

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PENNSYLVANIA**

Financial Report

December 31, 2014

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PENNSYLVANIA**

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**HILLTOWN TOWNSHIP
BUCKS COUNTY, PENNSYLVANIA**

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Independent Auditor's Report

To the Board of Supervisors
Hilltown Township
Hilltown, Pennsylvania

Report on the Financial Statements

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the reporting entity and unmodified audit opinion on the governmental activities, major funds, and the aggregate remaining fund information of the primary government.

Basis for Adverse Opinion on the Reporting Entity

The financial statements referred to above include only the primary government of Hilltown Township, Bucks County, Pennsylvania, which consists of all funds, departments, and offices that comprise the Township's legal entity. The financial statements do not include financial data for the Township's legally separate component unit, Hilltown Township Water and Sewer Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Township's primary government.

Adverse Opinion on the Reporting Entity

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Hilltown Township, Bucks County, Pennsylvania, as of December 31, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. The Township's component unit issues its own financial statements which are audited by another accounting firm.

Unmodified Opinion on the Governmental Activities, Major Funds, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information for the primary government of Hilltown Township, Bucks County, Pennsylvania as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required information on pages 4-17 and 56-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dunlap & Associates, P.C.
DUNLAP & ASSOCIATES, P.C.

Chalfont, Pa.
July 28, 2015

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

Our discussion and analysis of Hilltown Township's financial performance provides an overview of the Township's financial activities for the year ended December 31, 2014. Please read it in conjunction with the Township's financial statement, which begins on page 18.

FINANCIAL HIGHLIGHTS

During the year the Township purchased capital assets totaling approximately \$300,000, which includes three Police vehicles with accompanying equipment (\$112,642), audio equipment for the meeting room (\$13,928), computers for the Police Department (\$13,753), as well as a dash camera, replacement Taser and replacement rifles (\$8,753). Replacement computers were purchased for the Administration Department (\$5,290), as well as Building/Zoning software for the Building Department (\$16,000) and a Bucket Truck (\$129,000), and a computer (\$1,322) for the Public Works Department.

Three agricultural easements were purchased with Open Space Funds totaling \$814,232 preserving additional acreage.

Additionally, \$536,215 was spent to complete the reconstruction of the Mill Road bridge.

USING THIS REPORT

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on page 18 and 19-20) 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 21. For governmental activities, these statements tell how Township services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's major 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 the government.

Reporting on the Township as a Whole

The Statement of Net Position and Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer the question of whether or not the Township is better or worse off as a result of the year's activities. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is similar to the accounting methods used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when each is received or paid. These statements report the Township's net position and changes to it. The Township's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows) provides a measurement of the Township's financial health, or financial position. Over time, increases or decreases in net position are indicators of whether the Township's financial health is improving or deteriorating.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

USING THIS REPORT (Continued)

Reporting Significant Funds

The Fund Financial Statements begin on page 21 and provide detailed information about the most significant funds, not the Township as a whole. Some funds are required to be established by State law. However, the Board of Supervisors established many other funds to help it control or manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The Township's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at yearend that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic service it provides. Governmental fund information helps to determine if there are more or fewer financial resources that can be spent in the near future to finance Township programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in a reconciliation at the end of the fund financial statements.

The Township as a Trustee

The Township is a trustee, or fiduciary, for its employees' pension plans. The Pennsylvania Municipal Retirement System has been appointed to handle all employee pensions. It is important to note here that the original pension contracts were issued with the Pennsylvania Municipal Retirement System in late 1980. At the end of 2012, these contracts were revised and updated to include current Internal Revenue and Pennsylvania regulations. The Police pension contract was again updated in December of 2014 to include the (DROP) Deferred Retirement Option Program, effective January 1, 2015. This change was a result of collective bargaining. Hilltown Township is also responsible for escrow deposits from developers, businesses, and individuals for legal and engineering fees. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 27-28. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operation. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE TOWNSHIP AS A WHOLE

The Statement of Net Position provides an overview of the Township's assets, deferred inflows, liabilities, deferred outflows, and net position. Over time, this statement will provide a good indication of the Township's fiscal health.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE TOWNSHIP AS A WHOLE (Continued)

Table 1
Net Position

Account	2014	2013	\$ Change	% Change
Capital Assets	\$ 19,831,246	\$ 19,236,008	\$ 595,238	3.09
Current and Other Assets	11,058,804	10,715,949	342,855	3.20
Total Assets	<u>30,890,050</u>	<u>29,951,957</u>	<u>938,093</u>	3.13
Long-Term Liabilities	304,494	551,865	(247,371)	(44.82)
Other Liabilities	365,389	660,374	(294,985)	(44.67)
Total Liabilities	<u>669,883</u>	<u>1,212,239</u>	<u>(542,356)</u>	(44.74)
Net Position				
Invested in Capital Assets, Net of Related Debt	19,378,995	18,530,474	848,521	4.58
Restricted	7,779,317	7,055,120	724,197	10.26
Unrestricted	<u>3,061,855</u>	<u>3,154,124</u>	<u>(92,269)</u>	(2.93)
Total Net Position	<u>\$ 30,220,167</u>	<u>\$ 28,739,718</u>	<u>\$ 1,480,449</u>	5.15

The total net position of the Township shown above is approximately \$30.2 million. However, this does not include certain physical assets such as traffic signals, storm sewers and drainage structures acquired or constructed before January 1, 2004. Net position increased by approximately \$1.5 million. During 2014, additional software was purchased, which will allow for the reporting of traffic signals, storm sewers and drainage structures, and data is currently being entered to include assets acquired prior to January 2004.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE TOWNSHIP AS A WHOLE (Continued)

Table 2
Changes in Net Position

Account	2014	2013	\$ Change	% Change
Program Revenues				
General Government	\$ 405,311	\$ 485,821	\$ (80,510)	(16.57)
Police	382,833	369,289	13,544	3.67
Fire	143,018	151,351	(8,333)	(5.51)
Code Enforcement	465,156	455,118	10,038	2.21
Highway Maintenance	1,265,570	814,459	451,111	55.39
Snow Removal	14,170	5,270	8,900	168.88
Traffic Signals	2,812	4,115	(1,303)	(31.66)
Street Lighting	56,773	58,479	(1,706)	(2.92)
Parks and Recreation	9,229	113,042	(103,813)	(91.84)
General Revenues				
Real Estate Taxes	1,859,437	1,848,380	11,057	0.60
Transfer Taxes	397,909	358,809	39,100	10.90
Earned Income Taxes	3,342,107	3,798,555	(456,448)	(12.02)
Other Taxes	250,468	244,926	5,542	2.26
Interest and Rents	101,851	109,171	(7,320)	(6.71)
Miscellaneous	24,711	31,935	(7,224)	(22.62)
Total Revenues (Forwarded)	\$ 8,721,355	\$ 8,848,720	\$ (127,365)	(1.44)

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE TOWNSHIP AS A WHOLE (Continued)

Table 2
Changes in Net Position

Account	2014	2013	\$ Change	% Change
Total Revenues (Forwarded)	<u>\$ 8,721,355</u>	<u>\$ 8,848,720</u>	<u>\$ (127,365)</u>	(1.44)
Program Expenses				
Legislative	55,333	48,766	6,567	13.47
Executive	193,834	322,145	(128,311)	(39.83)
Finance and Tax Collection	190,384	182,304	8,080	4.43
Professional Services	54,964	92,620	(37,656)	(40.66)
General Government	955,375	956,787	(1,412)	(0.15)
Police	3,288,220	3,137,681	150,539	4.80
Fire	358,969	350,665	8,304	2.37
Code Enforcement	252,687	211,302	41,385	19.59
Highway Maintenance	1,586,407	1,572,954	13,453	0.86
Snow and Ice Removal	140,543	100,155	40,388	40.33
Traffic Signals	37,115	42,444	(5,329)	(12.56)
Street Lighting	40,271	38,795	1,476	3.80
Parks and Recreation	65,324	78,834	(13,510)	(17.14)
Conservation and Development	21,480	23,407	(1,927)	(8.23)
Total Expenses	<u>7,240,906</u>	<u>7,158,859</u>	<u>82,047</u>	1.15
Changes in Net Position	<u>\$ 1,480,449</u>	<u>\$ 1,689,861</u>	<u>\$ (209,412)</u>	(12.39)

Total revenue from all sources was approximately \$8.7 million. Real estate taxes continued to be assessed at 8.75 mills. Revenue from this source remained stable. Transfer taxes increased by 10.9%, continuing to indicate a slight improvement in the housing market. Earned Income Tax (EIT) revenue decreased by 12%.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

THE TOWNSHIP AS A WHOLE (Continued)

