of revenues above expenditures of \$4,497,117.

Specific line-item analysis is listed below

**Revenue**

- Tax receipts concerning earned income taxes exceeded budget expectations by \$1,460,418 or 39.7%.
- Real estate transfer taxes exceeded budget by \$620,473 or 103.4% due to a high demand for real estate in the Township.

**UPPER MACUNGIE TOWNSHIP**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2014

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- Contributions totaling \$1,300,700, comprising of developer proceeds, exceeded the nominal budget of \$100.
- Charges for services exceeded budget by \$1,755,928 due to higher than expected refuse payments to the Township.

**Expenditures**

- Overall health and life insurance costs were less than budget by \$222,197 or only 82% of budget.
- Total salaries and wages for all departments totaled \$3,790,584, which was \$680,216 or 16% less than budget.
- Pension contributions for both the Township's Uniform and Non-Uniformed Plans totaled \$1,832,875 or \$785,700 (57.1%) more than budgeted. This was a result of the termination of the Regional Police Department and the subsequent transfer of the police pension costs.
- The Township's general insurance, including umbrella coverage, exceeded budget by \$40,069 or 17.1%.
- Gasoline and diesel fuel consumption of \$221,182, was under budget by \$33,818 or 15.3%.
- Trash hauling fees incurred by the Township residents exceeded budget by \$171,711 or 11.3%.
- Engineering fees were under budget by \$288,392 or 36.4%.

**FINANCIAL MANAGEMENT**

Upper Macungie Township's financial report is designed to provide its citizens and taxpayers with a general overview of the Township's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or wish to request additional financial information, please contact Bruce Koller, Finance Director for the Township at 610-395-4892, ext. 115 or [bkoller@uppermac.org](mailto:bkoller@uppermac.org).

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Upper Macungie Township Authority
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,896,603	\$ 6,548,794	\$ 18,445,397	\$ 2,264,781
Investments	2,788,912	1,479,339	4,268,251	-
Taxes receivable, net	161,952	-	161,952	-
Due from escrow	331,661	-	331,661	-
Accounts receivable, net	191,970	1,029,252	1,221,222	-
Prepaid items	31,419	-	31,419	-
Capital assets, net	-	8,453,778	8,453,778	5,588
<b>TOTAL ASSETS</b>	<u>15,402,517</u>	<u>17,511,163</u>	<u>32,913,680</u>	<u>2,270,369</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	294,720	1,103,394	1,398,114	-
<b>NET POSITION</b>				
Net investment in capital assets	-	8,453,778	8,453,778	5,588
Restricted	790,200	-	790,200	-
Unrestricted	14,317,597	7,953,991	22,271,588	2,264,781
<b>TOTAL NET POSITION</b>	<u>\$ 15,107,797</u>	<u>\$ 16,407,769</u>	<u>\$ 31,515,566</u>	<u>\$ 2,270,369</u>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities				
General government	\$ 3,399,139	\$ -	\$ 597,550	\$ -
Public safety	6,327,243	2,293,803	137,688	-
Public works				
Sanitation	1,970,377	1,861,704	257,164	-
Highways and streets	2,442,449	-	599,632	-
Culture and recreation	881,253	277,281	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>15,020,461</u>	<u>4,432,788</u>	<u>1,592,034</u>	<u>-</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Sewer Fund	<u>5,772,518</u>	<u>7,585,436</u>	<u>-</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 20,792,979</u>	<u>\$ 12,018,224</u>	<u>\$ 1,592,034</u>	<u>\$ -</u>
<b>COMPONENT UNIT</b>				
Upper Macungie Township Authority	<u>\$ 42,585</u>	<u>\$ 85,337</u>	<u>\$ -</u>	<u>\$ -</u>
<b>GENERAL REVENUES</b>				
Taxes				
Real estate taxes				
Real estate transfer taxes				
Earned income taxes				
Local services taxes				
Unrestricted investment earnings				
Gain on sale of asset				
<b>TOTAL GENERAL REVENUES</b>				
<b>CHANGE IN NET POSITION</b>				
<b>NET POSITION AT BEGINNING OF YEAR</b>				
<b>NET POSITION AT END OF YEAR</b>				

