

Audited
Financial
Statements

December 31,
2014

East Hempfield Township

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
East Hempfield Township
Landisville, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the schedules of funding progress for the pension plans and the other post-employment benefit plan on pages 57 - 58, and the budgetary comparison schedule - general fund on page 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 sufficient evidence to express an opinion or provide any assurance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
June 4, 2015

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

This section of the financial statements for East Hempfield Township (“Township”) presents a narrative overview of the Township’s financial performance for the fiscal year ended December 31, 2014.

FINANCIAL HIGHLIGHTS

- The Township total net position at the end of 2014 was \$ 23,318,383, an increase of \$ 718,815 or 3.2%
- The General Fund unassigned fund balance was \$ 5,080,337 at the end of 2014.
- Total Governmental Activities revenues were \$ 11,254,621 during 2014, of which \$ 8,724,427 was used to cover Public Safety and Public Works expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of the following three parts:

- Management’s discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information

Management’s discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the Township's government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the Township's Police Pensions and Non-Uniformed Trust Funds, budget to actual figures for the General Fund, and Post Employment Benefits Other Than Pensions.

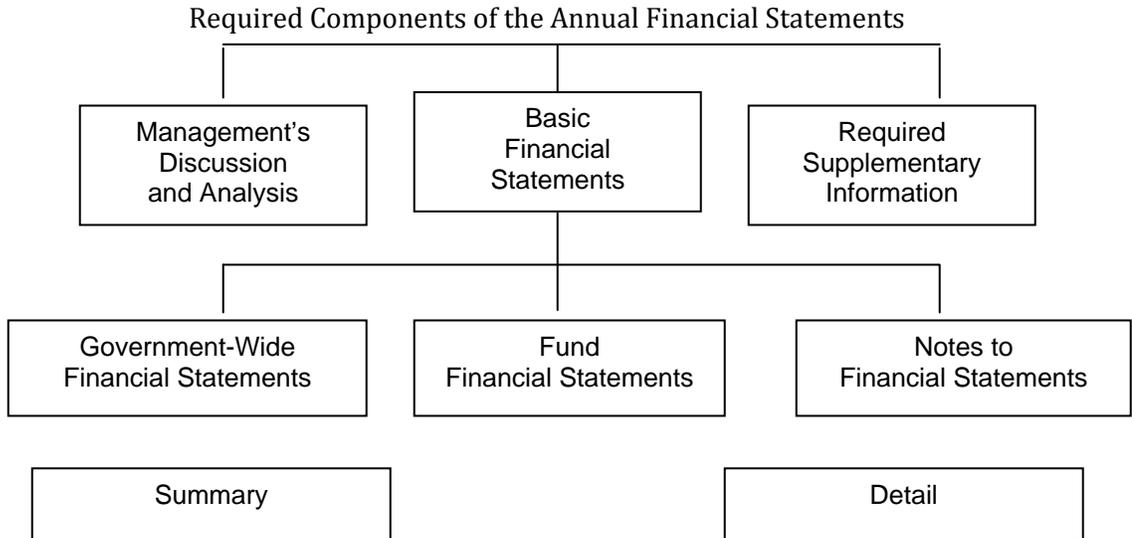
The basic financial statements present two different views of the Township.

- *Government-wide financial statements*, the first two statements, provide information about the Township's overall financial status.
- *Fund financial statements*, the remaining statements, focus on individual parts of the Township's government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
 - *Governmental funds statements* show how general government services such as public safety, public works for highways and streets, and health and welfare were financed in the short term, as well as what remains for future spending.
 - *Proprietary funds statements* offer short-term and long-term financial information about the activities the Township operates like a business, such as the golf course fund.
 - *Fiduciary funds statements* reflect activities involving resources that are held by the Township as a trustee or agent for the benefit of others, including employees of the Township like the Police Pension Trust Fund. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the Township’s programs.

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
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Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the Township's Annual Financial Report



EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

Table A-2 summarizes the major features of the Township's financial statements, including the area of the Township's activities they cover and the types of information they contain.

Table A-2: Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the Township, such as public safety and public works	The activities of the Township such as the Trash Collection/Recycling Fund	Instances in which the Township administers resources on behalf of others, such as the Police Pension Fund
Required Financial Statements	-Statement of net position -Statement of activities	-Balance Sheet -Statement of revenues, expenditures and changes in fund balance	-Statement of net position -Statement of revenues, expenses and changes in net position -Statement of cash flows	-Statement of fiduciary net position -Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services and have been received and the related liability is due and payable	All revenues and expenses during the year; regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all the Township's assets and liabilities, except fiduciary funds, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the Township's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to net position are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the Township's financial position. Over time, increases or decreases in the Township's net position is one indicator of whether the Township's financial position is improving or deteriorating. However, other non-financial factors such as changes in the Township's real property tax base and general economic conditions must be considered to assess the overall position of the Township.

There are two categories of activities for the primary government:

- *Governmental activities* include the Township's basic services such as general government, public safety, public works for highways and streets, community development, health and welfare and culture and recreation. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* such as the Township's Trash Collection/Recycling fund charge a fee to customers to help cover the costs of services.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net position balances as follows:
 - Net position invested in capital assets, net of related debt
 - Restricted net position is net position with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted net position is net position that does not meet any of the above restrictions

FUND FINANCIAL STATEMENTS

Fund financial statements provide more detailed information on the Township's most significant funds, not the Township as a whole. Funds are accounting devices, i.e., a group of related accounts; the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments.

The Township has three kinds of funds:

- *Governmental funds* include most of the Township's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and: (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Township's programs.

The relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Township adopts an annual budget for the general fund, as required by state law. A budgetary comparison of the Township's general fund is presented as required supplementary information.

- *The proprietary fund* reports business-type programs and activities that charge fees designed to recover the cost of providing services. The proprietary fund reports use full accrual accounting.
- *Fiduciary funds* are funds for which the Township is the trustee or fiduciary. These include the Police Pension Plan and the Non-Uniformed Pension Plan and certain agency funds, or clearing accounts for assets held by the Township in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The Township is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These funds are excluded from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Position

The Township's total assets were \$ 28,113,451 at December 31, 2013 and \$ 29,037,551 at December 31, 2014. Of this amount, \$ 17,723,835 and \$ 17,846,561 were capital assets at December 31, 2013 and 2014, respectively.

GASB No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years.

**Table A-3: East Hempfield Township
Condensed Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Capital assets	\$ 12,883,331	\$ 13,071,036	\$ 4,840,504	\$ 4,775,525	\$ 17,723,835	\$ 17,846,561
Other assets	9,465,360	10,259,477	924,256	931,513	10,389,616	11,190,990
Total assets	<u>22,348,691</u>	<u>23,330,513</u>	<u>5,764,760</u>	<u>5,707,038</u>	<u>28,113,451</u>	<u>29,037,551</u>
Current liabilities	772,026	880,837	157,039	276,965	929,065	1,157,802
Long-term liabilities	4,485,860	4,451,923	98,958	109,443	4,584,818	4,561,366
Total liabilities	<u>5,257,886</u>	<u>5,332,760</u>	<u>255,997</u>	<u>386,408</u>	<u>5,513,883</u>	<u>5,719,168</u>
Net investment in capital assets	10,261,649	10,792,683	4,736,383	4,627,474	14,998,032	15,420,157
Restricted	2,516,836	124,610	-	-	2,516,836	124,610
Unrestricted	4,312,320	7,080,460	772,380	693,156	5,084,700	7,773,616
Total net position	<u>17,090,805</u>	<u>17,997,753</u>	<u>5,508,763</u>	<u>5,320,630</u>	<u>22,599,568</u>	<u>23,318,383</u>
Total liabilities and net position	<u>\$ 22,348,691</u>	<u>\$ 23,330,513</u>	<u>\$ 5,764,760</u>	<u>\$ 5,707,038</u>	<u>\$ 28,113,451</u>	<u>\$ 29,037,551</u>

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

The following statement of activities represents changes in net position for the year ended December 31, 2013 and 2014. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

**Table A-4: East Hempfield Township
Condensed Statement of Activities**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Program Revenues:						
Charges for services	\$ 1,165,698	\$ 1,617,926	\$ 2,378,371	\$ 2,371,802	\$ 3,544,069	\$ 3,989,728
Operating grants and contributions	1,229,506	1,258,411	69,463	69,129	1,298,969	1,327,540
Capital grants and contributions	-	201,755	-	-	-	201,755
General revenues:						
Real estate taxes	2,822,919	2,860,390	-	-	2,822,919	2,860,390
Earned income taxes	3,530,884	3,559,064	-	-	3,530,884	3,559,064
Real estate transfer tax	585,695	567,071	-	-	585,695	567,071
Local services tax	955,220	960,682	-	-	955,220	960,682
Other taxes	-	9,960	-	-	-	9,960
Investment earnings	111,741	121,301	3,213	1,849	114,954	123,150
Proceeds from sale of capital assets	20,056	1,007	-	2,535	20,056	3,542
Miscellaneous income	148,969	97,054	-	10,018	148,969	107,072
Transfers	(5,508,539)	(140,000)	5,508,539	140,000	-	-
Total revenues	5,062,149	11,114,621	7,959,586	2,595,333	13,021,735	13,709,954
Expenses:						
General government	1,077,231	1,074,311	-	-	1,077,231	1,074,311
Public safety	6,249,636	6,373,008	-	-	6,249,636	6,373,008
Public works	1,869,960	2,351,419	1,354,718	1,504,137	3,224,678	3,855,556
Culture and recreation	352,166	361,668	1,140,283	1,279,329	1,492,449	1,640,997
Interest	55,788	47,267	-	-	55,788	47,267
Total expenses	9,604,781	10,207,673	2,495,001	2,783,466	12,099,782	12,991,139
Change in net position	(4,542,632)	906,948	5,464,585	(188,133)	921,953	718,815
Net position - beginning, as restated	21,633,437	17,090,805	44,178	5,508,763	21,677,615	22,599,568
Net position - ending	<u>\$ 17,090,805</u>	<u>\$ 17,997,753</u>	<u>\$ 5,508,763</u>	<u>\$ 5,320,630</u>	<u>\$ 22,599,568</u>	<u>\$ 23,318,383</u>

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

Net Program Expenses

Net program expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2014 revenue from real estate taxes and earned income taxes was \$ 2,860,390 and \$ 3,559,064 respectively.