Figure 1

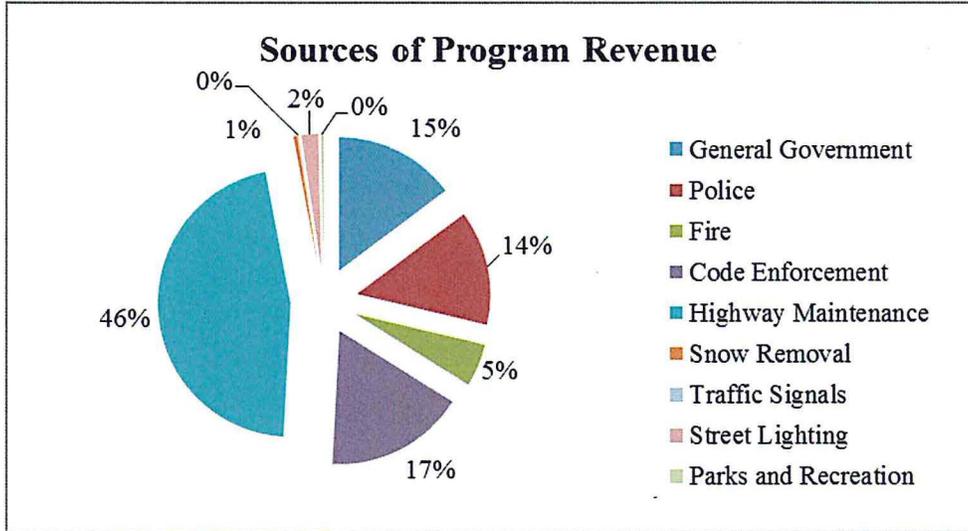
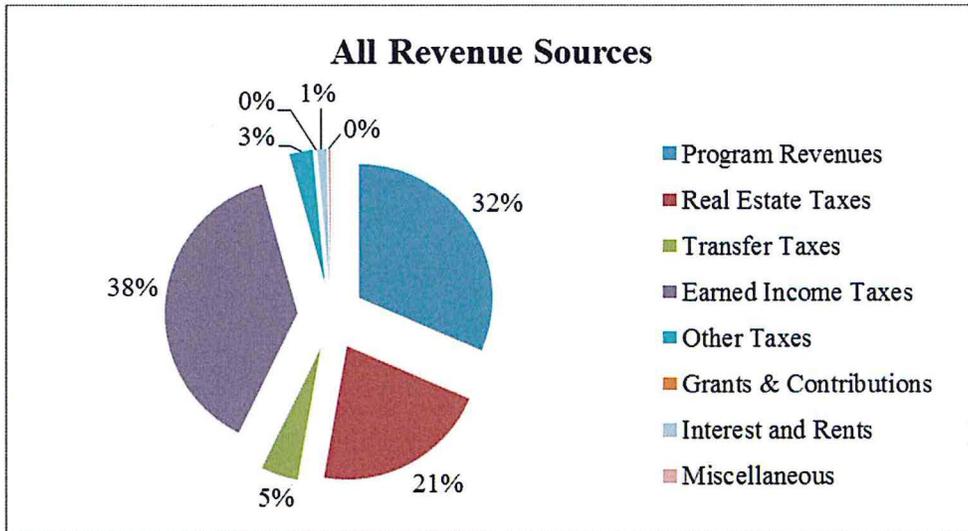


Figure 2



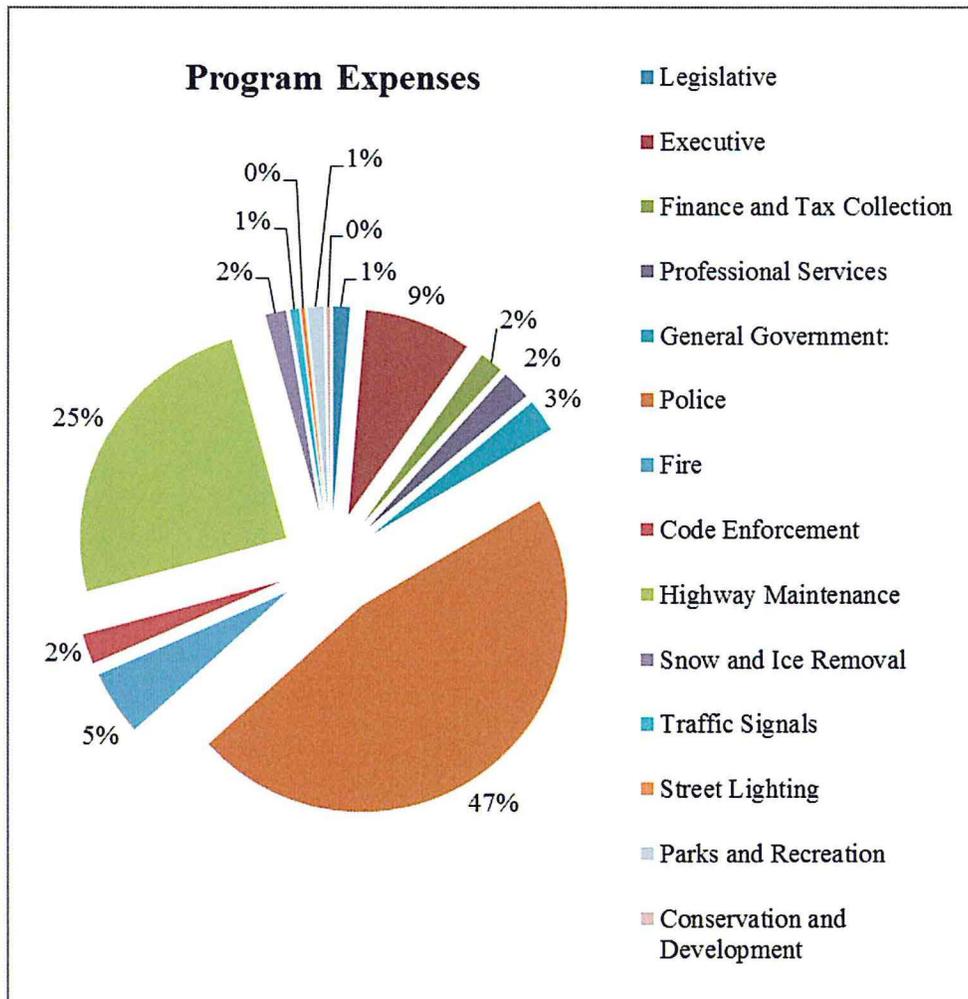
**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014**

THE TOWNSHIP AS A WHOLE (Continued)

Expense Overview

Total expenses in all categories were approximately \$7.2 million, which is an increase over 2013 of 1.15%. Police and Public Works are the largest expenses accounting for spending of approximately \$5.1 million. The increases in expenses in these areas is primarily contractual salary increases. Savings in other areas accounted for the overall increase remaining low. Careful budgeting and fiscal prudence helped to hold this increase to a minimum.

Figure 3



**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014**

ITEMS OF GENERAL INTEREST

Fire

Residents and businesses of the Township are served by the Hilltown Township Volunteer Fire Company, Perkasio Fire Company, Sellersville Fire Company, Dublin Fire Company, Silverdale Fire Company, Souderton Fire Company, Telford Fire Company and Chalfont Chemical Fire Engineer Company No. 1 in designated districts. There are mutual aid agreements and central dispatching throughout the area. A fire tax of 0.75 mills is assessed and the proceeds of this tax are distributed to the fire companies based on a formula of 50% area covered and 50% assessed valuation. The following disbursements were made in 2014.

Dublin Fire Company	\$ 22,259
Hilltown Township Volunteer Fire Company	35,941
Perkasie Fire Company	3,648
Sellersville Fire Company	7,222
Silverdale Fire Company	37,088
Souderton Fire Company	12,217
Telford Fire Company	<u>6,625</u>
 Total	 <u>\$ 125,000</u>

In 2014, the Souderton Fire Company received the third \$3,000 installment (part of a \$9,000 commitment) toward the purchase of a Pierce Rescue/Pumper Truck.

In addition in 2014 and for the second year, Telford Borough received \$4,964 in fire tax funds in payment for Worker's Compensation Insurance. Telford Borough calculated that this amount represented the cost of Worker's Compensation Insurance for Telford Fire Company's coverage of Hilltown Township. Hilltown Township also paid \$13,290 for Worker's Compensation Insurance for the Hilltown Township Volunteer Fire Company from General Funds.

In addition to the above Hilltown Township also paid \$28,182 for Hilltown Township Volunteer Fire Company's property, equipment and liability insurance coverage.