*See accompanying notes to the basic financial statements.*

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Upper Macungie Township Authority
\$ (2,801,589)	\$ -	\$ (2,801,589)	\$ -
(3,895,752)	-	(3,895,752)	-
148,491	-	148,491	-
(1,842,817)	-	(1,842,817)	-
(603,972)	-	(603,972)	-
<u>(8,995,639)</u>	<u>-</u>	<u>(8,995,639)</u>	<u>-</u>
<u>-</u>	<u>1,812,918</u>	<u>1,812,918</u>	<u>-</u>
<u>(8,995,639)</u>	<u>1,812,918</u>	<u>(7,182,721)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>42,752</u>
2,736,181	-	2,736,181	-
1,298,845	-	1,298,845	-
5,135,418	-	5,135,418	-
1,245,021	-	1,245,021	-
382,478	16,506	398,984	2,503
130,155	-	130,155	-
<u>10,928,098</u>	<u>16,506</u>	<u>10,944,604</u>	<u>2,503</u>
1,932,459	1,829,424	3,761,883	45,255
<u>13,175,338</u>	<u>14,578,345</u>	<u>27,753,683</u>	<u>2,225,114</u>
<u>\$ 15,107,797</u>	<u>\$ 16,407,769</u>	<u>\$ 31,515,566</u>	<u>\$ 2,270,369</u>

**UPPER MACUNGIE TOWNSHIP**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,686,731	\$ 358,761	\$ 1,851,111	\$ 11,896,603
Investments	-	2,788,912	-	2,788,912
Taxes receivable, net	161,952	-	-	161,952
Due from escrow	331,661	-	-	331,661
Other receivables	185,966	6,004	-	191,970
Prepaid expenses	31,419	-	-	31,419
<b>TOTAL ASSETS</b>	<b><u>\$ 10,397,729</u></b>	<b><u>\$ 3,153,677</u></b>	<b><u>\$ 1,851,111</u></b>	<b><u>\$ 15,402,517</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 294,720	-	-	\$ 294,720
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues, property taxes	22,839	-	-	22,839
<b>FUND BALANCES</b>				
Nonspendable, prepaid expenses	31,419	-	-	31,419
Restricted for				
Road and street improvements	-	-	790,200	790,200
Committed to				
Capital projects	-	3,153,677	-	3,153,677
Recreation activities	-	-	496,907	496,907
Assigned to				
Stormwater	-	-	317,568	317,568
Highway	-	-	246,436	246,436
Unassigned	10,048,751	-	-	10,048,751
<b>TOTAL FUND BALANCES</b>	<b><u>10,080,170</u></b>	<b><u>3,153,677</u></b>	<b><u>1,851,111</u></b>	<b><u>15,084,958</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 10,397,729</u></b>	<b><u>\$ 3,153,677</u></b>	<b><u>\$ 1,851,111</u></b>	<b><u>\$ 15,402,517</u></b>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

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TOTAL GOVERNMENTAL FUNDS BALANCES \$ 15,084,958

Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

22,839

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 15,107,797

*See accompanying notes to the basic financial statements.*



**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 10,392,626	\$ -	\$ -	\$ 10,392,626
Fees and fines	185,949	-	-	185,949
Licenses and permits	2,730	-	-	2,730
Intergovernmental	1,337,829	-	576,886	1,914,715
Charges for services	2,606,928	-	227,920	2,834,848
Investment earnings	367,048	13,831	1,599	382,478
Contributions	1,300,700	-	-	1,300,700
Miscellaneous	171,788	-	-	171,788
<b>TOTAL REVENUES</b>	<b>16,365,598</b>	<b>13,831</b>	<b>806,405</b>	<b>17,185,834</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	3,385,393	13,746	-	3,399,139
Public safety	6,582,996	-	-	6,582,996
Public works				
Sanitation	1,970,377	-	-	1,970,377
Highways and streets	1,767,702	-	674,747	2,442,449
Culture and recreation	484,413	-	396,840	881,253
<b>TOTAL EXPENDITURES</b>	<b>14,190,881</b>	<b>13,746</b>	<b>1,071,587</b>	<b>15,276,214</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,174,717</b>	<b>85</b>	<b>(265,182)</b>	<b>1,909,620</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>7,905,453</b>	<b>3,153,592</b>	<b>2,116,293</b>	<b>13,175,338</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 10,080,170</b>	<b>\$ 3,153,677</b>	<b>\$ 1,851,111</b>	<b>\$ 15,084,958</b>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

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NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL \$ 1,909,620

Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds.

Unearned tax revenues 22,839

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,932,459

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2014**

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	<u>Sewer Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 6,548,794
Investments	1,479,339
Accounts receivable, net	<u>1,029,252</u>
<b>TOTAL CURRENT ASSETS</b>	<u>9,057,385</u>
<b>CAPITAL ASSETS</b>	
Utility system	14,301,240
Equipment and furniture	2,354,437
Accumulated depreciation	<u>(8,201,899)</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>8,453,778</u>
<b>TOTAL ASSETS</b>	<u>17,511,163</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and other liabilities	<u>1,103,394</u>
<b>NET POSITION</b>	
Investment in capital assets	8,453,778
Unrestricted	<u>7,953,991</u>
<b>TOTAL NET POSITION</b>	<u>\$ 16,407,769</u>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**YEAR ENDED DECEMBER 31, 2014**