**Table A-5: East Hempfield Township
Net Cost of Governmental and Business-type Activities**

	2013		2014	
	Total cost of services	Net cost of services	Total cost of services	Net cost of services
Governmental funds:				
General government	\$ 1,077,231	\$ (45,346)	\$ 1,074,311	\$ 86,190
Public safety	6,249,636	(5,448,174)	6,373,008	(5,297,011)
Public works	1,869,960	(1,308,103)	2,351,419	(1,509,825)
Culture and recreation	352,166	(352,166)	361,668	(361,668)
Interest	55,788	(55,788)	47,267	(47,267)
Business-type Activities:				
Public works	1,140,283	207,697	1,504,137	61,424
Culture and recreation	<u>1,354,718</u>	<u>(254,864)</u>	<u>1,279,329</u>	<u>(403,959)</u>
	<u>\$ 12,099,782</u>	<u>\$ (7,256,744)</u>	<u>\$ 12,991,139</u>	<u>\$ (7,472,116)</u>

The Township relied on real estate taxes, earned income taxes and other general revenues to fund 58% of its governmental and business-type activities in 2014.

Capital Assets

The Township's investment in capital assets at December 31, 2014, net of accumulated depreciation, was \$ 17,846,561. Capital assets consist primarily of land, buildings and equipment. The following is a summary of capital assets at December 31, 2014:

**Table A-6: East Hempfield Township
Capital Assets**

	Governmental Activities	Business-type Activities	Total
Land	\$ 5,043,846	\$ 2,320,624	\$ 7,364,470
Construction in Progress	194,037	-	194,037
Land improvements	41,244	137,618	178,862
Infrastructure	5,040,078	-	5,040,078
Buildings and improvements	7,011,042	4,502,143	11,513,185
Leaseholds assets	575,031	462,321	1,037,352
Equipment	3,076,919	1,179,230	4,256,149
Accumulated depreciation	<u>(7,911,161)</u>	<u>(3,826,411)</u>	<u>(11,737,572)</u>
Total net capital assets	<u>\$ 13,071,036</u>	<u>\$ 4,775,525</u>	<u>\$ 17,846,561</u>

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
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Detailed information about the Township's capital assets can be found in Note 5, Notes to the Financial Statements.

Debt Administration

The Township's long term debt activity for 2014 is as follows and is detailed in Notes 6 and 7 to the Financial Statements:

**Table A-7: East Hempfield Township
Statement of Long Term Debt**

Type	Beginning Balance	Additions	Deletions	Ending Balance
Loans	\$ 1,990,998	\$ -	\$ (338,013)	\$ 1,652,985
Notes	479,501	-	(97,184)	382,317
Capital leases	255,304	259,136	(123,338)	391,102
Total long-term debt	<u>\$ 2,725,803</u>	<u>\$ 259,136</u>	<u>\$ (558,535)</u>	<u>\$ 2,426,404</u>

In 2014 debt payments were made on a 2006 general obligation note with the Pennsylvania Infrastructure Bank. The proceeds were used for road construction, and the note is being repaid over ten years. In December 2008 an additional loan was secured from the Pennsylvania Infrastructure Bank in the amount of \$ 700,000 which was used for the demolition of a bridge over Am-Trak rail lines. This loan is being paid back over a seven year period. In 2010 the Township acquired a loan from a local bank for \$ 2,500,000 and utilized the proceeds for major infrastructure improvements within the Township. The loan was paid off in 2011 through issuance of a 2011 Note from the Commonwealth of Pennsylvania Department of Community and Economic Development in the amount of \$2,400,000. The Note carries a fixed interest rate of 1.625%, with monthly payments through March 15, 2021. Also in 2011 the Township secured a Note with PNC Bank in the amount of \$ 458,000 for the acquisition of a new Pierce Fire apparatus. The note carries a fixed interest rate of 3.65%, with semi-annual payments being made through July 10, 2021. In addition the Township currently has several lease/purchase arrangements for equipment purchases.

FUND FINANCIAL STATEMENTS

Governmental Funds

The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources available for spending. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Township's net resources available for spending at the end of the year.

The Township's governmental funds include the general fund, special revenue funds and capital project funds. The general fund is the chief operating fund for the Township. Special revenue funds are restricted to specific legislated use. Capital project funds account for the proceeds of bond issues. The major funds are shown on the statement of revenues, expenditures and changes in fund balances in the financial statements.

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
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Taxes are the Township's most significant revenue source, accounting for 70% of 2014 Governmental revenues. Overall revenues increased by \$ 673,801 or 6% primarily due to more activity in building permits and transportation grants.

Governmental fund revenues by source at December 31, 2013 and 2014 were as follows.

**Table A-8: East Hempfield Township
Revenues by Source, Governmental Funds**

Revenues:	2013	2014
Taxes	\$ 7,898,106	\$ 7,939,945
Licenses, fees and permits	379,867	1,118,916
Fines and forfeits	108,317	109,492
Investment earnings	132,355	121,301
Rents		22,299
Intergovernmental	1,229,506	1,533,386
Charges for services	656,900	155,204
Donations	-	112,990
Miscellaneous	148,969	32,193
Proceeds from sale of capital assets	18,391	1,007
Proceeds from issuance of capital leases	167,529	161,920
Refund of prior year expense	-	105,088
Total revenues	<u>\$ 10,739,940</u>	<u>\$ 11,413,741</u>

Governmental Fund Expenditures reflect a total increase of \$ 937,630 or 10% for 2014. This increase can primarily be attributed to an increased level of infrastructure projects as well as the annual inflationary factors for operating expenses in addition to the Township experiencing a "normal" year for winter maintenance costs. The majority of the governmental fund expenditures' consist of public safety costs which consists of the Police force, the Planning department, and Fire company expenditures. This function alone accounts for 58% of total governmental fund expenditures.

Governmental fund expenditures by function at December 31, 2013 and 2014 were as follows:

**Table A-9: East Hempfield Township
Expenditures by Function, Governmental Funds**

Expenditures:	2013	2014
General government	\$ 1,029,661	\$ 1,119,021
Public safety	5,983,532	6,161,771
Public works	1,930,680	2,597,641
Culture and recreation	233,882	236,951
Deb service	482,313	482,314
Total expenditures	<u>\$ 9,660,068</u>	<u>\$ 10,597,698</u>

EAST HEMPFIELD TOWNSHIP
Management's Discussion and Analysis
December 31, 2014

GOVERNMENTAL FUND BALANCES AND PROPRIETARY FUND NET POSITION

Ending Fund Balances for Governmental Fund and Net Position for Proprietary Funds at December 31, 2014:

**Table A-10: East Hempfield Township
Ending Fund Balances, Governmental Funds
Net Position, Proprietary Funds**

Fund	Governmental Funds	Enterprise Funds
General fund	\$ 6,770,373	\$ -
Capital projects fund	2,912,292	-
Other governmental funds	105,771	-
Trash & recycling fund	-	878,687
Golf course fund	-	4,441,943
Total	\$ 9,788,436	\$ 5,320,630

Budgetary Highlights – Actual General Fund revenue was 6.2% higher than budgeted amounts during 2014, due primarily to building permits and other user fees exceeding the budgeted level. General Fund expenses reflect an actual spending level 5.2% lower than the budgeted amount, due primarily to cost savings in the public safety expenses. The combination of these results allowed the Township to end 2014 in much better financial position than originally anticipated.

Economic Conditions – With over 23,500 residents, East Hempfield Township’s population represents 4.5% of Lancaster County. At a median age of 44.6, they are slightly older than the remainder of the County’s residents’ median age of 37.8. Median household income is \$ 69,278, more than the County median of \$ 53,822, and home values also are somewhat higher, with media values of \$ 192,704 as compared to \$ 187,400. This results in a positive economy for the Township; broad economic impacts do not affect East Hempfield Township as quickly as they do other communities with more volatility in their economic base.

Next Year’s Budget – The 2015 Budget held the line on taxes while continuing to provide the same level of services to Township residents. The overall spending spend plan for next year reflects a 5.97% increase over the 2014 levels. Revenues in turn reflect a 1.50% increase over last year. Across all funds projected revenues total \$ 14,265,883 with expenditures projected at \$ 16,727,433. Unrestricted fund balances would account for the difference in the amount of \$ 2,461,550. Most of this differential is attributable to funding capital infrastructure projects (non-recurring items) planned for the Capital Reserve Fund for 2015.

CONTACTING THE TOWNSHIP’S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability. Questions concerning this financial information or requests for additional information should be directed to:

East Hempfield Township
Township Finance Director
1700 Nissley Road
PO Box 128
Landisville, PA 17538

EAST HEMPFIELD TOWNSHIP
Statement of Net Position
December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 7,137,347	\$ 578,640	\$ 7,715,987
Investments	1,657,766	247,000	1,904,766
Taxes receivable, net	1,063,886	-	1,063,886
Accounts receivable, net	221,764	139,594	361,358
Internal balances	43,731	(43,731)	-
Inventory	-	10,010	10,010
Prepaid expenses	37,973	-	37,973
Total current assets	<u>10,162,467</u>	<u>931,513</u>	<u>11,093,980</u>
Noncurrent assets			
Net pension asset	97,010	-	97,010
Capital assets not being depreciated:			-
Land	5,043,846	2,320,624	7,364,470
Construction in progress	194,037	-	194,037
Capital assets net of accumulated depreciation:			
Infrastructure	4,063,368	-	4,063,368
Land improvements	24,278	57,753	82,031
Buildings and improvements	2,474,338	1,832,785	4,307,123
Leasehold assets	393,308	266,875	660,183
Equipment	877,861	297,488	1,175,349
Total noncurrent assets	<u>13,168,046</u>	<u>4,775,525</u>	<u>17,943,571</u>
Total assets	<u>\$ 23,330,513</u>	<u>\$ 5,707,038</u>	<u>\$ 29,037,551</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 182,560	\$ 166,528	\$ 349,088
Accrued expenses and withholdings	141,728	48,017	189,745
Accrued interest	7,078	-	7,078
Other current liabilities	-	6,227	6,227
Long-term liabilities: Due within one year			
Notes and loans payable	431,892	-	431,892
Capital leases payable	67,639	49,484	117,123
Accrued compensated absences	49,940	6,709	56,649
Total current liabilities	<u>880,837</u>	<u>276,965</u>	<u>1,157,802</u>
Noncurrent liabilities			
Long-term liabilities: Due in more than one year			
Notes and loans payable	1,603,410	-	1,603,410
Capital leases payable	175,412	98,567	273,979
Accrued compensated absences	96,030	10,876	106,906
Other post employment benefits	2,577,071	-	2,577,071
Total noncurrent liabilities	<u>4,451,923</u>	<u>109,443</u>	<u>4,561,366</u>
Total liabilities	<u>5,332,760</u>	<u>386,408</u>	<u>5,719,168</u>
NET POSITION			
Net investment in capital assets	10,792,683	4,627,474	15,420,157
Restricted	124,610	-	124,610
Unrestricted	7,080,460	693,156	7,773,616
Total net position	<u>17,997,753</u>	<u>5,320,630</u>	<u>23,318,383</u>
Total liabilities and net position	<u>\$ 23,330,513</u>	<u>\$ 5,707,038</u>	<u>\$ 29,037,551</u>