The Volunteer Fire Relief Associations also received an allocation from the Commonwealth of Pennsylvania. This allocation is made in accordance with Act 205 of 1984 which stipulates that 50% of your allocation is based on the population of the municipality, and 50% is determined by the market value of real estate in the municipality. The Township received a disbursement of \$143,018 in 2014. These funds are derived from a charge the Commonwealth of Pennsylvania imposes on Insurance Companies located outside of Pennsylvania who are doing business with the State.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

ITEMS OF GENERAL INTEREST (Continued)

Fire (Continued)

The monies were distributed as follows:

Dublin Fire Company Relief Association	\$ 26,094
Hilltown Township Volunteer Fire Co. Relief Assoc.	42,133
Perkasie Fire Company Relief Association	4,276
Sellersville Fire Company Relief Association	8,467
Silverdale Fire Company Relief Association	43,477
Souderton Fire Company Relief Association	10,805
Telford Fire Company Relief Association	<u>7,766</u>
Total	<u>\$ 143,018</u>

Ambulance Service

The Township is served by four ambulance companies. They are Chal-Brit Regional Ambulance, Grand View Hospital Ambulance, Point Pleasant-Plumsteadville Regional Ambulance and Souderton Ambulance. They are centrally dispatched by Bucks County Emergency Management. The Board of Supervisors, in fiscal year 2010 voted to provide financial assistance to the primary ambulance companies that service Hilltown Township. That financial assistance was continued in 2014. The disbursements were made as follows:

Chal-Brit Regional Ambulance	\$ 15,640
Grand View Hospital Ambulance	8,000
Point Pleasant-Plumsteadville Regional Ambulance	4,080
Souderton Ambulance	<u>14,280</u>
Total	<u>\$ 42,000</u>

Water

Residents and businesses of the Township are served by Hilltown Township Water and Sewer Authority (HTWSA), Telford Borough Authority (TBA), North Penn Water Authority (NPWA), and primarily on-lot water systems. Based on the fact that the Township is responsible for appointing the HTWSA Board Members, the authority is considered a component unit of the Township. The Authority's financial activity would normally be included in the Township's financial statements under accounting principles generally accepted in the United State of America. However, due to the fact that the Authority is not required to file its financial statements with DCED until June 1, 2015, and the Township is required to file by April 1st, the Board of Supervisors has elected not to delay the release of the Township's financial statements to include the Authority, which resulted in an adverse opinion on the entity by the Township's independent auditors. Therefore, these financial statements are to be read in conjunction with the financial statements of the Authority. The Township has no financial or management control of the water companies other than that noted above.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014**

ITEMS OF GENERAL INTEREST (Continued)

Waste Water

Residents and businesses of the Township are principally served by the HTWSA, TBA, and primarily on-lot sewage disposal systems. The Township has no financial or management control of the sewer authorities other than that noted above.

Public Facilities

The Township owns two parts along with scattered open space parcels. The Township is continuing the creation of a third park in the Forest Road area. The Township municipal building is 27 years old and houses both the Police Department and the Administrative Offices. The Public Works Department is located to the rear of the Township Administration building in facilities approximately 11 years old, and centralizes all Township services. The Township also owns the former municipal building, more commonly referred to as the old school house, and located in the Blooming Glen Village. The building is currently used by the Friends of the Samuel Pierce Library for their Thrift Shop.

ANALYSIS OF INDIVIDUAL FUNDS

In the General Fund, the decrease in revenues over expenditures of approximately \$209,000 was due in great part to increased expenses for snow and ice removal due to 2014's very harsh winter. The purchase of rock salt alone exceeded budget projections by approximately \$60,000, plus the additional overtime to treat the roads. Additional monies were allocated to patch paving additional roads in an effort to hold them together until full paving projects could be undertaken.

Revenues

Real Estate Taxes remained stable. Transfer taxes showed an increase of \$39,100 or a 10.90% increase indicating a modest but continued improvement in the housing market.

Expenses

Expenses for the year were slightly higher in 2014 than in 2013 but fell within the 2014 budget. It is important to note that the Township Management approach budgeting and spending conservatively.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

ANALYSIS OF INDIVIDUAL FUNDS (Continued)

Other Funds

This category includes:

Special Revenue Funds

Liquid Fuels Fund

In 2014 a number of roads had paving and oil and chip programs. The roads that were paved were as follows:

Orchard Road – Hillcrest to Morgan
Victoria Lane – Longleaf to Brittany
Victoria Lane – Longleaf to Longleaf
Victoria Lane – Brittany to Morgan
Morgan Lane – Victoria Lane to Brittany
Morgan Lane – Brittany to Orchard

The roads that had oil and chip programs were as follows:

South Perkasio Road – Route 152 to Blooming Glen Road
Twinbrook Road – Callowhill Road to Blooming Glen Road
E. Creamery Road – Callowhill Road to Blooming Glen Road
Hayhouse Road – Blooming Glen Road to Rickert Road
Pinewood Lane – Welcome House Rd. to Longview Rd.
Longview Road – Welcome House Road to Dublin Road
Welcome House Road –Rickert Road to Dublin Road

In addition to the above roads, additional road surfaces were patch paved in order to preserve the road surface for future work.

Street Light Fund

Fire Tax Fund

Open Space Fund – The Open Space Fund was used to purchase development rights on three properties. The total expenditure was \$814,232.

Park and Recreation Fund

Capital Projects Funds

Capital Projects Fund

Road Equipment Fund

Operating Reserve Fund – The Operating Reserve Fund was created by the Board of Supervisors in order to minimize future revenue shortfalls and deficits, provide greater continuity and predictability in the funding of vital government services, minimize the need to increase taxes to balance the budget in times of fiscal distress, provide the capacity to undertake long-range financial planning and develop fiscal resources to meet long-term needs.

Stormwater System Reserve Fund

Recreation Capital Reserve Fund

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

ANALYSIS OF INDIVIDUAL FUNDS (Continued)

Other Funds (Continued)

Debt Service Fund

Each of these funds had routine and unremarkable results during 2014. It is important to note that the Township's general long-term debt was reduced in 2014 as shown below. There are no plans at this time to refinance or acquire new debt.

Balance, January 1, 2014	\$ 705,534
Principal Payments	<u>(253,283)</u>
Balance, December 31, 2014	<u>\$ 452,251</u>

It is important to note that according to the loan agreements the interest rate was dropped to 1.95%. Quarterly payments remain the same, enabling the principal balance to be reduced at a faster rate than originally anticipated. This loan will be paid off in the third quarter of 2016, if not sooner.

Pension Plan

Full-time employees are also members of the Police or Non-Uniform local pension plans. The pension plans for both groups are managed by the Pennsylvania Municipal Retirement System. The Township is eligible for Act 205 assistance in the form of State Aid, which for 2014 totaled \$193,634. These monies are collected from Insurance Companies located outside of the State but doing business within the State.

The Minimum Municipal Obligation or "MMO" for 2014 was as follows:

Police Pension Plan	\$ 231,746
Non-Uniform Plan	<u>72,077</u>
Total	<u>\$ 303,823</u>

The Minimum Municipal Obligation is calculated based on total payroll information from the prior year. Multiplying rates are set by the actuarial studies performed every other year. Administrative charges are then included. Any actuarial surpluses or deficiencies are then amortized. The Pennsylvania Municipal Retirement System ("PMRS") sets this amount based on the actuarial study.

Police Officers of the Township were required to begin contributing to their pension plans as a result of an arbitration award granted in 2009. They are currently contributing the maximum allowed of 5%. The rate will remain at 5% in 2015. The Police member contribution totaled \$97,792 for 2014.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Hilltown Township had approximately \$19.4 million invested in Capital Assets, net of related debt. Included in this number is the valuation of almost 86 miles of Township streets and roads. This number indicates a slight increase over 2013.

Discussion of Future Plans

The budget consists of seven operating funds and four capital improvements funds. It is prepared in line item format in accordance with the Pennsylvania Chart of Accounts for local government published by the State Department of Community and Economic Development (DCED).

An analysis of the 2015 budget will show that the Township is maintaining municipal services in such areas as police protection, code enforcement, fire protection, and public works services at or above present levels. The 2015 budget provides the necessary resources to these important areas to achieve the priorities, goals, and policies of the Board and for the Township to continue to fulfill its obligation to provide for the health, safety, and welfare of the community.

The 2015 budget carries forward projects that were not completed in 2014. Among those is the replacement of carpeting which was installed when the building was first constructed 27 years ago. Also included is repainting the interior of the Township Building. The Police Department will be replacing two Utility all-wheel drive vehicles, adding an additional in-car video system bringing the total to five video systems in patrol vehicles. They will also be replacing two aging Tasers, three computers, a failing surveillance DVR, and two aging Vascar Speed Timing Devices. The County Radio Program will begin with the removal of existing equipment and the installation of the new equipment.

The 2015 Road Equipment budget includes the purchase of a replacement one-ton vehicle and the replacement of a road mower.

The 2015 Recreation Capital Reserve Fund budget includes beginning work on the Forest Road Park and paving the parking lot at the Civic Park as well as cleanup and restoration of the building.

Additional funds have been allocated in the 2015 budget for patch paving some roads within the Township. This process will aid in keeping these roads in tact until future paving projects can be completed.

The Bucks County Planning Commission will begin working with the Hilltown Township Planning Commission on updating the Comprehensive Plan last updated over 10 years ago.