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 7,531,768
Other operating revenue	<u>53,668</u>
TOTAL OPERATING REVENUES	<u>7,585,436</u>
OPERATING EXPENSES	
Administration	51,756
Salaries and wages	695,212
Treatment expense	3,685,373
Fuel and light	401,870
Contracted services	44,359
Repairs and maintenance	305,901
Insurance expense	22,245
Supplies expense	13,085
Miscellaneous	10,804
Depreciation	<u>541,913</u>
TOTAL OPERATING EXPENSES	<u>5,772,518</u>
OPERATING INCOME	1,812,918
NONOPERATING REVENUES	
Interest and investment revenue	<u>16,506</u>
CHANGE IN NET POSITION	1,829,424
NET POSITION AT BEGINNING OF YEAR	<u>14,578,345</u>
NET POSITION AT END OF YEAR	<u>\$ 16,407,769</u>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED DECEMBER 31, 2014**

	<u>Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 8,021,743
Payments to employees	(695,212)
Payments to suppliers	<u>(4,380,001)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>2,946,530</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b> <b>ACTIVITIES</b>	
Acquisition, construction and improvements of capital assets	<u>(454,786)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Earnings on investments	<u>16,506</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,028,911</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>5,519,883</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 6,548,794</b></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED</b> <b>BY OPERATING ACTIVITIES</b>	
Operating income	\$ 1,812,918
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	541,913
Decrease in accounts receivable	436,307
Increase in accounts payable and other liabilities	<u>155,392</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 2,946,530</b></u>

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2014**

	<u>Pension Funds</u>	<u>Escrow Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 394,890	\$ 1,543,429
Investments		
Equities	3,567,718	-
Fixed income	1,970,593	-
Pooled investments	5,858,938	-
<b>TOTAL INVESTMENTS</b>	<u>11,397,249</u>	<u>-</u>
Accounts receivable	<u>15,596</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>11,807,735</u>	<u>\$ 1,543,429</u>
<b>LIABILITIES</b>		
Accounts payable	32	\$ 1,211,768
Due to General Fund	<u>-</u>	<u>331,661</u>
<b>TOTAL LIABILITIES</b>	<u>32</u>	<u>\$ 1,543,429</u>
<b>NET POSITION</b>		
Held in trust for benefits and pool participants	<u>\$ 11,807,735</u>	

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	<u>Pension Funds</u>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 785,693
Employee	95,575
Transfer from dissolved plan	<u>2,888,279</u>
<b>TOTAL CONTRIBUTIONS</b>	<b><u>3,769,547</u></b>
Investment earnings	
Net increase in fair value of investments	230,260
Interest	200,551
Dividends	<u>70,871</u>
<b>TOTAL INVESTMENT EARNINGS</b>	<b><u>501,682</u></b>
<b>TOTAL ADDITIONS</b>	<b><u>4,271,229</u></b>
<b>DEDUCTIONS</b>	
Benefits	252,349
Administrative	32,784
Allocated insurance premiums	6,840
Miscellaneous expense	<u>28</u>
<b>TOTAL DEDUCTIONS</b>	<b><u>292,001</u></b>
<b>CHANGE IN NET POSITION</b>	<b>3,979,228</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b><u>7,828,475</u></b>
<b>NET POSITION AT END OF YEAR</b>	<b><u>\$ 11,807,703</u></b>

*See accompanying notes to the basic financial statements.*

**UPPER MACUNGIE TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Upper Macungie Township (the "Township") complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**Reporting Entity**

Financial accountability is defined in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. The Township is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. The Township also may be financially accountable if an organization is fiscally dependent on the Township regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Based on the aforementioned criteria, the Township's component unit is the Upper Macungie Township Authority (the "Authority"). The Authority has been reported as a discretely presented component unit in a separate column in the financial statement to emphasize that it is legally separate from the Township.

**Basis of Presentation**

**Government-Wide Financial Statements** - The statement of net position and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as Pension and Agency Funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under Proprietary Funds below. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Therefore, Governmental Funds financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements of Governmental Funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Township and for each governmental program. Expenses are those that are specifically associated with a service or program and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.



**UPPER MACUNGIE TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Internal activity is limited to interfund transfers which are eliminated to avoid “doubling up” revenues and expenses. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from Special Revenue Funds and the restrictions on their net position use.

***Fund Financial Statements*** - Fund financial statements report detailed information about the Township. The focus of Governmental and Enterprise Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The two major Governmental Funds are each presented in a single column on the Governmental Fund financial statements. Fiduciary Funds financial statements are presented by fund type.

The Township reports the following major Governmental Funds:

- The *General Fund* is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Capital Reserve Fund* is used to account for financial resources to be used for the acquisition of capital equipment and capital improvements in the governmental and business-type activities.