EAST HEMPFIELD TOWNSHIP
Statement of Activities
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 1,074,311	\$ 784,851	\$ 375,650	\$ -	\$ 86,190	\$ -	\$ 86,190
Public safety	6,373,008	825,000	250,997	-	(5,297,011)	-	(5,297,011)
Public works	2,351,419	8,075	631,764	201,755	(1,509,825)	-	(1,509,825)
Culture and recreation	361,668	-	-	-	(361,668)	-	(361,668)
Interest	47,267	-	-	-	(47,267)	-	(47,267)
Total governmental activities	<u>10,207,673</u>	<u>1,617,926</u>	<u>1,258,411</u>	<u>201,755</u>	<u>(7,129,581)</u>	<u>-</u>	<u>(7,129,581)</u>
Business-type activities							
Golf course	1,279,329	875,370	-	-	-	(403,959)	(403,959)
Trash collection and recycling	1,504,137	1,496,432	69,129	-	-	61,424	61,424
	<u>2,783,466</u>	<u>2,371,802</u>	<u>69,129</u>	<u>-</u>	<u>-</u>	<u>(342,535)</u>	<u>(342,535)</u>
Total primary government	<u>\$ 12,991,139</u>	<u>\$ 3,989,728</u>	<u>\$ 1,327,540</u>	<u>\$ 201,755</u>	<u>\$ (7,129,581)</u>	<u>\$ (342,535)</u>	<u>\$ (7,472,116)</u>
General revenues and transfers:							
Taxes:							
Property taxes					\$ 2,860,390	\$ -	\$ 2,860,390
Earned income tax					3,559,064	-	3,559,064
Real estate transfer tax					567,071	-	567,071
Local services tax					960,682	-	960,682
Other taxes					9,960	-	9,960
Unrestricted investment earnings					121,301	1,849	123,150
Proceeds from sale of capital assets					1,007	2,535	3,542
Miscellaneous income					97,054	10,018	107,072
Transfers					(140,000)	140,000	-
Total general revenues and transfers					<u>8,036,529</u>	<u>154,402</u>	<u>8,190,931</u>
Change in net position					906,948	(188,133)	718,815
Net position - beginning, as restated					<u>17,090,805</u>	<u>5,508,763</u>	<u>22,599,568</u>
Net position - ending					<u>\$ 17,997,753</u>	<u>\$ 5,320,630</u>	<u>\$ 23,318,383</u>

EAST HEMPFIELD TOWNSHIP
Balance Sheet - Governmental Funds
December 31, 2014

	General Fund	Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,195,522	\$ 2,810,557	\$ 131,268	\$ 7,137,347
Investments	1,657,766	-	-	1,657,766
Accounts and grants receivable	98,481	123,283	-	221,764
Taxes receivable, net	1,054,587	9,299	-	1,063,886
Due from other funds	46,532	-	-	46,532
Prepaid expenses	32,270	5,703	-	37,973
Total assets	<u>\$ 7,085,158</u>	<u>\$ 2,948,842</u>	<u>\$ 131,268</u>	<u>\$ 10,165,268</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 130,395	\$ 26,211	\$ 25,497	\$ 182,103
Due to other funds	-	2,801	-	2,801
Accrued wages, benefits and withholdings	142,185	-	-	142,185
Total liabilities	<u>272,580</u>	<u>29,012</u>	<u>25,497</u>	<u>327,089</u>
Deferred inflows of resources				
Unavailable tax revenue	42,205	7,538	-	49,743
Total deferred inflows of resources	<u>42,205</u>	<u>7,538</u>	<u>-</u>	<u>49,743</u>
Fund balances				
Nonspendable	32,270	5,703	-	37,973
Restricted	-	18,839	105,771	124,610
Committed	1,657,766	2,887,750	-	4,545,516
Unassigned	5,080,337	-	-	5,080,337
Total fund balances	<u>6,770,373</u>	<u>2,912,292</u>	<u>105,771</u>	<u>9,788,436</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,085,158</u>	<u>\$ 2,948,842</u>	<u>\$ 131,268</u>	<u>\$ 10,165,268</u>

EAST HEMPFIELD TOWNSHIP
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2014

Total fund balance - governmental funds \$ 9,788,436

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund balance sheet, but are reported in the governmental activities of the Statement of Net Position.

Cost of assets	\$ 20,982,197	
Accumulated depreciation	<u>(7,911,161)</u>	13,071,036

The net pension asset resulting from contributions in excess of the annual required contributions are not financial resources and therefore are not reported in the funds. 97,010

Taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the fund balance sheet. However, these are recorded as revenue and receivable when earned for the government-wide statements. 49,743

Some liabilities are not due and payable in the current period and are therefore excluded from the fund balance sheet, but are included in governmental activities in the Statement of Net Position.

Bonds and notes payable, net	(2,035,302)	
Accrued interest	(7,078)	
Capital leases payable	(243,051)	
Compensated absences	(145,970)	
Other postemployment benefits	<u>(2,577,071)</u>	
		<u>(5,008,472)</u>

Total net position - governmental activities \$ 17,997,753

EAST HEMPFIELD TOWNSHIP
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
Year Ended December 31, 2014

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 7,510,433	\$ 429,512	\$ -	\$ 7,939,945
Licenses and permits	1,118,916	-	-	1,118,916
Fines and forfeits	109,492	-	-	109,492
Investment earnings	118,218	2,333	750	121,301
Rents	22,299	-	-	22,299
Intergovernmental	739,046	201,755	592,585	1,533,386
Charges for services	153,704	1,500	-	155,204
Donations	88,599	24,391	-	112,990
Miscellaneous	9,100	-	23,093	32,193
Total revenues	<u>9,869,807</u>	<u>659,491</u>	<u>616,428</u>	<u>11,145,726</u>
EXPENDITURES				
General government	1,118,832	189	-	1,119,021
Public safety	5,526,636	635,135	-	6,161,771
Public works	1,412,015	604,073	581,553	2,597,641
Culture and recreation	228,999	7,952	-	236,951
Debt service				
Principal	-	435,197	-	435,197
Interest	-	47,117	-	47,117
Total expenditures	<u>8,286,482</u>	<u>1,729,663</u>	<u>581,553</u>	<u>10,597,698</u>
Excess (deficiency) of revenues over expenditures	<u>1,583,325</u>	<u>(1,070,172)</u>	<u>34,875</u>	<u>548,028</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of capital assets	1,007	-	-	1,007
Proceeds from issuance of capital leases	161,920	-	-	161,920
Refund of prior year expense	-	105,088	-	105,088
Transfers in (out)	<u>(1,587,916)</u>	<u>1,528,446</u>	<u>-</u>	<u>(59,470)</u>
Total other financing sources and uses	<u>(1,424,989)</u>	<u>1,633,534</u>	<u>-</u>	<u>208,545</u>
Net change in fund balances	158,336	563,362	34,875	756,573
Fund balances - beginning, as restated	<u>6,612,037</u>	<u>2,348,930</u>	<u>70,896</u>	<u>9,031,863</u>
Fund balances - ending	<u>\$ 6,770,373</u>	<u>\$ 2,912,292</u>	<u>\$ 105,771</u>	<u>\$ 9,788,436</u>

EAST HEMPFIELD TOWNSHIP**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year Ended December 31, 2014**

Net change in fund balances - total governmental funds \$ 756,573

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.

Depreciation expense	(555,152)	
Capital outlays, net of retirements	<u>742,857</u>	
		187,705

Because some taxes will not be collected for several months after the Township's fiscal year end, they are not considered as "available" revenues in the governmental funds. The difference in tax revenue is: 7,262

The proceeds of a capital lease provide current financial resources to governmental funds, but has no effect on net position. (161,920)

Governmental funds report repayment of note and lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments. 505,249

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount (incurred) and the amount paid for:

Accrued interest expense	(150)	
Compensated absences	19,830	
Other postemployment benefits	<u>(407,601)</u>	
		<u>(387,921)</u>

Change in net position - governmental activities \$ 906,948

EAST HEMPFIELD TOWNSHIP
Statement of Net Position - Proprietary Funds
December 31, 2014

	Enterprise Funds		
	Trash & Recycling Fund	Golf Course Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 528,078	\$ 50,562	\$ 578,640
Investments	247,000		247,000
Accounts receivable, net	139,409	185	139,594
Inventories	-	10,010	10,010
Total current assets	<u>914,487</u>	<u>60,757</u>	<u>975,244</u>
Noncurrent assets			
Capital assets not being depreciated			
Land	-	2,320,624	2,320,624
Capital assets, net of depreciation			
Land improvements	-	137,618	137,618
Buildings and improvements	-	4,502,143	4,502,143
Machinery and equipment	522,578	1,118,973	1,641,551
Less: accumulated depreciation	<u>(361,976)</u>	<u>(3,464,435)</u>	<u>(3,826,411)</u>
Total noncurrent assets	<u>160,602</u>	<u>4,614,923</u>	<u>4,775,525</u>
Total assets	<u>\$ 1,075,089</u>	<u>\$ 4,675,680</u>	<u>\$ 5,750,769</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 118,851	\$ 26,716	\$ 145,567
Accrued expenses and withholdings	-	48,017	48,017
Other liabilities	6,227	20,961	27,188
Due to other funds	-	43,731	43,731
Compensated absences - current	-	6,709	6,709
Capital lease payable	<u>31,059</u>	<u>18,425</u>	<u>49,484</u>
Total current liabilities	<u>156,137</u>	<u>164,559</u>	<u>320,696</u>
Noncurrent liabilities			
Compensated absences	-	10,876	10,876
Capital lease payable	<u>40,265</u>	<u>58,302</u>	<u>98,567</u>
Total non-current liabilities	<u>40,265</u>	<u>69,178</u>	<u>109,443</u>
Total liabilities	<u>196,402</u>	<u>233,737</u>	<u>430,139</u>
NET POSITION			
Net investment in capital assets	89,278	4,538,196	4,627,474
Unrestricted	<u>789,409</u>	<u>(96,253)</u>	<u>693,156</u>
Total net position	<u>878,687</u>	<u>4,441,943</u>	<u>5,320,630</u>
Total liabilities and net position	<u>\$ 1,075,089</u>	<u>\$ 4,675,680</u>	<u>\$ 5,750,769</u>