The Public Works Department will be adding one employee to bring the total Public Works Department to nine.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

ECONOMIC FORECAST

As discussed above, the Township derives its operating revenue from a variety of other sources in addition to real estate taxes. These include Act 511 taxes such as a ½% levy on earned income of residents. A local services tax of \$47 per year is also assessed on individuals working in the community, many of whom do not live in the Township but take advantage of its services. The Township also receives revenue from a 1% transfer tax on real estate sales, fees for licenses and permits, interest on investments, rents, royalties, grants and charges for use of municipal services.

It is anticipated that in 2015, earned income tax will remain stable. Real estate transfer taxes will show growth as the housing market is improving. Real estate taxes will increase due to new housing being developed. Several developments within the Township are underway and are selling very well. An over fifty-five community will begin sometime in 2015. This particular project was delayed in 2014, but is set to begin in 2015.

Tax rates for 2015 remain the same as 2014 and are as follows:

General Purposes	6.05 mills
Fire Protection	0.75
Park and Recreation	0.20
Debt Service Obligations	1.25
Road Equipment Acquisition	<u>0.50</u>
Total	<u>8.75</u> mills

For the homeowner with an average assessed value of \$36,000, the total real estate tax paid to the Township is \$315.

It is with these factors in mind that the 2015 budget indicates some limited growth constantly staying mindful of cost constraints. It also includes additional monies to the Operating Reserve account that is primarily used to defray future tax increases. Consistently looking for better value and lower costs for the dollars spent is a priority of all staff.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT TEAM

The Management Discussion and Analysis is intended to provide our citizens, taxpayers, and creditors with a general, plain English overview of important financial matters. The Township's Treasurer/Finance Director is Lorraine E. Leslie, who can be reached at 215-453-6000 extension 212. The Township's Manager is Richard Schnaedter who can be reached at 215-453-6000 extension 213. The Township can also be reached by fax at 215-453-1024 or by the internet at www.hilltown.org.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Statement of Net Position
December 31, 2014

Assets

Current Assets

Cash	\$ 9,406,314
Taxes Receivable	1,521,190
Other Receivables	130,910
Due from Fiduciary Fund	390
Total Current Assets	11,058,804

Noncurrent Assets

Net Capital Assets	19,831,246
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Total Assets

30,890,050

Liabilities

Current Liabilities

Accounts Payable and Accrued Expenses	61,325
Accrued Wages and Benefits	45,893
Current Portion of General Obligation Note	258,171
Total Current Liabilities	365,389

Noncurrent Liabilities

General Obligation Note Payable	194,080
Compensated Absences	110,414
Total Noncurrent Liabilities	304,494

Total Liabilities

669,883

Net Position

Invested in Capital Assets, Net of Related Debt	19,378,995
Restricted for	
Land Preservation	6,083,531
Capital Projects	1,176,891
Debt Service	24,490
Other Purposes	494,405
Unrestricted	3,061,855

Total Net Position

\$ 30,220,167

See Notes to Financial Statements.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Statement of Activities
Year Ended December 31, 2014**

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
General Government			
Legislative	\$ 55,333	\$ 0	\$ 0
Executive	193,834	0	0
Finance and Tax Collection	190,384	0	0
Professional Services	54,964	0	0
General Government	955,375	361,706	43,605
Public Safety			
Police	3,288,220	223,355	159,478
Fire and Ambulance	358,969	0	143,018
Code Enforcement and Planning and Zoning	252,687	459,872	5,284
Highways			
Highway Maintenance	1,586,407	242,053	493,814
Snow and Ice Removal	140,543	14,170	0
Traffic Signals	37,115	2,812	0
Street Lights	40,271	56,773	0
Parks and Recreation	65,324	6,544	0
Conservation and Development	21,480	0	0
Total Governmental Activities	<u>\$ 7,240,906</u>	<u>\$ 1,367,285</u>	<u>\$ 845,199</u>

General Revenues

Taxes

 Real Estate Taxes

 Real Estate Transfer Taxes

 Earned Income Taxes

 Other Taxes

Interest Income and Rents

Miscellaneous

 Total General Revenues

Change in Net Assets

Net Position, Beginning of Year

Net Position, End of Year

See Notes to Financial Statements.

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
\$ 0	\$ (55,333)
0	(193,834)
0	(190,384)
0	(54,964)
0	(550,064)
0	(2,905,387)
0	(215,951)
0	212,469
529,703	(320,837)
0	(126,373)
0	(34,303)
0	16,502
2,685	(56,095)
0	(21,480)
<u>\$ 532,388</u>	<u>(4,496,034)</u>

1,859,437
397,909
3,342,107
250,468
101,851
24,711
<u>5,976,483</u>
1,480,449
<u>28,739,718</u>
<u>\$ 30,220,167</u>

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Balance Sheet
Governmental Funds
December 31, 2014**

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Projects Fund</u>
Assets			
Cash	\$ 2,139,925	\$ 5,640,026	\$ 152,718
Taxes Receivable	1,060,956	446,000	0
Other Receivables	130,910	0	0
Due (to) from Other Funds	<u>(73,199)</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 3,258,592</u>	<u>\$ 6,086,026</u>	<u>\$ 152,718</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable and Accrued Expenses	\$ 40,430	\$ 2,495	\$ 523
Accrued Wages and Benefits	45,893	0	0
Total Liabilities	<u>86,323</u>	<u>2,495</u>	<u>523</u>
Deferred Inflows of Resources			
Deferred Tax Receipts	<u>594,884</u>	<u>262,322</u>	<u>0</u>
Fund Balances			
Restricted	0	5,505,747	0
Committed	314,845	0	0
Assigned	0	315,462	152,195
Unassigned	<u>2,262,540</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>2,577,385</u>	<u>5,821,209</u>	<u>152,195</u>
Total Liabilities and Fund Balances	<u>\$ 3,258,592</u>	<u>\$ 6,086,026</u>	<u>\$ 152,718</u>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,473,645	\$ 9,406,314
14,234	1,521,190
0	130,910
73,589	390
<u>\$ 1,561,468</u>	<u>\$ 11,058,804</u>

\$ 17,877	\$ 61,325
0	45,893
<u>17,877</u>	<u>107,218</u>

<u>10,628</u>	<u>867,834</u>
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587,327	6,093,074
0	314,845
945,636	1,413,293
0	2,262,540
<u>1,532,963</u>	<u>10,083,752</u>
<u>\$ 1,561,468</u>	<u>\$ 11,058,804</u>

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2014

Total Governmental Fund Balances	\$ 10,083,752
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because	
Capital Assets Used in Governmental Activities Are Not Financial Resources, and Therefore Not Reported in Funds, Net of Accumulated Depreciation of \$19,021,541.	19,831,246
Other Long-Term Assets Are Not Available to Pay Current Period Expenditures, and Therefore Are Deferred in the Funds.	
Taxes Receivable	867,834
Long-Term Liabilities Are Not Due and Payable in the Current Period, and Therefore Are Not Reported in the Funds.	
General Obligation Notes Payable	(452,251)
Compensated Absences	<u>(110,414)</u>
Net Position of Governmental Activities	<u><u>\$ 30,220,167</u></u>

See Notes to Financial Statements.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2014

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Projects Fund</u>
Revenues			
Taxes	\$ 4,400,567	\$ 1,200,800	\$ 0
Intergovernmental Revenues	372,903	0	511,051
Charges for Services	873,947	0	0
Fines, Licenses and Permits	395,214	0	0
Interest Income and Rents	74,816	20,289	885
Miscellaneous	59,518	0	71,480
Total Revenues	<u>6,176,965</u>	<u>1,221,089</u>	<u>583,416</u>
Expenditures			
General Government	594,509	0	8,188
Public Safety	3,660,178	0	19,708
Highways	1,236,509	0	1,322
Parks and Recreation	0	0	0
Conservation and Development	5,000	16,480	0
Debt Service - Principal	0	0	0
Debt Service - Interest	0	0	0
Capital Expenditures	0	814,231	693,458
Miscellaneous Governmental	75,608	0	0
Total Expenditures	<u>5,571,804</u>	<u>830,711</u>	<u>722,676</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	605,161	390,378	(139,260)
Other Financing Sources (Uses)			
Operating Transfers In (Out)	<u>(450,000)</u>	<u>0</u>	<u>250,000</u>
Net Change in Fund Balances	155,161	390,378	110,740
Fund Balances			
Beginning of Year	<u>2,422,224</u>	<u>5,430,831</u>	<u>41,455</u>
End of Year	<u>\$ 2,577,385</u>	<u>\$ 5,821,209</u>	<u>\$ 152,195</u>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 633,645	\$ 6,235,012
412,323	1,296,277
6,544	880,491
0	395,214
5,861	101,851
9,830	140,828
<u>1,068,203</u>	<u>9,049,673</u>
8,677	611,374
160,290	3,840,176
351,013	1,588,844
27,399	27,399
0	21,480
253,283	253,283
10,715	10,715
141,972	1,649,661
0	75,608
<u>953,349</u>	<u>8,078,540</u>
114,854	971,133
<u>200,000</u>	<u>0</u>
314,854	971,133
<u>1,218,109</u>	<u>9,112,619</u>
<u>\$ 1,532,963</u>	<u>\$ 10,083,752</u>