The Township reports the following Proprietary Fund:

- The *Sewer Fund* accumulates resources necessary for the operation of the sewage collection system.

**Governmental Funds** - All Governmental Funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major Governmental Funds of the Township include the General Fund and the Capital Reserve Fund. All other Governmental Funds are grouped together and presented in a separate column as Other Governmental Funds. They include the Highway Aid Fund, the Recreation Fund, the Stormwater Fund and the Impact Fees Fund.

***Revenue Recognition*** - In applying the “susceptible to accrual concept” under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period.

**UPPER MACUNGIE TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis.

Property tax and earned income tax receivables collected after 60 days from year-end, though measureable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

*Expenditure Recognition* - The measurement focus of Governmental Funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measureable and recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, as provided in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain Governmental Funds liabilities and expenditures, such as compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the Governmental Funds.

**Proprietary Funds** - Proprietary Funds are accounted for using the accrual basis of accounting. These funds account for operations financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in the Proprietary Funds. The Township's only Proprietary Fund is an Enterprise Fund.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. The principal operating revenues of the Township's Enterprise Fund is user fees. Operating expenses for the Township's Enterprise Fund include sewer disposal, salaries, supplies and administrative costs and depreciation. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fiduciary Funds**

*Trust and Agency Funds* - Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These include Pension and Agency Funds. The Pension Funds account for the activities of the Non-Uniformed Pension Fund. Pension Funds are accounted for in essentially the same manner as Proprietary Funds since the measurement of the economic resources is critical. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the escrow accounts held by the Township.

**Budgets and Budgetary Accounting**

The Township is required by state law to adopt annual budgets for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Township Board of Supervisors is then called for the purpose of adopting the proposed budget.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Township Board of Supervisors.
- The budget must be filed with the Pennsylvania Department of Community and Economic Development by January 31.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of Township Board of Supervisors. Amendments are presented to Township Board of Supervisors at its regular meetings. Each amendment must have Township Board of Supervisors approval. Such amendments are made before the fact, are reflected in the official minutes of the Township Board of Supervisors and are not made after fiscal year-end as dictated by law.

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by Township Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

The Township'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.

**Investments**

The Township has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement establishes fair value standards for investments held by governmental entities, except for certain money market investments, as defined, which are recorded at amortized cost. The statement also establishes reporting standards for investment income.

**Transactions Between Funds**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

**Use of Estimates**

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

**Capital Assets**

Township capital assets, which include property, plant and equipment, are not tracked and reported in the applicable governmental column in the entity-wide financial statements. Capital assets for the business-type activities are reported in the applicable column in the entity-wide financial statements as well as in the Proprietary Funds financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The Township reports business-type activities infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of these infrastructure assets are capitalized and reported in the financial statements regardless of their amount. Such assets are recorded at 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 the lives of the assets are not capitalized.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

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

	<u>Years</u>
Buildings and improvements	15-40
Infrastructure	20-50
Vehicles	5-7
Machinery and equipment	5-30

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Net Position Flow Assumption**

Sometimes the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**UPPER MACUNGIE TOWNSHIP**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance**

The Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (the Township Board of Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the Township intends to use for a specific purpose. Intent can be expressed by Township Board of Supervisors or by an official or body to which the Township Board of Supervisors delegates the authority. The Board has not delegated the authority to assign fund balance as of December 31, 2014.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Township Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a motion. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

The Township will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**Restricted Net Position**

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first and then unrestricted resources as they are needed. Administrative expenses are paid with the use of unrestricted resources.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE B - TAXES**

For 2014, tax was levied on the assessed value of real estate at a total of 0.64 mills.

The taxable assessed valuation of property as of January 1, 2014, was \$738,325,458.

The real estate tax collection calendar is as follows:

Initial billing.....	April 1
Discount period .....	April 1 to May 31
Face period .....	June 1 to July 31
Penalty period .....	August 1 and thereafter
Lien date .....	January 31

Other taxes levied in 2014, are as follows:

Real estate transfer tax .....	1% of sale price
Earned income tax .....	1% of gross income
LST tax.....	\$52 per person

**NOTE C - DEPOSITS AND INVESTMENTS**

**Deposits**

***Custodial Credit Risk*** - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a policy for custodial credit risk on deposits. The Township is required by statute to deposit funds in depositories that are either banks, banking institutions, or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

At December 31, 2014, the carrying amount of the Township's deposits was \$20,103,084 and the bank balance was \$20,603,084. Of the bank balance, \$500,000 was covered by federal depository insurance, \$20,103,084 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Township's name.