EAST HEMPFIELD TOWNSHIP**Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds
Year Ended December 31, 2014**

	Enterprise Funds		
	Trash & Recycling Fund	Golf Course Fund	Total
OPERATING REVENUES			
Charges for services	\$ 1,496,432	\$ 881,464	\$ 2,377,896
OPERATING EXPENSES			
Personnel services	-	651,416	651,416
Contracted services	164,951	-	164,951
Supplies and materials	55,048	166,121	221,169
Repairs and maintenance	7,922	136,653	144,575
Utilities	-	56,691	56,691
Waste hauling and tipping fees	1,170,756	-	1,170,756
Other services and charges	-	66,300	66,300
Depreciation	22,000	191,148	213,148
Total operating expenses	<u>1,420,677</u>	<u>1,268,329</u>	<u>2,689,006</u>
Operating income (loss)	<u>75,755</u>	<u>(386,865)</u>	<u>(311,110)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,836	13	1,849
Interest expense	(2,930)	(46)	(2,976)
Loss on disposal of capital assets	-	(4,495)	(4,495)
Grant revenue	69,129	-	69,129
Total nonoperating revenues (expenses)	<u>68,035</u>	<u>(4,528)</u>	<u>63,507</u>
Income (loss) before transfers	143,790	(391,393)	(247,603)
Transfers in	-	140,000	140,000
Transfers out	<u>(80,530)</u>	<u>-</u>	<u>(80,530)</u>
Change in net position	63,260	(251,393)	(188,133)
Total net position - beginning, as restated	<u>815,427</u>	<u>4,693,336</u>	<u>5,508,763</u>
Total net position - ending	<u>\$ 878,687</u>	<u>\$ 4,441,943</u>	<u>\$ 5,320,630</u>

EAST HEMPFIELD TOWNSHIP
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2014

	Enterprise Funds		
	Trash & Recycling Fund	Golf Course Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 1,477,989	\$ 881,464	\$ 2,359,453
Payments to suppliers	(1,386,208)	(419,022)	(1,805,230)
Payments to and on behalf of employees	-	(581,862)	(581,862)
Net cash provided (used) by operating activities	<u>91,781</u>	<u>(119,420)</u>	<u>(27,639)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(40,644)	(114,555)	(155,199)
Proceeds from sale of capital assets	-	2,535	2,535
Proceeds from issuance of leases	-	97,216	97,216
Principal paid on capital leases	(30,070)	(23,216)	(53,286)
Interest and fiscal charges paid on capital leases	(2,930)	(46)	(2,976)
Net cash provided (used) by capital and related financing activities	<u>(73,644)</u>	<u>(38,066)</u>	<u>(111,710)</u>
Cash flows from non-capital financing activities:			
Grants/state aid received	69,129	-	69,129
Transfer from other funds	-	140,000	140,000
Transfer to other funds	(80,530)	-	(80,530)
Net cash provided (used) by non-capital financing activities	<u>(11,401)</u>	<u>140,000</u>	<u>128,599</u>
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	248,000	-	248,000
Purchase of investments	(247,000)	-	(247,000)
Interest and dividends received	1,836	13	1,849
Net cash provided by investing activities	<u>2,836</u>	<u>13</u>	<u>2,849</u>
Net increase (decrease) in cash and cash equivalents	<u>9,572</u>	<u>(17,473)</u>	<u>(7,901)</u>
Cash and cash equivalents - beginning of the year	<u>518,506</u>	<u>68,035</u>	<u>586,541</u>
Cash and cash equivalents - end of the year	<u>\$ 528,078</u>	<u>\$ 50,562</u>	<u>\$ 578,640</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities			
Operating income (loss)	\$ 75,755	\$ (386,865)	\$ (311,110)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	22,000	191,148	213,148
(Increase) decrease in:			
Accounts receivable	(17,161)	-	(17,161)
Inventories	-	(10,010)	(10,010)
Increase (decrease) in:			
Accounts payable	12,469	19,700	32,169
Due to other funds	-	43,731	43,731
Other accrued expenses	-	(5,792)	(5,792)
Accrued wages payable	-	38,717	38,717
Unearned revenue	(1,282)	-	(1,282)
Compensated absences	-	(10,049)	(10,049)
Net cash provided (used) by operating activities	<u>\$ 91,781</u>	<u>\$ (119,420)</u>	<u>\$ (27,639)</u>

EAST HEMPFIELD TOWNSHIP
Statement of Fiduciary Net Position
December 31, 2014

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 430,057
Investments	13,150,092	-
Receivable	16,927	-
Other	57,539	-
Total assets	<u>\$ 13,224,558</u>	<u>\$ 430,057</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 2,976
Funds Held in Escrow	-	427,081
Total liabilities	<u>-</u>	<u>430,057</u>
NET POSITION		
Held in trust for benefits	<u>\$ 13,224,558</u>	<u>\$ -</u>

EAST HEMPFIELD TOWNSHIP
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2014

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 513,935
Plan member	<u>174,981</u>
Total contributions	<u>688,916</u>
Investment income	
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	637,632
Interest, dividends and other	<u>5,565</u>
Total net investment income	<u>643,197</u>
Total additions	<u>1,332,113</u>
DEDUCTIONS	
Benefit payments	650,337
Administrative expenses	<u>100,840</u>
Total deductions	<u>751,177</u>
Change in net position	<u>580,936</u>
Net position - beginning	<u>12,643,622</u>
Net position - ending	<u>\$ 13,224,558</u>

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

East Hempfield Township (the "Township") operates under the Second Class Township Code under the laws of the Commonwealth of Pennsylvania. The operations of the Township are vested in a board of supervisors. The Township provides the following services: general administrative services, public improvements, public safety, culture and recreation and maintenance and repairs of highways and streets programs.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB"). The government's more significant accounting policies are described below.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, the Township has no component units and is not a component unit of any other entity.

Joint Ventures

Hempfield Area Recreational Authority

On December 1, 1994 the Township entered into an cooperative agreement with four neighboring municipalities to create the Hempfield Area Recreation Commission for the purpose of providing adequate community recreation programs to the citizens of the four sponsoring municipalities. Under the terms of this agreement the four sponsoring municipalities each appoint two individual representatives to the Commission. The Commission charges a per capita annual fee to each member municipality based on the latest available Hempfield School District Census figures. For the year ended December 31, 2014 the per capita charge paid by the Township to the Commission was \$ 50,888.

On June 16, 2010 the Township entered into an amended lease agreement with the Hempfield Area Recreation Commission under which the Commission rents property owned by the Township. The property under lease includes an indoor recreation center, outdoor tennis courts, a swimming pool and parking lots. The term of the lease is for 25 years beginning on July 1, 2000 and the lease amount is \$ 1 per year. As of December 31, 2014 the property under this lease agreement had a cost of \$ 4,687,470 and accumulated depreciation was \$ 2,832,455.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The accounts of the Township are organized on the basis of funds, 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 balance/net position, revenue, and expenditures/expenses. The various funds of the primary government are segregated into the categories of governmental and fiduciary.

Governmental Funds

Governmental Funds are those through which most governmental functions of the Township are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The Township reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Township. This fund is used to account for all financial transactions except those required to be accounted for in another fund. This is a budgeted fund, and any unassigned fund balances are considered as resources available for use.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The Township reports the following non-major governmental fund:

Special Revenue Funds – These funds are used to account for proceeds of specific revenue sources used to finance specific activities as required by law or administrative regulation. The Township has the following Special Revenue Fund:

Highway Aid Fund – this fund is used to account for state liquid fuels tax revenue that is restricted to be used for building, improving, and maintaining local roads and bridges.

Proprietary Funds

These funds are used to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges to the users of such services. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The Township's enterprise funds are described below.

The Township's enterprise funds consist of:

Golf Course Fund – this fund is used to account for the fiscal activities of the golf course

Trash Collection/Recycling Fund – this fund is used to account for the fiscal activities of providing trash and recycling services.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Proprietary Funds (Continued)

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Township under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Township's own programs. The Township has no investment trust funds or private purpose trust funds. Fiduciary Funds are not included in the government-wide financial statements.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Agency funds are custodial in nature and do not involve measurement of results of operations.

The Township reports the following fiduciary fund types:

Non-Uniform Pension Trust Fund – this fund accounts for the revenue (i.e. member contributions, Township contributions, and net investment income) and the expenses (i.e. contributions refunded, retirement allowances, and death benefits paid) of the Non-Uniformed Municipal Employees Pension Trust Fund.

Police Pension Trust Fund – this fund accounts for the revenue (i.e. member contributions, Township contributions, and net investment income) and the expenses (i.e. contributions refunded, retirement allowances, and death benefits paid) of the Police Employees Pension Trust Fund.

Agency Funds – this fund accounts for escrow funds maintained with the Township held for street improvements and subdivisions.

Basis of Presentation

Government-wide Financial Statements – The statements of net position and activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Township's public safety, health and welfare, highways, culture and recreation, community development, and general administrative services are classified as governmental activities.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financials are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses and program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements – Fund financial statements report detailed information about the Township. The focus of the 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. The major fund concept does not apply to fiduciary funds and they are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in net position. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

Accrual

Government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Net position (total assets plus deferred outflows of resources less deferred inflows of resources and total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

Modified Accrual

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers tax revenue to be available if collected within 60 days of the end of the fiscal period. In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB standards, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and as unearned revenue by the recipient. If time requirements are not met, a deferred inflow of resources would be recorded.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Modified Accrual (Continued)

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

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

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

Investments

Investments and investment pools are reported at fair value, which is determined as follows:

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems and investments in external investment pools not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Unrealized appreciation or depreciation due to changes in fair values of such investments is recognized annually.