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Reconciliation of the Net Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended December 31, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$ 971,133
 Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because	
Governmental Funds Report Capital Outlays As Expenditures. However, in the Statement of Activities, the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives as Depreciation Expense. This Is the Amount By Which Capital Outlays of \$1,649,661 Was More Than Depreciation Expense of \$1,054,423 in the Current Year.	595,238
Revenues in the Funds That Provide Current Resources Are Not Reported As Revenues in the Statement of Activities.	
Taxes Receivable	(328,318)
Repayment of Note Payable Principal Is an Expenditure in the Governmental Funds, but the Repayment Reduces Liabilities in the Statement of Net Position.	253,283
Some Expenses Reported in the Statement of Activities Do Not Require the Use of Current Financial Resources, and Therefore Are Not Reported As Expenditures in Governmental Funds.	
Compensated Absences	<u>(10,887)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,480,449</u></u>

See Notes to Financial Statements.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Statement of Fiduciary Net Position
December 31, 2014

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 0	\$ 1,715,494
Investments	<u>12,104,965</u>	<u>0</u>
Total Assets	<u>12,104,965</u>	<u>1,715,494</u>
Liabilities		
Due to Other Funds	0	390
Escrow Deposits	<u>0</u>	<u>1,715,104</u>
Total Liabilities	<u>0</u>	<u>\$ 1,715,494</u>
Net Position		
Held in Trust for Pension Benefits	<u>\$ 12,104,965</u>	

See Notes to Financial Statements.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2014

Additions

Contributions:

Commonwealth	\$ 193,634
Member	97,792
Employer (Township)	110,189
Total Contributions	401,615

Investment Income	621,710
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Total Additions	1,023,325
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Deductions

Benefits	228,509
Insurance Premiums	3,975
Administrative	920
Total Deductions	233,404

Increase in Net Position	789,921
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Net Position, Held in Trust

Beginning of Year	11,315,044
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End of Year	\$ 12,104,965
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See Notes to Financial Statements.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies

Hilltown Township was incorporated in 1721, in Bucks County, Pennsylvania. The Township is classified as a “Township of the Second Class” under the laws of the Commonwealth of Pennsylvania and provides the following services as authorized by its charter: public safety, highways and streets, culture-recreation, public improvements, planning and zoning, and general and administrative services.

The Township’s statements are prepared in compliance with GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*. Significant aspects of the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township’s overall financial position and changes in financial position.
- Financial statements prepared using full accrual accounting for all of the Township’s activities, including infrastructure (roads, bridges, etc.).
- A focus on major funds in the fund financial statements.

The Township complies with accounting principles generally accepted in the United States of America (GAAP) except as disclosed in Note 1A, Reporting Entity, below. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting Entity

The Township’s financial reporting entity comprises the following:

Primary Government:	Hilltown Township
Component Unit:	Hilltown Township Water and Sewer Authority

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Government Accounting Standards Board (GASB) Statement No. 14, as amended by GASB No. 61, requires Hilltown Township to include all component units in its annual financial statements. A component unit is defined as any legally separate entity which is controlled by and is financially accountable to the Township. Based upon the fact that the Township is responsible for appointing the Authority board members, the Hilltown Township Water and Sewer Authority (Authority) is considered a component unit of Hilltown Township. Accordingly, the Authority's financial activity would normally be included in the Township's financial statements under GAAP.

Management has elected to not include the financial activities of the Authority in the Township's financial statements. Therefore, these financial statements should be read in conjunction with the financial statements of the Authority. A copy of the Authority's financial statements can be obtained by contacting Hilltown Township Water and Sewer Authority.

B. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the reporting government as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Fiduciary funds are also excluded from the government-wide financial statements.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. 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 program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Township.

Net position should be reported as restricted when constraints placed on net asset 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 result from special revenue funds and the restrictions on their net asset use.

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

FUND FINANCIAL STATEMENTS

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into two major categories: governmental and fiduciary.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Fund financial statements report detailed information about the Township. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the Township or if it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The funds of the financial reporting entity are described below.

Governmental Funds

General Fund - The General Fund is the general operating fund of the Township and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. The Operating Reserve Fund has been combined with the General Fund to conform with the fund definitions set forth in GASB 54 – *Fund Balance Reporting and Governmental Type Definitions*.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds:

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Governmental Funds (Continued)

Special Revenue Funds (Continued)

<u>Fund</u>	<u>Description</u>	<u>Major Fund?</u>
Liquid Fuels	Accounts for revenues and expenditures of state liquid fuels grant funds	No
Street Light	Accounts for revenues and expenditures of street light tax funds	No
Fire Tax	Accounts for revenues and expenditures of fire protection tax funds	No
Open Space	Accounts for tax money received for protection of open space	Yes
Park and Recreation	Accounts for tax money received for parks and recreation	No

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Governmental Funds (Continued)

Capital Projects Funds

Capital projects funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

<u>Fund</u>	<u>Description</u>	<u>Major Fund?</u>
Capital Project	Accounts for funds received from developers to be spent for capital projects in the Township	Yes
Road Equipment	Accounts for tax money received for the purchase of road equipment	No
Recreation Capital Reserve	Accounts for funds received from developers in lieu of recreation improvements to be used to construct recreational and park facilities	No
Stormwater System Reserve	Accounts for funds received from developers in lieu of stormwater improvements	No

Debt Service Fund - This fund is used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest.

Fiduciary Funds

Pension Trust Funds and Agency Funds - Pension Trust Funds (which include the Police and Non-Uniform Pension Plans that are administered by the Pennsylvania Municipal Retirement System) and Agency Funds (which include the Developers Escrow and Sewer Maintenance Funds) are used to account for assets held by a third party in the Township's name in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Pension Trust Funds and Agency Funds are custodial in nature and do not involve measurement of results of operations.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

1. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All fiduciary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset is used.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The following procedures are used by the Township in establishing budgetary data which is reflected in the financial statements.

1. The Township prepares and advertises a proposed budget at least 20 days before the budget is adopted.
2. Public hearings are conducted to obtain comments from taxpayers regarding the proposed budget.
3. The budget is formally adopted by the Board members prior to December 31.
4. The budget is prepared and adopted using the modified accrual basis of accounting, which is consistent with the basis used by the Township for financial reporting.
5. Amendments may be approved by the Board during the year.

E. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 8 for details of interfund transactions, including receivables and payables at year end.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Township is permitted to lien the resident's property if the resident does not remit payment. Major receivable balances for the governmental activities include real estate taxes, earned income taxes, franchise taxes, grants, and police fines.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as real estate tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

G. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Repairs and maintenance are recorded as expenditures, and renewals and betterments are capitalized. All capital assets are valued at historical cost, except for infrastructure acquired before January 1, 2004, which is valued at estimated historical cost less accumulated depreciation.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Government-wide Statements (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives and the capitalization level by type of asset is shown below.

Classifications	Years
Land/Park Improvements	10-20
Buildings and Improvements	20-40
Equipment	5-10
Vehicles	5-10
Furniture and Fixtures	10
Traffic Lights	20
Infrastructure	40

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

H. Long-Term Debt

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

I. Compensated Absences

Township uniformed employees accumulate vacation and sick time in accordance with their contract. Uniformed employees can earn up to 240 hours of vacation time depending on their years of service. Uniformed employees may carry over 120 unused vacation hours per year.

Uniformed employees are entitled to up to 96 hours of sick leave per year. Sick time can be carried over, and up to 360 hours can be accumulated from year to year. Upon retirement, resignation or termination, the employee is not paid for accumulated sick time.

Township non-uniformed employees accumulate vacation and sick time in accordance with their contract. Non-uniformed employees can earn up to 184 hours of vacation time depending on their years of service. Non-uniformed employees may carry over 240 hours of vacation per year.

Non-uniformed employees are entitled to up to 96 hours of sick leave per year. Sick time can be carried over, and up to 240 hours of sick leave can be accumulated from year to year. Upon retirement, resignation or termination, non-uniformed employees are not paid for accumulated sick time.

The Township is liable to employees in the amount of \$110,414 for vested vacation pay at December 31, 2014.

J. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

1. **Invested in capital assets, net of related debt** - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted net position** - Consists of net position with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or b) law through constitutional provisions or enabling legislation.
3. **Unrestricted net position** - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies (Continued)

J. Equity Classifications (Continued)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

Nonspendable – includes amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be kept intact. The Township did not have any nonspendable fund balances at December 31, 2014.

Restricted – includes amounts that are restricted for specific purposes by constitutional provisions, enabling legislation, or externally imposed constraints.

Committed – includes amounts that can only be used for specific purposes with constraints that are established by a formal action of the Board of Supervisors. The constraint can only be changed or removed by another formal action of the Board. The Township's fund balance policy requires passage of a Resolution or an Ordinance by the Board in order to set aside funds as Committed.