At December 31, 2014, the carrying amount of the Upper Macungie Township Authority's deposits was \$2,264,781, and the bank balance was \$2,266,400. Of the bank balance, \$250,000 was covered by federal depository insurance, \$2,016,400 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Township's name.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

As of December 31, 2014, the Township's Governmental Funds had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturities</u>		
		<u>0 to 5 Years</u>	<u>5 to 10 Years</u>	<u>More Than 10 Years</u>
U.S. Treasury notes	\$ 1,424,450	\$ 1,424,450	\$ -	\$ -
Federal Home Loan Banks (FHLB)	120,176	120,176	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	387,257	387,257	-	-
Federal National Mortgage Association (FNMA)	857,029	857,029	-	-
	<u>\$ 2,788,912</u>	<u>\$ 2,788,912</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2014, the Township's Proprietary Fund had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturities</u>		
		<u>0 to 5 Years</u>	<u>5 to 10 Years</u>	<u>More Than 10 Years</u>
U.S. Treasury notes	\$ 762,111	\$ 762,111	\$ -	\$ -
Federal Home Loan Banks (FHLB)	65,096	65,096	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	201,146	201,146	-	-
Federal National Mortgage Association (FNMA)	450,986	450,986	-	-
	<u>\$ 1,479,339</u>	<u>\$ 1,479,339</u>	<u>\$ -</u>	<u>\$ -</u>



**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

As of December 31, 2014, the Township's Non-Uniformed Employees' Pension Plan had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturities</u>		
		<u>0 to 5 Years</u>	<u>5 to 10 Years</u>	<u>More Than 10 Years</u>
U.S. Treasury notes	\$ 552,658	\$ 365,106	\$ 187,552	\$ -
Domestic common stock	2,368,185	2,368,185	-	-
Mutual funds	1,199,533	1,199,533	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	409,250	75,218	79,236	254,796
Federal National Mortgage Association (FNMA)	400,488	149,267	-	251,221
Corporate bonds	608,197	152,073	456,124	-
	<u>\$ 5,538,311</u>	<u>\$ 4,309,382</u>	<u>\$ 722,912</u>	<u>\$ 506,017</u>

**Interest Rate Risk** - The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. State statutes authorize the Township to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. When making investments, the Township can combine monies from more than one fund under the Township's control for the purpose of a single investment and join with other political subdivisions in the purchase of a single investment. Fiduciary Funds are not limited to specific investments except as established by Township resolution.

The Township's investment policy does not further limit its investment choices.

**NOTE D - INTERFUND RECEIVABLES/PAYABLES**

The balance of short-term interfund receivables/payables at December 31, 2014, was as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 331,661	\$ -
Escrow Fund	-	331,661
	<u>\$ 331,661</u>	<u>\$ 331,661</u>

Interfund balances between the General and Escrow Funds arise when returns of escrow are paid from the General Fund and are not reimbursed prior to year-end.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE E - BUSINESS-TYPE ACTIVITY CAPITAL ASSETS**

As discussed in Note A, the Township does not track and record capital assets for its governmental activities. Capital asset activity in the business-type funds for the year ended December 31, 2014, was as follows:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Sewer collection system infrastructure	\$ 14,025,850	\$ 275,390	\$ -	\$ 14,301,240
Machinery and equipment	476,515	40,009	-	516,524
Vehicles	1,465,348	121,455	-	1,586,803
Office equipment and furniture	233,177	17,933	-	251,110
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>16,200,890</b>	<b>454,787</b>	<b>-</b>	<b>16,655,677</b>
Accumulated depreciation				
Sewer collection system infrastructure	(6,455,996)	(285,109)	-	(6,741,105)
Machinery and equipment	(301,258)	(54,507)	-	(355,765)
Vehicles	(800,363)	(180,113)	-	(980,476)
Office equipment and furniture	(102,368)	(22,185)	-	(124,553)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(7,659,985)</b>	<b>(541,914)</b>	<b>-</b>	<b>(8,201,899)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>8,540,905</b>	<b>(87,127)</b>	<b>-</b>	<b>8,453,778</b>
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 8,540,905</b>	<b>\$ (87,127)</b>	<b>\$ -</b>	<b>\$ 8,453,778</b>

**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**

**Summary of Significant Accounting Policies**

**Method Used to Value Investments** - Non-Uniformed Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value.

**Plan Description**

**Plan Administration** - The Township administers the Non-Uniformed Employees' Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time employees.