Concentrations

The Township receives real estate and local service taxes from residents within the Township limits. The Township is located in Lancaster County within South Central Pennsylvania. The Township uses a tax collector to collect all current real estate and local services taxes. The Township may lien any property associated with the real estate assessment.

Capital Assets

General capital assets are those assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets with a value of \$ 5,000 or more and estimated useful lives of over one year are capitalized by the Township. Infrastructure acquired after January 1, 2003 (in accordance with GASB provisions) is capitalized and depreciated over its estimated useful life. When an asset is disposed of, cost and related accumulated depreciation is removed, and any gain or loss arising from its disposal is credited or charged to operations.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add value to an asset or materially extend its useful life are not capitalized.

Major outlays of capital asset and improvements are capitalized as projects are completed. Interest incurred during construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Years
Infrastructure	50
Land improvements	20
Buildings and improvements	40
Leasehold assets	7-20
Equipment	7

Intangible assets with an indefinite life are not subject to depreciation.

Allowance for Doubtful Accounts

The Township believes that all accounts receivable are fully collectible; therefore, there is no allowance for doubtful accounts.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement elements, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Township did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township had one item which qualified for reporting in this category. Unavailable revenue from taxes is considered a deferred inflow of resources on the Governmental Funds – Balance Sheet.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Under terms of the Township's employment agreements, employees are granted vacation and sick leave in varying amounts. Vacation time must be used during the calendar year for all employees and cannot be carried over. Township police officers are entitled to accrue unlimited days of sick leave benefits and at retirement, are entitled to payment for all unused sick time in an amount of \$ 100 per day for each day of unused sick leave to a maximum of 100 days. All non-uniformed employees of the Township accrue sick leave benefits to a maximum of 195 days and at time of retirement or resignation with 20 continuous years of service are paid \$ 6.25 for each hour of unused sick time to a maximum of 110 days.

The vesting method is used to account for sick leave and vision liabilities. In accordance with GASB standards, no liability is recorded in the governmental fund financial statements and an expenditure is recorded as payments are made. In the government-wide statements, the liability and expenses are recorded as earned.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental columns in the statement of net assets. Bond premium and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred charges on bond refunding are shown as deferred outflows of resources. Bond issuance costs related to insurance premiums are reported as assets and amortized over the term of the related debt. Other bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses (if resulting from a disparity in interest rates) or as debt service expenditures (if resulting from underwriter's fees). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, accounts payable or other borrowings attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets or related debt also should be included in this component of net position.

Restricted: This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position is the net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption: Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and the long term portion of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds (Continued)

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Township's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the Township Supervisors. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds other than in the General Fund, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the Township Supervisors, or the Township Manager. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Fund Balance Flow Assumptions

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township policy when both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second and unassigned funds last.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Activity

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Budgets and Budgetary Accounting

Legal Requirements

Commonwealth of Pennsylvania statutes require that Township Governments establish budgetary systems and adopt annual operating budgets. The Township's annual budget includes the General Fund and the Capital Projects Fund, and is based on estimates of revenues and expenditures approved by the Township Supervisors. The Township adopted the 2014 budget on the same basis of accounting as reported in the financial statements. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

Township Budget Process

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

Level of Control

The Township maintains budgetary control at the individual fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at year end.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

Management Amendment Authority

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

Use of Estimates

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

Pension Plans

The Township has established two defined benefit pension plans: the police plan and non-uniformed plan. The financial statements related to its pension plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. See note 9 for additional information on these pension plans.

Other Postemployment Benefits Other Than Pensions

The Township provides continuation of medical benefits to police officers who retire from the Township. The medical benefits include hospitalization, major medical and dental services. See Note 10 for additional information on the Township's other postemployment benefits.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 2 CASH AND INVESTMENTS

The Township is authorized to invest in the following:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies.
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.
- Any investment authorized by 20 PA. Ch. 73 relating to fiduciary investments.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. The Township does not have a written policy for custodial credit risk. As of December 31, 2014, \$ 6,586,074 of the Township’s bank balance of \$ 7,833,074 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department but not in the Township's name		6,586,074
	\$	6,586,074

Included on the balance sheet in cash and cash equivalents are pooled investments in the Pennsylvania Local Government Investment Trust (PLGIT) of \$594,198. PLGIT operates similar to a money market fund, with deposits invested in a portfolio of securities which are held by a third party. Investment in PLGIT consists of two basic types of Federal securities: obligations backed by the full faith and credit of the United States Government, and short-term obligations of the United States Government or its agencies or instrumentalities. Investments can also include repurchase agreements, obligations of the Commonwealth of Pennsylvania and its agencies, and certificates of deposit. The fair value of the position in the pool is the same as the value of the pool shares. Shares of the PLGIT Trust are distributed by PFM Fund Distributors, Inc., which is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). All funds held at PLGIT have a maturity of less than one year.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments – General Fund

The Township has set aside mutual fund investments to be used to fund future other post employment benefits (OPEB). This is also shown as committed fund balance. While these investments are set aside for the purpose of funding OPEB, they are not maintained as part of an irrevocable trust. Therefore, these assets do not meet the criteria established by GASB to offset any OPEB liabilities. The risks associated with these investments are detailed below.

Interest Rate Risk – General Fund Investments

The Township does not have a formal written policy that limits investment maturities. The following details the investment maturities for the fixed income mutual funds maintained in the general fund.

Fund	Investment Type	Fair Value	Investment Maturities (in years)			
			Less than 1	1-5	6-10	More than 10
General	Fixed income mutual funds	\$ 804,537	\$ 65,838	\$ 162,541	\$ 576,158	\$ -
General	Other mutual funds	853,229	N/A	N/A	N/A	N/A
General	PLGIT	594,198	-	-	-	-
		<u>\$ 2,251,964</u>				

Credit Risk – General Fund Investments

The Township does not have a policy that limits the credit quality rating for general fund investments.

As of December 31, 2014, the Township's General Fund investments in fixed income mutual funds were rated by Morningstar as follows:

Rating	Percentage of Total
AAA	53.06%
AA	10.20%
A	16.50%
BBB	14.48%
BB	3.64%
B	0.47%
Below B	0.34%
NR/NA	1.30%
	<u>100.00%</u>

As of December 31, 2014, PLGIT Investments were rated AAAM by Standards and Poor's Investors Service.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks – Pension Plans

Credit Risk and Interest Rate Risk – Pension Plans

The plan's deposits and investments are currently governed by Title 20 of the Pennsylvania Consolidated Statutes, Chapter 73, entitled the Probate, Estates, and Fiduciaries Code, Section 702, Fiduciaries Investments, act of June 30, 1972. This act allows the trustees of the plan to invest in securities which a prudent person of discretion and intelligence, who is seeking a reasonable income and preservation of capital, would buy.

The discretionary authority, known as the "Prudent Person Rule", permits the selection of a variety of investments, allowing for diversity in the degree of risk and liquidity. Finally, there were no deposit or investment transactions during the year that were in violation of this state statute or the policy of the plan.

Credit risk for deposits and investments is the risk that an issuer or other counterparty to an investment will not fulfill its financial obligations. Generally, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

During the year and as of December 31, 2014, the plan held no deposits and, therefore, was not subject to custodial credit risk, interest rate risk, or foreign currency risk in this area.

The plan's investment policy contains a number of investment objectives including the desire to maximize long-term returns through a combination of income and capital appreciation using sound investment practices. These objectives are intended to be achieved through a well-diversified portfolio consisting entirely of mutual funds selected from among various asset classes in accordance with recognized asset allocation theory. As for the credit risk, the plan generally invests in money market funds and bond mutual funds with credit quality ratings of at least "A" according to either the Moody's, Standard & Poor's, or Morningstar rating system with average maturities of five years or less; however, in cases where yield spread adequately compensates for additional risk, other ratings can be purchased to achieve a higher yield performance. Finally, the plan does not invest in individual securities, commodities, futures contracts, private placements, repurchase and/or reverse repurchase agreements, securities lending transactions, or hedge funds.

During the year and at December 31, 2014, all of the plan's investments were in mutual funds under a custodial agreement with Nationwide Financial. These investments are covered by the Securities Investor Protection Corporation (SIPC). The SIPC does not protect against losses from the rise or fall in market value of the investment. It does, however, provide important protections against certain losses if a SIPC member fails financially and is unable to meet obligations to its securities customers.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks – Pension Plans (Continued)

Credit Risk and Interest Rate Risk – Pension Plans (Continued)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transactions, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. As a result, the investments held by the plan in open-end mutual funds and unallocated insurance contracts were not exposed to custodial credit risk or foreign currency risk.

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

At December 31, 2014, the credit risk and the interest rate risk of the plan’s investments in debt securities (specifically, bond mutual funds), as measured by Morningstar, were rated as follows:

Investment	Fair Value		Average Credit Quality	Avg Eff Duration/ Avg Eff Maturity
	Non-uniformed	Police		
Delaware Corporate Bond	\$ 188,239	\$ 333,577	BBB	07.3/11.4 years
MetroWest Intermediate Bond	237,031	413,961	A	02.9/05.2 years
PIMCO Income	236,264	418,943	Not available	03.1/05.4 years
Prudential Total Return Bond	240,104	415,750	BBB	05.5/00.0 years
Putnam Income	282,459	495,857	BBB	02.0/04.5 years
TCW Total Return Bond	333,319	640,746	BB	03.7/05.8 years
Victory Fund for Income	140,672	249,821	AAA	03.2/04.1 years
	<u>\$ 1,658,088</u>	<u>\$ 2,968,655</u>		

NOTE 3 TAXES RECEIVABLE AND DEFERRED INFLOWS

Property taxes are levied on January 1 for the tax year and billed on March 1. Taxes are payable at a 2% discount if paid before May 1 and at a 10% penalty if paid after the due date of June 30. Billing of property taxes is performed by Lancaster County and is based on assessed value of real estate. Outstanding property taxes are turned over to Lancaster County Tax Claim Bureau, which handles collections and placement of liens, if necessary.