Assigned – includes amounts that are constrained by the Township's intent to be used for specific purposes, but are neither restricted nor committed. Assigned balances include all remaining government fund amounts, other than the General Fund, that are not classified as nonspendable, restricted or committed, and are intended for a specific purpose. The intent is expressed by the Board, or an individual to whom the Board has designated authority. The Township's fund balance policy grants this authority to the Township Manager and Finance Director/Treasurer, as well as the Board of Supervisors.

Unassigned – this amount is the residual classification for the General Fund, and any negative fund balances in other governmental funds. Other governmental funds cannot report any positive unassigned amounts.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts, then unassigned amounts.

The Township does not currently have a formal minimum fund balance policy.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

1. Summary of Significant Accounting Policies (Continued)

K. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

L. Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

M. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

2. Cash and Investments

Cash and investments as of December 31, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash	\$ 9,406,314
Statement of Fiduciary Net Position:	
Cash	1,715,494
Investments	<u>12,104,965</u>
 Total Cash and Investments	 <u>\$ 23,226,773</u>

A. Cash Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. All Township deposits are entirely insured or collateralized under a pooled asset program to secure public deposits, in accordance with Act 72 of the Commonwealth of Pennsylvania. As of December 31, 2014, \$10,772,562 of the Township's bank balance of \$11,022,562 was uninsured, but collateralized by securities held by the bank or by its trust department or agent but not in the Township's name.

B. Investments

At December 31, 2014, the Township's investments of \$12,104,965 were all held in fiduciary funds. The funds are invested in an external investment pool with the Pennsylvania Municipal Retirement System (PMRS) and are reported at fair value. PMRS functions as the investment and administrative agent for the Township's police and non-uniform pension plans (see Note 9).

Investments Authorized by the Township

The Township does not currently have an investment policy as all of their governmental funds are held in bank accounts. Fiduciary investments are held and managed by PMRS.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating organizations such as Moody's Investor Services (Moody's) and Standard & Poor's (S&P). The Township does not currently have a policy with regard to credit risk. The credit risk for the Township's investments held in trust with PMRS was not available at December 31, 2014.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

2. Cash and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. The Township does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information on the Township's interest rate risk on its fiduciary investments was not available to the Township at December 31, 2014.

3. Fiduciary Funds - Escrow Fund

The Escrow Fund is an Agency Fund in that the Township has custodial capacity of funds deposited with it on behalf of developers and other applicants. At December 31, 2014, the Township had \$1,715,104 in escrow deposits and sewer maintenance deposits.

4. Property Taxes

Taxes are levied on March 1, based on the assessed value established by the Bucks County Board of Assessments. Real property in the Township was originally assessed at \$214,417,100 for 2014. Property taxes attach as an enforceable lien on property as of January 15 of the following year. The Township receives all tax collections through its tax collector. The Township is legally permitted to levy up to 14 mills of assessed property valuation for general purposes (19 mills with court approval), and 3 mills for fire tax purposes. The Township had the following millage rates for the year ended December 31, 2014: general purposes, 6.05 mills; fire tax purposes, 0.75 mills; debt service, 1.25 mills; park and recreation purposes, 0.2 mills; road equipment, 0.5 mills.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

5. Capital Assets

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

	Balance 1/1/14	Additions	Disposals	Balance 12/31/14
Governmental Activities				
Assets Not Being Depreciated				
Land/Conservation Easements	\$ 6,635,754	\$ 814,232	\$ 0	\$ 7,449,986
Depreciable Assets				
Land/Park Improvements	841,930	12,972	0	854,902
Buildings and Improvements	3,450,119	9,752	0	3,459,871
Equipment	1,142,383	29,928	6,000	1,166,311
Vehicles	1,759,759	246,562	129,471	1,876,850
Furniture and Fixtures	84,180	0	0	84,180
Traffic Lights	149,302	0	0	149,302
Infrastructure	23,275,170	536,215	0	23,811,385
Total at Historical Cost	37,338,597	1,649,661	135,471	38,852,787
Less Accumulated Depreciation				
Land/Park Improvements	269,914	32,335	0	302,249
Buildings and Improvements	1,429,707	88,515	0	1,518,222
Equipment	850,569	49,856	6,000	894,425
Vehicles	1,530,288	107,072	129,471	1,507,889
Furniture and Fixtures	75,885	1,629	0	77,514
Traffic Lights	39,920	7,712	0	47,632
Infrastructure	13,906,306	767,304	0	14,673,610
Total Accumulated Depreciation	18,102,589	1,054,423	135,471	19,021,541
Total Governmental Activities				
Net Capital Assets	\$ 19,236,008	\$ 595,238	\$ 0	\$ 19,831,246

Depreciation expense was charged to programs as follows:

Governmental Activities	
General Government	\$ 759,052
Police	57,270
Highway Maintenance	199,805
Fire	371
Park	37,925
Total Depreciation Expense	\$ 1,054,423

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

6. Long-Term Note

The Township's General Long-Term Note changed during the year as follows:

Balance at January 1, 2014	\$ 705,534
Principal Payments	<u>(253,283)</u>
Balance at December 31, 2014	<u>\$ 452,251</u>

2002 General Obligation Note

On January 8, 2002, the Township issued a General Obligation Note in the amount of \$3,000,000. The interest rate on this note was 3.3% per annum through January 2007. In December 2006, the bank set a new rate of 3.95% for the next five years. The rate was readjusted effective January 15, 2012, to a floating rate of 60% of the bank's base rate, with a ceiling of 5.50% per annum. The adjusted rate at the time of the readjustment was 1.95% per annum. The note was issued for the purpose of refunding the 1999 General Obligation Note and constructing a new public works maintenance building. The note was issued as non-electoral debt. The Township has pledged its full faith, credit, and taxing power, and is required to include in its budget for each year the amount of debt service on the note which will be payable in such fiscal year. The debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 258,171	1.95%	\$ 6,939	\$ 265,110
2016	<u>194,080</u>	1.95%	<u>1,867</u>	<u>195,947</u>
	<u>\$ 452,251</u>		<u>\$ 8,806</u>	<u>\$ 461,057</u>

Interest expense was \$10,715 for the year.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

7. Fund Balance Classifications

	General Fund	Open Space Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Restricted for:					
Open Space Preservation	\$ 0	\$ 5,505,747	\$ 0	\$ 0	\$ 5,505,747
Street Light Costs	0	0	0	73,829	73,829
Highway Improvements	0	0	0	139,058	139,058
Parks and Recreation	0	0	0	107,151	107,151
Public Works Equipment Acquisition	0	0	0	265,567	265,567
Debt Service	0	0	0	1,722	1,722
	<u>0</u>	<u>5,505,747</u>	<u>0</u>	<u>587,327</u>	<u>6,093,074</u>
Committed for:					
General Operations	<u>314,845</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>314,845</u>
Assigned for:					
Open Space Preservation	0	315,462	0	0	315,462
Capital Acquisition and Construction	0	0	152,195	0	152,195
Parks and Recreation Improvements	0	0	0	653,619	653,619
Fire Protection	0	0	0	3,438	3,438
Public Works Equipment Acquisition	0	0	0	40,786	40,786
Stormwater System Improvements	0	0	0	229,701	229,701
Debt Service	0	0	0	18,092	18,092
	<u>0</u>	<u>315,462</u>	<u>152,195</u>	<u>945,636</u>	<u>1,413,293</u>
Unassigned	<u>2,262,540</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,262,540</u>
Total Fund Balances	<u>\$ 2,577,385</u>	<u>\$ 5,821,209</u>	<u>\$ 152,195</u>	<u>\$ 1,532,963</u>	<u>\$ 10,083,752</u>

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

8. Interfund Transactions

Interfund transactions are as follows:

Purpose	Receivable Fund	Payable Fund	Amount
Due to/from			
Net Funds Advanced for Operating Costs	Street Light	General	\$73,589
Interest Income Payable	General	Escrow	\$390
Transfers to/from			
Capital Projects and Acquisition	Capital Projects Stormwater System	General	\$250,000
Capital Projects and Acquisition	Reserve	General	\$250,000

9. Defined Benefit Pension Plans

A. Summary of Significant Accounting Policies

Basis of Accounting

The Plans' 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, if required, to the Plan are recognized when due, in accordance with Act 205. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value.