Management of the Non-Uniformed Employees' Pension Plan is vested in the Township Supervisors. The Township Supervisors are responsible for managing, investing and monitoring the Township's Non-Uniformed Pension Fund.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

**Plan Membership** - At December 31, 2014, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	20
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>37</u>
	<u><u>62</u></u>

**Benefits Provided** - The Non-Uniformed Employees' Pension Plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime, with payments guaranteed for the first 120 months. The amount of monthly pension is equal to 2% of average monthly compensation times years of benefit service, up to a maximum of 30 years. For members as of January 1, 2002, the minimum monthly pension is equal to 55% of average monthly compensation. Average monthly compensation is based upon the highest three consecutive plan years of employment. If a member continues working after his normal retirement date, his pension does not start until he actually retires. If an active member becomes disabled and remains disabled for six months, he is eligible for a disability pension. The monthly disability pension is equal to the actuarial equivalent of the accrued benefit at the date of disability. If a vested member dies prior to retirement, a death benefit is payable to his named beneficiary equal to the actuarial equivalent of the pension accrued to date. Unless otherwise elected, with the consent of the member's spouse, the named beneficiary shall be the member's spouse and payment shall be made in the form of a Preretirement Survivor Annuity, with any additional benefits paid in a lump sum.

Cost-of-living adjustments may be made to retirees with a maximum total cost-of-living increase of 30%.

The benefit provisions of the Township's Non-Uniformed Employees' Pension Plan are established by Township ordinances.

**Contributions** - The Township pays the full cost of the plan. Member contributions are not required. The Township is required to contribute the amounts necessary to fund the Non-Uniformed Employees' Pension Plan using the actuarial basis specified by state statute. The state also provides funds (distribution of foreign casualty insurance premium taxes) to the Township, which are used by the Township in making its regular contributions to the Non-Uniformed Employees' Pension Plan.

Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, 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. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer. In accordance with Act 205, the Township was required to contribute \$382,494 to the plan for the year 2014. The Township's actual contributions for the plan year 2014 were \$382,494.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services are charged to the Non-Uniformed Employees' Pension Plan and funded through the MMO and/or plan earnings. On-behalf payments of fringe benefits and salaries for the government's employees were recognized as revenues and expenditures during the year.

**Investments**

**Investment Policy** - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board of Trustees to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	48%
International equity	12%
Fixed income	33%
Cash	7%
	<u>100%</u>

**Concentrations** - More than 5% of the Township's investments are in equities and fixed income investments. These investments are 63.0% and 35.4% of the plan's total investments, respectively.

**Rate of Return** - For the year ended December 31, 2014, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 6.79%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Township**

The components of the net liability of the Township at December 31, 2014, were as follows:

Total pension liability	\$ 6,594,677
Plan fiduciary net position	<u>(5,948,765)</u>
<b>NET PENSION LIABILITY</b>	<b>\$ <u>645,912</u></b>
Plan fiduciary net position as a percentage of the total pension liability	<u>90.21%</u>

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3%
Salary increases	5% annual increase	
Investment rate of return		7.5%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

The long-term expected rate of return on 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 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 (see the plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	7.0%
International equity	6.0%
Fixed income	2.5%
Cash	0.0%

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. 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 to ultimately achieve a 100% funded status.

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE F - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)**  
**(Continued)**

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ <u>1,377,431</u>	\$ <u>645,912</u>	\$ <u>12,834</u>

**NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)**

**Summary of Significant Accounting Policies**

Financial information of the Township's Police Pension Plan (the "Plan") is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due as required by Act 600 and Act 205 of the Commonwealth of Pennsylvania. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported using an adjusted market basis method. This method calculates investments at the fair market value of assets as of the most recent actuarial valuation, adjusted by a percentage of the difference between the expected and actual year-end market value.

**Plan Description**

The Upper Macungie Township Police Pension Plan is a single-employer defined benefit pension plan adopted pursuant to ACT 15 of 1974. The Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer Public Employee Retirement System that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Membership of the Plan consisted of the following at December 31, 2014:

Active employees	27
Retirees and beneficiaries currently receiving benefits	9
Vested terminated members	<u>2</u>
	<u>38</u>

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

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

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

Investments in the Plan are reported at fair value. The Plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

**Funding Policy and Contribution Information**

Act 205 requires that annual contributions be based upon the Plan's Minimum Municipal Obligation (MMO). The MMO is based upon the Plan's biennial actuarial valuation. In accordance with the Plan's governing ordinance, members are required to contribute 5% of compensation to the Plan.

The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the Plan and funded through investment earnings. In accordance with Act 205, the Township was required to contribute \$403,119 to the Plan for the year 2014. The Township's actual contributions for the Plan year 2014 were \$403,199.

**Funded Status and Funding Progress**

The funded status of the Plan as of January 1, 2013, the most recent actuarial valuation date, was 45.41%. The actuarial accrued liability for benefits was \$3,941,510 and the actuarial value of assets was \$1,789,758, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,151,752. The covered payroll (annual payroll of active employees covered in the Plan) was \$1,804,503, and the ratio of the UAAL to the covered payroll was 119.24%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AALs for benefits.