Property taxes are recorded as revenue by the Township when received from Lancaster County, and accruals are recorded at year-end for taxes expected to be received within 60 days of December 31 in accordance with the modified accrual basis of accounting. The Township has evaluated the need for an allowance for uncollectible taxes based on historical collections and determined no allowance is necessary. The total taxable assessed valuation as of December 31, 2014 is \$ 2,194,583,100. The rate of real estate taxation in 2014 was 1.12 mills for general purposes and .20 mills for capital project purposes.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 3 TAXES RECEIVABLE AND DEFERRED INFLOWS (CONTINUED)

Taxes receivable in the fund financial statements consists of the following as of December 31, 2014:

	General	Capital Projects
Real Estate	\$ 52,070	\$ 9,299
Transfer	55,220	-
Earned income	705,072	-
Local service	<u>242,225</u>	<u>-</u>
Total taxes receivable	1,054,587	9,299
Taxes collected within sixty days, recorded as revenues in governmental funds	<u>(1,012,382)</u>	<u>(1,761)</u>
Taxes estimated to be collected after sixty days, recorded as deferred inflows in governmental funds	<u>\$ 42,205</u>	<u>\$ 7,538</u>

NOTE 4 INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Due from/to other funds consist of the following as of December 31, 2014:

	Due from other funds	Due to other funds
Governmental funds:		
General	\$ 46,532	\$ -
Capital Projects Fund	<u>-</u>	<u>2,801</u>
Total governmental funds	<u>46,532</u>	<u>2,801</u>
Enterprise funds:		
Golf Course Fund	<u>-</u>	<u>43,731</u>
Total enterprise funds	<u>-</u>	<u>43,731</u>
Total	<u>\$ 46,532</u>	<u>\$ 46,532</u>

The Capital Projects Fund owed the General Fund \$ 2,801. This balance represents the fuel distribution used by the fund during the last months of the year.

The Golf Course Fund owed the General Fund \$ 43,731 for payroll related expenses.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 4 INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers were as follows in 2014:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental funds:		
General	\$ 80,530	\$ 1,668,446
Capital Projects Fund	<u>1,528,446</u>	<u>-</u>
Total governmental funds	<u>1,608,976</u>	<u>1,668,446</u>
Enterprise funds:		
Trash Fund	-	80,530
Golf Course Fund	<u>140,000</u>	<u>-</u>
Total enterprise funds	<u>140,000</u>	<u>80,530</u>
Total	<u>\$ 1,748,976</u>	<u>\$ 1,748,976</u>

Transfers from the general fund to other funds were budgeted transfers to cover operating costs and save for future capital expenditures.

The transfer from the trash fund to the general fund was for the annual administrative charge between funds.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 5 CAPITAL ASSETS

Capital asset activity for the Township consists of the following as of and for the year ended December 31, 2014:

	Balance	Additions	Retirements	Balance
Governmental Activities				
Cost:				
Capital assets, not being depreciated				
Land	\$ 5,043,846	\$ -	\$ -	\$ 5,043,846
Construction in progress	54,539	286,600	(147,102)	194,037
Capital assets, being depreciated				
Land improvements	41,244	-	-	41,244
Infrastructure	4,892,976	147,102	-	5,040,078
Buildings and improvements	7,011,042	-	-	7,011,042
Leasehold assets	413,111	161,920	-	575,031
Equipment	3,157,037	297,797	(377,915)	3,076,919
Total cost	<u>20,613,795</u>	<u>893,419</u>	<u>(525,017)</u>	<u>20,982,197</u>
Less accumulated depreciation:				
Land improvements	(14,904)	(2,062)	-	(16,966)
Infrastructure	(853,315)	(123,395)	-	(976,710)
Buildings and improvements	(4,358,145)	(178,559)	-	(4,536,704)
Leasehold assets	(139,674)	(42,049)	-	(181,723)
Equipment	(2,364,426)	(209,087)	374,455	(2,199,058)
Total accumulated depreciation	<u>(7,730,464)</u>	<u>(555,152)</u>	<u>374,455</u>	<u>(7,911,161)</u>
Capital assets, net	<u>\$ 12,883,331</u>	<u>\$ 338,267</u>	<u>\$ (150,562)</u>	<u>\$ 13,071,036</u>
Business-Type Activities				
Cost:				
Capital assets, not being depreciated				
Land	\$ 2,320,624	\$ -	\$ -	\$ 2,320,624
Capital assets, being depreciated				
Land improvements	137,618	-	-	137,618
Buildings and improvements	4,502,143	-	-	4,502,143
Leasehold assets	365,105	97,216	-	462,321
Equipment	1,143,641	57,982	(22,393)	1,179,230
Total cost	<u>8,469,131</u>	<u>155,198</u>	<u>(22,393)</u>	<u>8,601,936</u>
Less accumulated depreciation:				
Land improvements	(75,278)	(4,587)	-	(79,865)
Buildings and improvements	(2,534,568)	(134,790)	-	(2,669,358)
Leasehold assets	(155,477)	(39,969)	-	(195,446)
Equipment	(863,304)	(33,801)	15,363	(881,742)
Total accumulated depreciation	<u>(3,628,627)</u>	<u>(213,147)</u>	<u>15,363</u>	<u>(3,826,411)</u>
Capital assets, net	<u>\$ 4,840,504</u>	<u>\$ (57,949)</u>	<u>\$ (7,030)</u>	<u>\$ 4,775,525</u>

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 5 CAPITAL ASSETS (CONTINUED)

Depreciation expense of governmental activities for the year ended December 31, 2014 was charged as follows:

General Government	\$ 52,498
Public Safety	105,564
Public works	268,441
Culture and Recreation	128,649
	<u>\$ 555,152</u>

NOTE 6 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended December 31, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
Bonds and notes payable						
(A) 2006 GO note	\$ 99,866	\$ -	\$ (55,587)	\$ 44,279	\$ 44,279	\$ -
(B) 2008 PIB loan	212,637	-	(104,991)	107,646	107,646	-
(C) 2011 Bank note	379,635	-	(41,597)	338,038	43,130	294,908
(D) 2011 PIB loan	<u>1,778,361</u>	<u>-</u>	<u>(233,022)</u>	<u>1,545,339</u>	<u>236,837</u>	<u>1,308,502</u>
Subtotal - bonds and notes	<u>2,470,499</u>	<u>-</u>	<u>(435,197)</u>	<u>2,035,302</u>	<u>431,892</u>	<u>1,603,410</u>
Compensated absences	<u>165,800</u>	<u>-</u>	<u>(19,830)</u>	<u>145,970</u>	<u>49,940</u>	<u>96,030</u>
Capital leases	<u>151,183</u>	<u>161,920</u>	<u>(70,052)</u>	<u>243,051</u>	<u>67,639</u>	<u>175,412</u>
Total long-term liabilities	<u>\$ 2,787,482</u>	<u>\$ 161,920</u>	<u>\$ (525,079)</u>	<u>\$ 2,424,323</u>	<u>\$ 549,471</u>	<u>\$ 1,874,852</u>
Business-Type Activities:						
Compensated absences	<u>\$ 27,634</u>	<u>\$ -</u>	<u>\$ (10,049)</u>	<u>\$ 17,585</u>	<u>\$ 6,709</u>	<u>\$ 10,876</u>
Capital leases	<u>104,121</u>	<u>97,216</u>	<u>(53,286)</u>	<u>148,051</u>	<u>49,484</u>	<u>98,567</u>
Total long-term liabilities	<u>\$ 131,755</u>	<u>\$ 97,216</u>	<u>\$ (63,335)</u>	<u>\$ 165,636</u>	<u>\$ 56,193</u>	<u>\$ 109,443</u>

Notes and Loans Payable

(A) **Pennsylvania Infrastructure Bank Loan of 2006** – On October 30, 2006, the Township signed a note in the principal amount of \$500,000 to fund various road improvements within the Township. Monthly installments of \$ 4,828 are due through November 7, 2015 with an interest rate of 3.00%.

(B) **Pennsylvania Infrastructure Bank Loan of 2008** – On November 19, 2008, the Township signed a note in the principal amount of \$700,000 to fund various infrastructure improvements within the Township. Monthly installments of \$ 9,092 are due through December 26, 2015 with an interest rate of 2.50%.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Notes and Loans Payable (Continued)

(C) **Pennsylvania Infrastructure Bank Loan of 2011**– On March 14, 2011, the Township signed a note in the principal amount of \$ 2,400,000 to refinance existing debt. Monthly installments of \$ 21,683 are due through March 14, 2021 with an interest rate of 1.63%.

(D) **General Obligation Note of 2011** – On May 4, 2011, the Township signed a note with PNC Bank, National Association in the principal amount of \$ 458,000 to fund the purchase of fire department apparatus. Semi-annual installments of \$ 27,540 are due through July 10, 2021 with an interest rate of 3.65%.

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments as of December 31, 2014:

	2006 GO note		2008 PIB loan		2011 Bank note	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 44,279	\$ 550	\$ 107,646	\$ 1,463	\$ 43,130	\$ 11,948
2016	-	-	-	-	44,718	10,360
2017	-	-	-	-	46,365	8,713
2018	-	-	-	-	48,073	7,005
2019	-	-	-	-	49,844	5,234
2020-2024	-	-	-	-	105,908	4,893
	<u>\$ 44,279</u>	<u>\$ 550</u>	<u>\$ 107,646</u>	<u>\$ 1,463</u>	<u>\$ 338,038</u>	<u>\$ 48,153</u>

	2011 PIB loan		Total	
	Principal	Interest	Principal	Interest
2015	\$ 236,837	\$ 22,390	\$ 431,892	\$ 36,351
2016	241,694	18,496	286,412	28,856
2017	245,651	14,539	292,016	23,252
2018	249,672	10,518	297,745	17,523
2019	253,760	6,430	303,604	11,664
2020-2024	317,725	2,276	423,633	7,169
	<u>\$ 1,545,339</u>	<u>\$ 74,649</u>	<u>\$ 2,035,302</u>	<u>\$ 124,815</u>

Interest Expense

For the year ended December 31, 2014, the Township incurred interest expense of \$ 47,267.