B. Plan Descriptions

Plan Administration

The Township contributes to two public employee retirement systems (PERS), one for its police employees and one for its non-uniformed employees, established in 1980 by resolutions 80-16 and 80-15, respectively. The plans were revised in 2012 by Ordinances 2012-2 and 2012-4. Both plans are part of the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer PERS. It is the responsibility of PMRS to function as the investment and administrative agent for the Township with respect to the plans. PMRS maintains each municipality's plans separately with that municipality's contributions and related employees' contributions and account earnings and activity. Assets are held separately and may only be used for the payment of benefits to members of the plans.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

9. Defined Benefit Pension Plans (Continued)

B. Plan Descriptions (Continued)

Plan Administration (Continued)

Responsibility for PMRS is vested in the eleven-member Pennsylvania Municipality Retirement Board. There are 716 employers with defined benefit plans and 268 with cash balance plans in PMRS, each of which has the authority to establish or amend its respective benefits and employee contribution rates, subject to PMRS Board approval. PMRS has the broad authority of enabling a municipality to design its own retirement benefit structure. As an alternative, PMRS has two basic benefit structures: one for municipal employees and one for uniformed employees (police and fire fighters). However, municipalities may provide for benefits different from those basic structures. Automatic postretirement benefit increases are optional in plan contracts. Some member municipalities include the automatic increase; others occasionally grant an ad hoc cost-of-living (COLA) increase. The most common method of granting a postretirement benefit increase is through PMRS' excess interest award. Member municipalities interested in amending benefits contact the PMRS staff to discuss desired amendments and to obtain a cost study. Amendments are drafted by the PMRS staff, reviewed by the Chief Counsel's Office, adopted by the municipality, and submitted to the Board for formal approval.

Plan Membership

At December 31, 2014, plan membership consisted of the following:

	<u>Police</u>	<u>Non-Uniform</u>
Active Employees	17	15
Retirees and Beneficiaries Currently Receiving Benefits	8	4
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	<u>0</u>	<u>2</u>
Total	<u>25</u>	<u>21</u>

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

9. Defined Benefit Pension Plans (Continued)

B. Plan Descriptions (Continued)

Benefits Provided

The following table provides information concerning the **Township's Police Pension Plan**:

Covered Employees:	All full-time uniformed employees.
Normal Retirement:	Age 55 and the completion of 12 years of service.
Early Retirement:	After 24 years of service for voluntary terminations, after 8 years for involuntary terminations.
Vesting:	None for the first 12 years of service; thereafter, 100%.
Retirement Benefit:	The annual basic benefit shall be calculated by multiplying the member's final average salary (the average compensation of the participant's last 36 months of employment) by all years of credited service and multiplied by the benefit accrual rate of 2%, not to exceed 50% of final average salary, plus a service increment that is not to exceed \$100 per month, if officer completes 26 years or more of benefit service.
Death Benefit	
Before Retirement:	Beneficiary receives the balance of the officer's account.
After Retirement:	A pension shall be provided to a retired officer's spouse or to the spouse of an officer eligible to retire, equal to 50% of the eligible pension. If no spouse, then payable to an eligible child.
Disability Benefit	
Service Related:	A disability pension shall be provided to an officer with a total and permanent service related disability equal to 50% of the officer's monthly salary at the time of disability.
Non-Service Related:	A 30% disability benefit is provided to a member who has at least 10 years of service.
Member Contributions Rate:	5% of compensation.
Interest Rate Credited to Member Contributions:	5.5% per annum.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014**

9. Defined Benefit Pension Plans (Continued)

B. Plan Descriptions (Continued)

Benefits Provided (Continued)

The following table provides information concerning the **Township's Non-Uniform Employees' Pension Plan**:

Covered Employees:	All full-time non-uniformed employees employed by the Township.
Normal Retirement:	Age 60 and the completion of 12 years of credited service.
Early Retirement:	After 20 years of service for voluntary retirement, or after 8 years for involuntary retirement.
Vesting:	None for the first 12 years of service; thereafter 100%.
Retirement Benefit:	The annual basic benefit shall be calculated by multiplying the member's final average salary (the average compensation of the participant's last five years of employment) by all years of credited service and multiplied by the benefit accrual rate of 1.25%.
Death Benefit	
Before Retirement:	Beneficiary receives the present value of the accrued pension benefit at the date of death.
After Retirement:	The form of benefit payment in force for such participant at the time death occurs.
Disability Benefit:	A service-related disability pension shall be provided to an employee equal to 50% of the member's monthly salary at the time of disability. A 30% disability benefit is provided to a member who has at least 10 years of service. For a non-service-related disability, a 30% disability benefit is provided to a member who has at least 10 years of service
Member Contributions Rate:	N/A

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

9. Defined Benefit Pension Plans (Continued)

B. Plan Descriptions (Continued)

Contributions

For the Police Plan, participating employees can be required to contribute 5% of their salary to the Plan. For the year 2014, members contributed 5% of their salary to the Plan. If a participating employee leaves covered employment of the Township, other than due to employment-connected death or disability, before 12 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or to a designated beneficiary.

For the Non-Uniform Plan, participating employees can be required to contribute 3.5% of their salary to the Plan. For the year 2014, members contributed 0% of their salary to the Plan. If a participating employee leaves covered employment of the Township, other than due to employment-connected death or disability, before 12 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or to a designated beneficiary.

The Township's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The employer's contribution rate for normal cost is determined using the entry age normal actuarial funding method.

The Township's covered employees may be required to contribute a percentage of their salary to the employees' PERS as noted above. The Township is required to contribute the remaining amounts necessary to fund the plans, using the actuarial basis specified by state statute. The Commonwealth of Pennsylvania 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 plans.

C. Investments

The Plans' assets are managed by the Pennsylvania Municipal Retirement System (PMRS). The Plans' assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by GASB Statement No. 3 for aggregate PMRS investments are included in PMRS' separately issued Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from the PMRS or contacting their accounting office.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

9. Defined Benefit Pension Plans (Continued)

C. Investments (Continued)

The PMRS Board is governed by the “prudent investor” rule in establishing investment policy. The “prudent investor” rule requires the exercise of that degree of judgment, skill, and care under the circumstances then prevailing which investors of prudence, discretion, and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to permanent disposition of the funds, considering the probable income to be derived there from, as well as the probable safety of their capital.

The Board has adopted its Statement of Investment Policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, established guidelines for permissible investments of PMRS. The pension plan’s policy in regards to the allocation of invested plan assets is established and may be amended by the Board. On May 16, 2013, the Board established its allocation goals as follows:

Domestic Equities (Large Capitalized Firms)	25%
Domestic Equities (Small Capitalized Firms)	15%
International Equities (Developed Markets)	15%
International Equities (Emerging Markets)	10%
Fixed Income	15%
Real Estate	12.5%
Timberland	7.5%

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on Police Plan and NU Plan investments, net of pension plan investment expense, was 5.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

10. Post-Employment Benefits

In addition to the pension benefits described in Note 9, the Township provides post-employment health care benefits through a defined contribution plan, in accordance with the retiree medical plan, to all uniformed employees who retire from the Township in accordance to the criteria outlined in the police collective bargaining agreement.

The Township makes yearly contributions to a medical reimbursement account established on behalf of each eligible employee, based on the terms in the police collective bargaining agreement. The contribution for the year ended December 31, 2014 was \$15,225 . Employees are not required to contribute to the plan.

Under the terms of the plan, eligible retirees shall be entitled to receive reimbursement for eligible medical expenses up to the amount maintained in their medical reimbursement account maintained for the respective retiree. Eligible medical expenses are any medical expenses that would be eligible for deduction on an individual income tax return, other than direct long-term care expenses, and without regard to any limitations imposed based on the adjusted gross income of an eligible employee. Any plan participant who separates from police employment with the Township prior to retirement shall have his or her medical reimbursement accounts revert back to the Township. The accounts also revert back to the Township upon the death of the participant.

The plan became effective January 1, 2009. Currently, there is one retiree who has received benefits and 17 uniformed employees are receiving contributions in their medical reimbursement account.

11. Deferred Compensation Plan

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of IRC Section 457(g) prescribe that the Township is not the owner of the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the related liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Township's financial statements.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

12. Risk Management

The Township is exposed to various kinds of loss related to limited torts; theft of, and damage to and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance.

a. Health Care Coverage

The Township participates in the Delaware Valley Health Trust (DVHT). DVHT is a regional risk sharing pool providing health insurance benefits to employees and dependents of participating municipalities.

b. Workers' Compensation Coverage

The Township participates in the Delaware Valley Workers' Compensation Trust (DVWCT). DVWCT is a regional risk sharing pool providing workers' compensation benefits to employees. Beginning in 2013, the volunteer firemen's workers' compensation benefits are provided through the state program.

c. Insurance Coverage

The Township participates in the Delaware Valley Insurance Trust (DVIT). DVIT is a regional risk sharing pool that provides commercial, liability and bonding coverage for the Township.

Management believes the above coverages are sufficient to preclude any significant uninsured losses to the Township. There have been no significant reductions in coverage from the prior year.

13. Contingencies

The Township is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Township, management feels that any settlement of judgment not covered by insurance would not materially affect the financial condition of the Township.

14. Related Party Transactions

During the year, the Township received \$27,432 from the Hilltown Township Water and Sewer Authority for cell tower rentals.