<u>Fiscal Year Ended December 31,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contribution</u>
2012	\$ 480	100%
2013	373,654	100%
2014	403,119	100%

**UPPER MACUNGIE TOWNSHIP**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

Additional information as of the latest actuarial valuation for the Plan follows:

Valuation date	January 1, 2013
Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	5.5%
Projected salary increases*	Age-related scale for merit/seniority (e.g., age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%. 2.0% is added for each of the first three years of service)

\*Includes inflation at 3.00%

**NOTE H - CONTINGENT LIABILITIES**

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

The Township participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**UPPER MACUNGIE TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 8,022,200	\$ 8,022,200	\$ 10,392,626	\$ 2,370,426
Fees and fines	181,800	181,800	185,949	4,149
Licenses and permits	2,400	2,400	2,730	330
Intergovernmental	1,495,500	1,495,500	1,337,829	(157,671)
Charges for services	851,000	851,000	2,606,928	1,755,928
Investment earnings	609,500	609,500	367,048	(242,452)
Contributions	100	100	1,300,700	1,300,600
Miscellaneous	33,800	33,800	171,788	137,988
<b>TOTAL REVENUES</b>	<b>11,196,300</b>	<b>11,196,300</b>	<b>16,365,598</b>	<b>5,169,298</b>
<b>EXPENDITURES</b>				
General government	3,870,900	3,870,900	3,385,393	485,507
Public safety	4,796,800	4,796,800	6,582,996	(1,786,196)
Public works				
Sanitation	2,354,200	2,354,200	1,970,377	383,823
Highways and streets	1,657,500	1,657,500	1,767,702	(110,202)
Culture and recreation	839,300	839,300	484,413	354,887
<b>TOTAL EXPENDITURES</b>	<b>13,518,700</b>	<b>13,518,700</b>	<b>14,190,881</b>	<b>(672,181)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,322,400)</b>	<b>(2,322,400)</b>	<b>2,174,717</b>	<b>4,497,117</b>
<b>OTHER FINANCING (USES)</b>				
Interfund transfers in	2,981,900	2,981,900	-	(2,981,900)
Interfund transfers out	(659,500)	(659,500)	-	659,500
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,322,400</b>	<b>2,322,400</b>	<b>-</b>	<b>(2,322,400)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>2,174,717</b>	<b>2,174,717</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>7,905,453</b>	<b>7,905,453</b>	<b>7,905,453</b>	<b>-</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 7,905,453</b>	<b>\$ 7,905,453</b>	<b>\$ 10,080,170</b>	<b>\$ 2,174,717</b>

**UPPER MACUNGIE TOWNSHIP**  
NOTE TO THE BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2014

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**NOTE A - BUDGETARY POLICY**

The Board of Supervisors annually adopts the budget for the General Fund of the Township. Management may not amend the budget without the approval of the governing body. Uncommitted appropriations lapse at year-end. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**UPPER MACUNGIE TOWNSHIP****SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED EMPLOYEES'  
PENSION PLAN LIABILITY AND RELATED RATIOS  
YEAR ENDED DECEMBER 31, 2014**

TOTAL PENSION LIABILITY	
Service cost	\$ 246,293
Interest	468,884
Benefit payments	<u>(251,980)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	463,197
Total pension liability, beginning	<u>6,131,480</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 6,594,677</u>
PLAN FIDUCIARY NET POSITION	
Contributions, employer	\$ 382,494
Net investment income	331,039
Benefit payments, including refunds of member contributions	<u>(251,980)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	461,553
Plan fiduciary net position, beginning	<u>5,487,212</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 5,948,765</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 645,912</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>90.21%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,811,476</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED- EMPLOYEE PAYROLL	<u>35.66%</u>

**UPPER MACUNGIE TOWNSHIP**  
**SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
**CONTRIBUTIONS**  
**YEAR ENDED DECEMBER 31, 2014**

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ACTUARIALLY DETERMINED CONTRIBUTION	\$ 382,494
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>382,494</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,811,476</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>21.12%</u>

**NOTES TO SCHEDULE**

Valuation date January 1, 2013

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Market value
Inflation	Moderate inflation based on long-term historical average rates is a component of the actuarial assumptions
Salary increases	5% annual increase
Investment rate of return	7.5%
Retirement age	Normal retirement age
Mortality	Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table

**UPPER MACUNGIE TOWNSHIP**  
SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN  
INVESTMENT RETURNS  
YEAR ENDED DECEMBER 31, 2014

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ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF  
INVESTMENT EXPENSE

6.79%

**UPPER MACUNGIE TOWNSHIP**  
**POLICE PENSION PLAN FUNDING PROGRESS**  
**YEAR ENDED DECEMBER 31, 2014**

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**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date <u>January 1,</u>	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Annual Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2013	\$ 1,789,758	\$ 3,941,510	\$ 2,151,752	45.41%	\$ 1,804,503	119.24%