Subsequent event – in January 2015, the Township entered into an agreement to purchase 62 new golf carts for the Four Seasons Golf Club from Golf Cars Inc. at a price of \$ 234,400 to be financed at five year financing of \$ 51,290 per year.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 7 CAPITAL LEASES

Governmental Activities

On December 19, 2012 the Township entered into capital lease in order to finance the purchase of a 2014 International Dump Truck. The amount of the capital lease at inception was \$ 167,529. Annual payments including interest of \$ 41,325 began July 15, 2013 and continue through July 15, 2017.

On June 6, 2014 the Township entered into a capital lease in order to finance the purchase of a New Holland Tractor and Attachments. The amount of the capital lease at inception was \$ 161,920. Annual payments including interest of \$ 34,274 began July 7, 2014 and continue through July 7, 2018.

The assets acquired through the capital leases are as follows:

Leasehold assets	\$ 575,031
Less: accumulated depreciation	<u>(181,723)</u>
Total	<u>\$ 393,308</u>

Future minimum lease payments required under capital lease agreements are as follows:

	Governmental Activities
Years ending December 31	
2015	\$ 75,599
2016	75,599
2017	75,599
2018	<u>34,274</u>
Total minimum lease payments	261,070
Less: amount representing interest	<u>\$ (18,019)</u>
Total present value of net minimum lease payments	<u>\$ 243,051</u>

Business-Type Activities

On April, 12 2012, the Township entered into a capital lease in order to finance the purchase of a Mechanical Broom Street Sweeper. The amount of the capital lease at inception was \$ 152,964. Quarterly payments including interest of \$ 8,250 began June 1, 2012 and continue through January 1, 2017.

On March 6, 2014, the Township entered into a capital lease in order to finance the purchase of two Toro Greensmaster Mowers. The amount of the capital lease at inception was \$ 97,216. Annual payments including interest of \$ 20,489 began March 28, 2014 and continue through March 28, 2018.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 7 CAPITAL LEASES (CONTINUED)

Business-Type Activities (Continued)

The assets acquired through the capital leases are as follows:

Leasehold assets	\$ 462,321
Less: accumulated depreciation	<u>(195,446)</u>
Total	<u>\$ 266,875</u>

Future minimum lease payments required under capital lease agreements is as follows:

	Business-type Activities
Years ending December 31	
2015	\$ 53,489
2016	53,489
2017	28,740
2018	<u>20,489</u>
Total minimum lease payments	156,207
Less: amount representing interest	<u>\$ (8,156)</u>
Total present value of net minimum lease payments	<u>\$ 148,051</u>

NOTE 8 OPERATING LEASES

Lease Expense

The Township leases two copiers under operating leases with expiration dates through 2015.

If the Township does not notify of its intent to return the copiers at the end of the lease term, the lease will automatically renew on a month to month basis.

The scheduled non-cancelable lease commitments for the remainder of the lease is as follows:

2015	<u>\$ 3,269</u>
------	-----------------

Total lease expense for 2014 was \$ 5,604.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 9 EMPLOYEE RETIREMENT PLANS

The Township sponsors two single-employer defined benefit pension plans: The Police Pension Plan and Non-Uniformed Pension Plan. The plans are administered by Uninvest Municipal Pension Services. A separate financial report for each plan is available on the Township's website www.easthempfield.org.

Police Pension Plan Description

The Plan covers all full-time members of the police force. Employees become eligible for participation upon employment and become fully vested after twelve year of service. The Police Pension Plan was established by municipal ordinance with the authority for municipal contributions required by Act 205, of the Pennsylvania legislature.

Non-Uniformed Pension Plan Description

The Plan covers all full-time non-uniformed employees hired before January 1, 2011. Employees covered by the plan become fully vested after ten years of service. The Non-uniformed Pension Plan was established and is controlled by Resolution No. 5-69.

Police Pension Plan Benefits

Retirement benefit – monthly pension shall be 50% of the average salary over the participant's last 36 months of employment, plus an incremental pension of \$ 100 per month for each completed year of service in excess of 25 years up to a maximum of \$ 500 per month.

Survivor benefit – a pension benefit shall be automatically provided to a retired officer's spouse or to the spouse of an officer eligible to retire, equal to no less than 50% of the eligible pension. If no spouse, or if spouse subsequently dies, the benefit shall apply to children under age 18, or if attending college, under or attaining age 23.

Non-Uniformed Pension Plan Benefits

Retirement benefit - For participants hired before January 1, 2011, retirements benefits equaling a monthly benefit of 2% for each year of service (maximum 60%) times the average monthly salary over the participant's last 36 months of employment. For participants hired after January 1, 2011, retirement benefits of the value of the member's cash balance retirement account at the time of retirement.

Survivor benefit - same.

Contribution Requirements for Both Plans

Act 205

Act 205 of 1984, the Municipal Pension Plan Fund Standard and Recovery Act, established actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation ("MMO") to each employee pension fund of the municipality. Act 298 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated member contributions.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 9 EMPLOYEE RETIREMENT PLANS (CONTINUED)

Contribution Requirements for Both Plans (Continued)

Act 205 (Continued)

Police Pension Plan active member contribution rate – 5%, with interest credited at 6% per year

Non-Uniform Pension Plan active member contribution rate – 3% of monthly compensation, with interest credited at 6% per year.

The Commonwealth of Pennsylvania allocated General Municipal Pension System State Aid to individual municipalities under Act 205 of the Pennsylvania legislature. The monies received must be contributed to the pension plans within a certain period of time. Any funding requirements in excess of state aid must be paid by the municipality in accordance with Act 205. The minimum municipal obligation or annual required contribution was as follows:

	Police	Non-uniformed
Annual required contribution	\$ 298,627	\$ 203,332
Contributions made	<u>(298,627)</u>	<u>(203,332)</u>
	<u>\$ -</u>	<u>\$ -</u>

Annual Pension Cost and Net Pension Obligation

Three-Year Trend Information						
Police Pension Plan				Non-Uniformed Pension Plan		
Year Ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2014	\$ 298,627	100%	(\$ 83,109)	\$ 203,332	100%	(\$ 13,901)
2013	\$ 293,194	100%	(\$ 83,109)	\$ 211,005	100%	(\$ 13,901)
2012	\$ 265,383	100%	(\$ 83,109)	\$ 155,537	100%	(\$ 13,901)

Funded Status and Funding Progress

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

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Police Pension Plan	\$ 7,325,860	\$ 9,996,487	\$ 2,670,627	73.3%	\$ 2,341,245	114.1%
Non-Uniformed Pension Plan	3,789,756	4,403,057	613,301	86.1%	1,491,562	41.1%

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 9 EMPLOYEE RETIREMENT PLANS (CONTINUED)

Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The information presented was determined as part of the actuarial valuations at the dates indicated.

	Police Pension Plan	Non-Uniformed Pension Plan
Valuation Date:	01/01/13	01/01/13
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	11 years	6 years
Asset Valuation Method	Smoothed Asset Valuation Method	Smoothed Asset Valuation Method
Actuarial Assumptions:		
Investment rate of return *	8.25%	8.25%
Projected salary increases *	5.25%	5.25%
Included Inflation at Cost-of-Living Adjustments	0.0%	0.0%

Defined Contribution Plan

Non-uniform employees hired after January 1, 2011 are enrolled in the Township's defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are not permitted to contribute to the plan. The Township will contribute at least annually an amount equal to five (5%) of each employee's salary provided however, that the maximum annual contribution for any employee shall not exceed \$ 3,200. During 2014, Township contributions to the plan totaled \$ 11,976.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 9 EMPLOYEE RETIREMENT PLANS (CONTINUED)

Financial Statements

The following financial statements present data for the individual pension plans maintained by the Township.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
December 31, 2014

	Police Pension Trust Fund	Non-Uniform Pension Trust Fund	Total Pension Trust Funds
ASSETS			
Investments	\$ 8,442,655	\$ 4,707,437	\$ 13,150,092
Receivable	9,810	7,117	16,927
Other	45,830	11,709	57,539
Total assets	<u>8,498,295</u>	<u>4,726,263</u>	<u>13,224,558</u>
NET POSITION			
Held in trust for benefits	<u>\$ 8,498,295</u>	<u>\$ 4,726,263</u>	<u>\$ 13,224,558</u>

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2014

	Police Pension Trust Fund	Non-Uniform Pension Trust Fund	Total Pension Trust Funds
ADDITIONS			
Contributions			
Employer	\$ 298,627	\$ 215,308	\$ 513,935
Plan member	132,010	42,971	174,981
Total contributions	<u>430,637</u>	<u>258,279</u>	<u>688,916</u>
Investment income			
Net appreciation in fair value of investments	409,157	228,475	637,632
Interest and dividends	3,730	1,835	5,565
Total net investment income	<u>412,887</u>	<u>230,310</u>	<u>643,197</u>
Total additions	<u>843,524</u>	<u>488,589</u>	<u>1,332,113</u>
DEDUCTIONS			
Benefit payments	511,909	138,428	650,337
Administrative expenses	65,388	35,452	100,840
Total deductions	<u>577,297</u>	<u>173,880</u>	<u>751,177</u>
Change in net position	266,227	314,709	580,936
Net position - beginning	8,232,068	4,411,554	12,643,622
Net position - ending	<u>\$ 8,498,295</u>	<u>\$ 4,726,263</u>	<u>\$ 13,224,558</u>

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 10 OTHER POST-EMPLOYMENT BENEFITS

The Township has a single-employer postemployment benefit plan (the Plan) that is administered through MG Trust Company.

Plan Description - a police officer hired before January 1, 2011 shall receive medical, prescription, and dental coverage for the retiree, spouse and eligible dependents. All retired police officers are required to contribute 50% of the prescription premium to receive the coverage. Upon reaching Medicare age, each retired police officer may receive \$ 1,600 per year from the Township to be used to purchase a Medicare supplemental insurance plan. The spouse of a retired police officer is eligible for benefits if the police officer contributes \$ 50 per month from the date he/she is required while still active. The spouse may continue medical coverage upon the retired police officer's death, unless the spouse remarries; however, there are no death benefits for spouse if the police officer dies prior to retirement. The \$ 50 per month contributions for spousal coverage must continue to be paid as long as the spouse is receiving benefits.