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Financial Statements
December 31, 2014

15. Adoption of Recently Issued Accounting Pronouncement

Effective for the year ended December 31, 2014, the Township adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012. The objective of this statement is to improve financial reporting of governmental pension plans through enhanced note disclosure and required supplementary information. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements. See Note 9 on pages 47-52, and the Required Supplementary Information on page 56 for the new disclosures and schedules.

16. Recent Accounting Pronouncement Issued, Not Yet Effective

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will be effective for the Township for the year ending December 31, 2015. The objective of this statement is to require recognition of the entire net pension liability, a more comprehensive measure of pension expense, and to further expand note disclosure and required supplementary information. This statement replaces the requirements of GASB Statement #27, *Accounting for Pensions by State and Local Governmental Employers*.

The Township's Board of Supervisors and management are in the process of determining the effect this Statement will have on the Township's financial statements.

17. Subsequent Events

Management has evaluated subsequent events through July 28, 2015, the date which the financial statements were available to be issued.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Required Supplementary Information
Schedule of Investment Returns
December 31, 2014
(Unaudited)**

	<u>Police</u>	<u>Non-Uniform</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	5.2%	5.2%

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General and Open Space Funds
Year Ended December 31, 2014

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$ 3,806,332	\$ 4,400,567	\$ 594,235
Intergovernmental Revenues	394,582	372,903	(21,679)
Charges for Services	590,677	873,947	283,270
Fees, Licenses and Permits	390,950	395,214	4,264
Interest Income and Rents	70,150	74,816	4,666
Miscellaneous	5,500	59,518	54,018
Total Revenues	<u>5,258,191</u>	<u>6,176,965</u>	<u>918,774</u>
Expenditures			
General Government	733,851	594,509	139,342
Public Safety	3,739,417	3,660,178	79,239
Highways	1,021,577	1,236,509	(214,932)
Conservation and Development	10,000	5,000	5,000
Capital Expenditures	0	0	0
Miscellaneous Governmental	49,047	75,608	(26,561)
Total Expenditures	<u>5,553,892</u>	<u>5,571,804</u>	<u>(17,912)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(295,701)	605,161	900,862
Other Financing Sources (Uses)			
Operating Transfers In (Out)	<u>(390,000)</u>	<u>(450,000)</u>	<u>(60,000)</u>
Net Change in Fund Balances	(685,701)	155,161	840,862
Fund Balances			
Beginning of Year	<u>1,263,101</u>	<u>2,422,224</u>	<u>1,159,123</u>
End of Year	<u>\$ 577,400</u>	<u>\$ 2,577,385</u>	<u>\$ 1,999,985</u>

See Notes to Financial Statements.

Open Space Fund

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 900,000	\$ 1,200,800	\$ 300,800
0	0	0
0	0	0
0	0	0
25,000	20,289	(4,711)
0	0	0
<u>925,000</u>	<u>1,221,089</u>	<u>296,089</u>
0	0	0
0	0	0
0	0	0
19,500	16,480	3,020
0	814,231	(814,231)
0	0	0
<u>19,500</u>	<u>830,711</u>	<u>(811,211)</u>
905,500	390,378	(515,122)
0	0	0
905,500	390,378	(515,122)
<u>5,000,000</u>	<u>5,430,831</u>	<u>430,831</u>
<u>\$ 5,905,500</u>	<u>\$ 5,821,209</u>	<u>\$ (84,291)</u>

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Notes to Schedules of Budget to Actual Comparisons
December 31, 2014

1. Basis of Presentation

The Township has prepared the Schedule of Budget to Actual Comparisons using the same format as the Statement of Revenues, Expenditures, and Changes in Fund Balances.

The Township did not amend its 2014 budget as originally adopted and, therefore, is presenting its original and final budget in one column for each fund presented.

2. Differences in Budget Basis versus GAAP Basis

Miscellaneous governmental expenditures are budgeted for as such. Actual expenses have been allocated to activities.

**HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014**

	<u>Fire Tax Fund</u>	<u>Street Light Fund</u>	<u>Liquid Fuels Fund</u>	<u>Park and Recreation Fund</u>
Assets				
Cash	\$ 6,057	\$ 0	\$ 151,327	\$ 273,775
Taxes Receivable	3,742	683	0	1,055
Due (to) from Other Funds	<u>0</u>	<u>73,589</u>	<u>0</u>	<u>0</u>
Total Assets	<u><u>\$ 9,799</u></u>	<u><u>\$ 74,272</u></u>	<u><u>\$ 151,327</u></u>	<u><u>\$ 274,830</u></u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and Accrued Expenses	<u>\$ 3,554</u>	<u>\$ 0</u>	<u>\$ 12,269</u>	<u>\$ 0</u>
Deferred Inflows of Resources				
Deferred Tax Receipts	<u>2,807</u>	<u>443</u>	<u>0</u>	<u>806</u>
Fund Balances				
Restricted	0	73,829	139,058	107,151
Assigned	<u>3,438</u>	<u>0</u>	<u>0</u>	<u>166,873</u>
Total Fund Balances	<u>3,438</u>	<u>73,829</u>	<u>139,058</u>	<u>274,024</u>
Total Liabilities and Fund Balances	<u><u>\$ 9,799</u></u>	<u><u>\$ 74,272</u></u>	<u><u>\$ 151,327</u></u>	<u><u>\$ 274,830</u></u>

<u>Recreation Capital Reserve</u>	<u>Road Equipment Fund</u>	<u>Stormwater System Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 486,746	\$ 305,730	\$ 229,701	\$ 20,309	\$ 1,473,645
0	2,519	0	6,235	14,234
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>73,589</u>
<u>\$ 486,746</u>	<u>\$ 308,249</u>	<u>\$ 229,701</u>	<u>\$ 26,544</u>	<u>\$ 1,561,468</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,054</u>	<u>\$ 17,877</u>
<u>0</u>	<u>1,896</u>	<u>0</u>	<u>4,676</u>	<u>10,628</u>
0	265,567	0	1,722	587,327
486,746	40,786	229,701	18,092	945,636
<u>486,746</u>	<u>306,353</u>	<u>229,701</u>	<u>19,814</u>	<u>1,532,963</u>
<u>\$ 486,746</u>	<u>\$ 308,249</u>	<u>\$ 229,701</u>	<u>\$ 26,544</u>	<u>\$ 1,561,468</u>

HILLTOWN TOWNSHIP
BUCKS COUNTY, PA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2014

	<u>Fire Tax Fund</u>	<u>Street Light Fund</u>	<u>Liquid Fuels Fund</u>	<u>Park and Recreation Fund</u>
Revenues				
Taxes	\$ 159,911	\$ 57,144	\$ 0	\$ 42,720
Intergovernmental Revenues	0	0	412,323	0
Charges for Services	0	0	0	6,544
Interest Income and Rents	236	0	746	953
Miscellaneous	0	0	0	0
Total Revenues	<u>160,147</u>	<u>57,144</u>	<u>413,069</u>	<u>50,217</u>
Expenditures				
General Government	2,410	0	0	643
Public Safety	160,290	0	0	0
Highways	0	38,642	306,119	0
Parks and Recreation	0	0	0	26,726
Debt Service - Principal	0	0	0	0
Debt Service - Interest	0	0	0	0
Capital Expenditures	0	0	0	0
Total Expenditures	<u>162,700</u>	<u>38,642</u>	<u>306,119</u>	<u>27,369</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,553)	18,502	106,950	22,848
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(2,553)	18,502	106,950	22,848
Fund Balances				
Beginning of Year	<u>5,991</u>	<u>55,327</u>	<u>32,108</u>	<u>251,176</u>
End of Year	<u>\$ 3,438</u>	<u>\$ 73,829</u>	<u>\$ 139,058</u>	<u>\$ 274,024</u>

<u>Recreation Capital Reserve</u>	<u>Road Equipment Fund</u>	<u>Stormwater System Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 0	\$ 106,983	\$ 0	\$ 266,887	\$ 633,645
0	0	0	0	412,323
0	0	0	0	6,544
1,733	1,199	798	196	5,861
2,685	0	7,145	0	9,830
<u>4,418</u>	<u>108,182</u>	<u>7,943</u>	<u>267,083</u>	<u>1,068,203</u>
0	1,607	0	4,017	8,677
0	0	0	0	160,290
0	0	6,252	0	351,013
673	0	0	0	27,399
0	0	0	253,283	253,283
0	0	0	10,715	10,715
12,972	129,000	0	0	141,972
<u>13,645</u>	<u>130,607</u>	<u>6,252</u>	<u>268,015</u>	<u>953,349</u>
(9,227)	(22,425)	1,691	(932)	114,854
<u>0</u>	<u>0</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>
(9,227)	(22,425)	201,691	(932)	314,854
<u>495,973</u>	<u>328,778</u>	<u>28,010</u>	<u>20,746</u>	<u>1,218,109</u>
<u>\$ 486,746</u>	<u>\$ 306,353</u>	<u>\$ 229,701</u>	<u>\$ 19,814</u>	<u>\$ 1,532,963</u>