## **SUPPLEMENTARY INFORMATION SECTION**



**UPPER MACUNGIE TOWNSHIP**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

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	Special Revenue Funds		Other Capital Projects Funds		Total Other Governmental Funds
	Recreation Fund	Highway Aid Fund	Stormwater Fund	Impact Fees Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 496,907	\$ 790,200	\$ 317,568	\$ 246,436	\$ 1,851,111
<b>FUND BALANCES</b>					
Restricted for road and street improvements	-	790,200	-	-	790,200
Committed to					
Recreation activities	496,907	-	-	-	496,907
Assigned to					
Stormwater	-	-	317,568	-	317,568
Highway	-	-	-	246,436	246,436
<b>TOTAL FUND BALANCES</b>	\$ 496,907	\$ 790,200	\$ 317,568	\$ 246,436	\$ 1,851,111

**UPPER MACUNGIE TOWNSHIP**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**OTHER GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Funds		Other Capital Projects Funds		Total Other Governmental Funds
	Recreation Fund	Highway Aid Fund	Stormwater Fund	Impact Fees Fund	
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ 576,886	\$ -	\$ -	\$ 576,886
Charges for services	205,174	-	-	22,746	227,920
Investment earnings	212	1,202	185	-	1,599
<b>TOTAL REVENUES</b>	<b>205,386</b>	<b>578,088</b>	<b>185</b>	<b>22,746</b>	<b>806,405</b>
<b>EXPENDITURES</b>					
Current					
Public works	-	674,747	-	-	674,747
Culture and recreation	396,840	-	-	-	396,840
<b>TOTAL EXPENDITURES</b>	<b>396,840</b>	<b>674,747</b>	<b>-</b>	<b>-</b>	<b>1,071,587</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(191,454)</b>	<b>(96,659)</b>	<b>185</b>	<b>22,746</b>	<b>(265,182)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>688,361</b>	<b>886,859</b>	<b>317,383</b>	<b>223,690</b>	<b>2,116,293</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 496,907</b>	<b>\$ 790,200</b>	<b>\$ 317,568</b>	<b>\$ 246,436</b>	<b>\$ 1,851,111</b>

**UPPER MACUNGIE TOWNSHIP**  
**COMBINING SCHEDULE OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2014**

	Pension Funds		
	Non-Uniformed Pension Fund	Police Pension Fund	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 394,890	\$ -	\$ 394,890
Investments			
Equities	3,567,718	-	3,567,718
Fixed income	1,970,593	-	1,970,593
Pooled investments	-	5,858,938	5,858,938
<b>TOTAL INVESTMENTS</b>	<u>5,538,311</u>	<u>5,858,938</u>	<u>11,397,249</u>
Accounts receivable	<u>15,596</u>	<u>-</u>	<u>15,596</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,948,797</u>	<u>\$ 5,858,938</u>	<u>\$ 11,807,735</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 32	\$ -	\$ 32
<b>NET POSITION</b>			
Held in trust for pension benefits and pool participants	<u>5,948,765</u>	<u>5,858,938</u>	<u>11,807,703</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 5,948,797</u>	<u>\$ 5,858,938</u>	<u>\$ 11,807,735</u>

**UPPER MACUNGIE TOWNSHIP**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Pension Funds		
	Non-Uniformed Pension Fund	Police Pension Fund	Totals
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 382,494	\$ 403,199	\$ 785,693
Employee	-	95,575	95,575
Transfer from dissolved plan	-	2,888,279	2,888,279
<b>TOTAL CONTRIBUTIONS</b>	<u>382,494</u>	<u>3,387,053</u>	<u>3,769,547</u>
Investment earnings			
Net increase in fair value of investments	230,260	-	230,260
Interest	62,132	138,419	200,551
Dividends	70,871	-	70,871
<b>TOTAL INVESTMENT EARNINGS</b>	<u>363,263</u>	<u>138,419</u>	<u>501,682</u>
<b>TOTAL ADDITIONS</b>	<u>745,757</u>	<u>3,525,472</u>	<u>4,271,229</u>
<b>DEDUCTIONS</b>			
Benefits	251,980	369	252,349
Administrative	32,224	560	32,784
Allocated insurance premiums	-	6,840	6,840
Miscellaneous expense	-	28	28
<b>TOTAL DEDUCTIONS</b>	<u>284,204</u>	<u>7,797</u>	<u>292,001</u>
<b>CHANGE IN NET POSITION</b>	<u>461,553</u>	<u>3,517,675</u>	<u>3,979,228</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>5,487,212</u>	<u>2,341,263</u>	<u>7,828,475</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 5,948,765</u>	<u>\$ 5,858,938</u>	<u>\$ 11,807,703</u>