A police officer hired or re-hired on or after January 1, 2011 will receive an HRA account to pay for qualifying health care expenses. Beginning in the police officer's second year of service, the Township will deposit \$ 3,000 per year into the HRA account and the officer must deposit \$ 50 per month (\$ 600 per year). The Township's deposits will cease upon termination of employment or when payments begin to be made from the account.

The plan does not issue a publicly available financial report.

Funding policy - The contribution requirements of the Township are established and may be amended by the Police Union Contract. The plan does not require any contributions from members.

Annual OPEB cost and net OPEB obligation - The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation to the plan:

Annual Required Contribution (ARC)	\$ 661,549
Interest on Net OPEB Obligation	97,626
Adjustment to ARC	<u>(133,187)</u>
Annual OPEB Cost	625,988
Contributions Made (Estimate)	<u>(218,387)</u>
Estimated Increase in Net OPEB Obligation	407,601
Net OPEB Obligation - Beginning of Year	<u>2,169,470</u>
Estimated Net OPEB Obligation - End of Year	<u><u>\$ 2,577,071</u></u>

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 10 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost contributed	Net OPEB Obligation
12/13/14	\$ 625,988	\$ 218,387	34.89%	\$ 2,577,071
12/31/13	\$ 740,266	\$ 301,921	40.79%	\$ 2,169,470
12/31/12	\$ 747,906	\$ 281,800	37.68%	\$ 1,731,125

Funded Status and Funding Progress - As of January 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$ 5,867,832 and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 5,867,832. The covered payroll was \$ 2,348,740 and the ratio of the UAAL to the covered payroll was 249.83%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return, which is the expected long-term investment yield on the investments that are expected to be used to finance the payment of benefits, a health care cost trend rate of 7% in 2013, reduced by .5% increments to an ultimate rate of 5.5% in 2010. The UAAL is being amortized using the level dollar method over a period of 30 years on an open basis.

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 11 RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Township is a member of the Intergovernmental Insurance Cooperative (IIC) for health insurance. This cooperative consists of a group of municipalities that have pooled their interests together in order to establish a self-funded insurance plan in order to better control insurance rates. Insurance premiums are developed based on Township experience. The Cooperative has an audit performed each year and the Township may be required to pay an additional premium as a result of the audit or the Township may be entitled to a refund as a result of the audit. During the year ended December 31, 2014, the Township paid insurance premiums of \$ 1,237,989 and received a refund of \$ 302,851.

The Township is a member of the Susquehanna Municipal Trust (Trust) for workers compensation. Insurance premiums are developed based on employer job descriptions, rate factors and payroll costs each year. The Trust has an audit performed each year and the Township may be required to pay an additional premium as a result of the audit or the Township may be entitled to a refund as a result of the audit. During the year ended December 31, 2014, the Township paid insurance premiums of \$ 121,144 and received a refund of \$ 24,295.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Township is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the Township. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the Township.

The Township is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provisions for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the Township's professional liability insurance policy and would not have a material effect on the financial position of the Township.

On December 6, 2013, the Township entered into a Federal-Aid Bridge Project Reimbursement Agreement with the Commonwealth of Pennsylvania acting through the Department of Transportation. The purpose of the agreement is to utilize Federal funding passed through the Commonwealth of Pennsylvania to dismantle and construct a new bridge over the Little Conestoga Creek. Under terms of the agreement the estimated project costs total \$ 2,192,000 with costs to be shared by the Federal government (80%), the Commonwealth of Pennsylvania (15%) and the Township (5%). The bridge itself lies on the border between East

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 12 COMMITMENTS AND CONTINGENCIES

Hempfield Township and Manheim Township. The two Townships have entered into an Intergovernmental Agreement under which Manheim Township has agreed to reimburse East Hempfield Township for 2.5% of the project costs. The planning and engineering phase of the project began in the 1st quarter of 2014 and as of December 31, 2014 \$ 206,938 of project costs have been incurred. One half of these costs were recorded as construction-in-process on East Hempfield Township's financial statements.

The Township has, by resolution, obligated to give funding to various Township fire companies for the purchase of fire equipment. The funding is to be from the Township's Capital Projects Fund and is through the year ending 2018. An analysis of these requirements is as follows:

<u>Year Ended December 31</u>	
2015	\$ 282,817
2016	268,272
2017	322,229
2018	<u>21,660</u>
	<u>\$ 894,978</u>

NOTE 13 GOVERNMENTAL FUNDS – FUND BALANCE

The following table provides details of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable				
Prepays	\$ 32,270	\$ 5,703	\$ -	\$ 37,973
Total nonspendable	<u>32,270</u>	<u>5,703</u>	<u>-</u>	<u>37,973</u>
Restricted for:				
Dream Park	-	18,839	-	18,839
Future capital expenditures	-	-	105,771	105,771
Total restricted	<u>-</u>	<u>18,839</u>	<u>105,771</u>	<u>124,610</u>
Committed for:				
Future OPEB payments	1,657,766	-	-	1,657,766
Future capital expenditures	-	2,887,750	-	2,887,750
Total committed	<u>1,657,766</u>	<u>2,887,750</u>	<u>-</u>	<u>4,545,516</u>
Unassigned	<u>5,080,337</u>	<u>-</u>	<u>-</u>	<u>5,080,337</u>
Total fund balances	<u>\$ 6,770,373</u>	<u>\$ 2,912,292</u>	<u>\$ 105,771</u>	<u>\$ 9,788,436</u>

EAST HEMPFIELD TOWNSHIP
Notes to Financial Statements
December 31, 2014

NOTE 14 RESTATEMENTS

The following restatements were made during the year:

	General Fund	Governmental Activities
Fund balance/net position as originally reported - December 31, 2013	\$ 6,644,755	\$ 17,044,629
(A) prior period restatement	(32,718)	(32,718)
(B) prior period restatement	-	78,894
Fund balance/net position as restated - December 31, 2013	<u>\$ 6,612,037</u>	<u>\$ 17,090,805</u>
Change in fund balance/net position as originally reported - December 31, 2013	\$ (2,496,142)	\$ (4,588,808)
(A) prior period restatement	(32,718)	(32,718)
(B) prior period restatement	-	78,894
Change in fund balance/net position as restated - December 31, 2013	<u>(2,528,860)</u>	<u>(4,542,632)</u>
	Golf Course Fund	Business-Type Activities
Net position as originally reported - December 31, 2013	\$ 4,660,618	\$ 5,476,045
(A) prior period restatement	32,718	32,718
Net position as restated - December 31, 2013	<u>\$ 4,693,336</u>	<u>\$ 5,508,763</u>
Change in net position as originally reported - December 31, 2013	\$ 5,304,071	\$ 5,431,867
(A) prior period restatement	32,718	32,718
Change in net position as restated - December 31, 2013	<u>\$ 5,336,789</u>	<u>\$ 5,464,585</u>

(A) A restatement was made to properly reflect a due to/due from which was repaid in the prior year.

(B) A restatement was made to properly adjust the compensated absences liability.

REQUIRED SUPPLEMENTARY INFORMATION

EAST HEMPFIELD TOWNSHIP
Required Supplementary Information - Unaudited
Schedule of Funding Progress - Pension Plans
December 31, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
East Hempfield Township Police Pension Plan						
01/01/13	\$ 7,325,860	\$ 9,996,487	\$ 2,670,627	73.3%	\$ 2,341,245	114.1%
01/01/11	6,751,025	8,642,385	1,891,360	78.1%	2,134,862	88.6%
01/01/09	6,330,299	7,746,049	1,415,750	81.7%	2,149,984	65.8%
East Hemfield Township Non-Uniformed Pension Plan						
01/01/13	\$ 3,789,756	\$ 4,403,057	\$ 613,301	86.1%	\$ 1,491,562	41.1%
01/01/11	3,378,404	3,999,534	621,130	84.5%	1,588,237	39.1%
01/01/09	3,131,210	3,205,613	74,403	97.7%	1,480,132	5.0%

EAST HEMPFIELD TOWNSHIP
Required Supplementary Information - Unaudited
Schedule of Funding Progress - Other Postemployment Benefit Plan
December 31, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/13	\$ -	\$ 5,867,832	\$ 5,867,832	0.0%	\$ 2,348,740	249.83%
01/01/10	-	6,689,041	6,689,041	0.0%	2,143,712	312.03%
01/01/07	-	4,140,496	4,141,496	0.0%	1,850,264	223.78%

EAST HEMPFIELD TOWNSHIP
Required Supplementary Information - Unaudited
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Taxes	\$ 7,462,397	\$ 7,462,397	\$ 7,510,433	\$ 48,036
Licenses and permits	830,500	830,500	1,118,916	288,416
Fines and forfeits	113,500	113,500	109,492	(4,008)
Interest earnings	2,000	2,000	118,218	116,218
Rents	22,388	22,388	22,299	(89)
Intergovernmental	758,805	758,805	739,046	(19,759)
Charges for services	101,500	101,500	153,704	52,204
Donations	2,500	2,500	88,599	86,099
Miscellaneous	-	-	9,100	9,100
Total revenues	<u>9,293,590</u>	<u>9,293,590</u>	<u>9,869,807</u>	<u>576,217</u>
EXPENDITURES				
General government	1,036,868	1,036,868	1,118,832	(81,964)
Public safety	6,398,385	6,398,385	5,526,636	871,749
Public works	1,082,614	1,082,614	1,412,015	(329,401)
Culture and recreation	220,619	220,619	228,999	(8,380)
Total expenditures	<u>8,738,486</u>	<u>8,738,486</u>	<u>8,286,482</u>	<u>452,004</u>
Excess (deficiency) of revenues over expenditures	<u>555,104</u>	<u>555,104</u>	<u>1,583,325</u>	<u>1,028,221</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	1,007	1,007
Proceeds from issuance of capital lease	-	-	161,920	161,920
Transfers in (out)	<u>(1,394,626)</u>	<u>(1,394,626)</u>	<u>(1,587,916)</u>	<u>(193,290)</u>
Total other financing sources and uses	<u>(1,394,626)</u>	<u>(1,394,626)</u>	<u>(1,424,989)</u>	<u>(30,363)</u>
Net change in fund balances	<u>\$ (839,522)</u>	<u>\$ (839,522)</u>	<u>\$ 158,336</u>	<u>\$ 997,858</u>