

MILLCREEK TOWNSHIP  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**MILLCREEK TOWNSHIP**

**ERIE, PENNSYLVANIA**

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## Independent Auditor's Report

Millcreek Township Board of Supervisors:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township (the Government), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Government'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, as of December 31, 2013, 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 5 through 8, the budgetary comparison schedules on pages 50 through 53, and the schedule of pension plans' and healthcare plans funding progress on pages 54 and 55 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2014, on our consideration of Millcreek Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Millcreek Township's internal control over financial reporting and compliance.

*Buseck, Banger, Bleil & Co. Inc.*

Certified Public Accountants  
Erie, Pennsylvania



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Millcreek Township Board of Supervisors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Millcreek Township's basic financial statements, and have issued our report thereon dated April 18, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Millcreek Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Millcreek Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Millcreek Township's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Millcreek Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Busbeck, Barger, Bleil & Co. Inc.*

Certified Public Accountants  
Erie, Pennsylvania

MILLCREEK TOWNSHIP  
ERIE, PA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2013

The discussion and analysis of the Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to look at the Township's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of Millcreek Township's financial performance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of 3 components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to private-sector business.

*Statement of Net Position and the Statement of Activities*

The Statement of Net Position presents information on all of the Township's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

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

- *Governmental Activities* – Most of the Township's services are reported here including police, administration, and all departments with the exception of our Sewer Revenue Fund.
- *Business-Type Activities* – These services have a charge based upon the amount of usage. The Township charges fees to recoup the cost of the entire operations of our Sewer System Plan as well as all capital expenses associated with the facility.
- *Component Unit* – The Township includes the Sewer and Water Authorities in its report. Although legally separate, these component units are important because the Township guarantees their debt. Separately issued financial statements can be obtained for these component units by contacting the individual Authority.

The government-wide financial statements can be found on pages 9 and 10 of this report.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental fund, proprietary funds, and fiduciary funds.

**Governmental Funds** –Most of the Township’s activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township’s general government operations and the basic service it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements. The Township has five governmental funds; the General, State, Capital Improvement, Debt Service, and Community Development Block Grant (HUD).

**Proprietary Funds** – When the Township charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The Township's assets exceeded liabilities by \$35.2 million at the close of the most recent fiscal year. The largest portion of the Township’s net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. An additional portion of the Township’s net assets represents resources that have been restricted by external parties.

Table 1 provides a summary of the Township’s net assets at December 31, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current assets and other assets	\$ 6,860,189	\$ 6,377,739	\$ 56,648,363	\$ 3,943,808	\$ 63,508,552	\$ 10,321,547
Capital assets, Net	58,382,316	59,334,138	53,284,403	50,134,695	111,666,719	109,468,833
<b>Total Assets</b>	<u>65,242,505</u>	<u>65,711,877</u>	<u>109,932,766</u>	<u>54,078,503</u>	<u>175,175,271</u>	<u>119,790,380</u>
<b>Liabilities</b>						
Current liabilities and other liabilities	(1,803,285)	(1,527,062)	(458,380)	(402,995)	(2,261,665)	(1,930,057)
Long-term liabilities:						
Due within one year	(205,244)	(178,050)	(615,000)	(595,000)	(820,244)	(773,050)
Due in more than one year	(9,962,582)	(8,319,298)	(10,986,534)	(11,595,792)	(20,949,116)	(19,915,090)
<b>Total Liabilities</b>	<u>(11,971,111)</u>	<u>(10,024,410)</u>	<u>(12,059,914)</u>	<u>(12,593,787)</u>	<u>(24,031,025)</u>	<u>(22,618,197)</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	58,213,907	59,133,897	41,829,403	38,079,695	100,043,310	97,213,592
Restricted for:						
Road surface repairs	506	1,068	-	-	506	1,068
Unrestricted, undesignated	(4,969,811)	(3,447,498)	2,759,046	3,400,021	(2,210,765)	(47,477)
<b>Total Net Assets</b>	<u>\$ 53,244,602</u>	<u>\$ 55,687,467</u>	<u>\$ 44,588,449</u>	<u>\$ 41,479,716</u>	<u>\$ 97,833,051</u>	<u>\$ 97,167,183</u>

Table 2 provides a summary of the Township's change in net assets at December 31, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 3,015,012	\$ 3,026,557	\$ 9,918,673	\$ 9,908,788	\$ 12,933,685	\$ 12,935,345
Operating Grants, Contributions	2,089,165	2,115,515	-	-	2,089,165	2,115,515
Capital Grants and Contributions	312,954	-	2,346,834	151,419	2,659,788	151,419
General Revenues					-	-
Property Taxes	9,717,708	9,283,309			9,717,708	9,283,309
Income Taxes	8,368,259	6,917,418			8,368,259	6,917,418
Other Taxes	1,975,873	1,923,896			1,975,873	1,923,896
Investment Earnings	25,748	38,931	91,212	89,644	116,960	128,575
Other	288,079	313,293			288,079	313,293
<b>Total Revenues</b>	<b>25,792,798</b>	<b>23,618,919</b>	<b>12,356,719</b>	<b>10,149,851</b>	<b>38,149,517</b>	<b>33,768,770</b>
Program Expenses						
General Government	3,822,084	3,768,561			3,822,084	3,768,561
Public Safety	15,160,769	13,594,868			15,160,769	13,594,868
Highways	7,161,379	5,821,282			7,161,379	5,821,282
Parks and Recreation	1,423,339	1,158,277			1,423,339	1,158,277
Community	247,474	295,648			247,474	295,648
Other	432,321	521,717			432,321	521,717
Interest	5,705	6,665			5,705	6,665
Sewer Revenue Fund	-	-	9,230,578	8,825,771	9,230,578	8,825,771
<b>Total Expenses</b>	<b>28,253,071</b>	<b>25,167,018</b>	<b>9,230,578</b>	<b>8,825,771</b>	<b>37,483,649</b>	<b>33,992,789</b>
<b>Excess before Transfers and Other Financing Sources</b>	<b>(2,460,273)</b>	<b>(1,548,099)</b>	<b>3,126,141</b>	<b>1,324,080</b>	<b>665,868</b>	<b>(224,019)</b>
<b>Other Financing Sources (Uses)</b>	<b>17,408</b>	<b>17,408</b>	<b>(17,408)</b>	<b>(17,408)</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(2,442,865)</b>	<b>(1,530,691)</b>	<b>3,108,733</b>	<b>1,306,672</b>	<b>665,868</b>	<b>(224,019)</b>
<b>Net Assets, beginning</b>	<b>55,687,467</b>	<b>57,218,158</b>	<b>41,479,716</b>	<b>40,173,044</b>	<b>97,167,183</b>	<b>97,391,202</b>
<b>Net Assets, ending</b>	<b>\$ 53,244,602</b>	<b>\$ 55,687,467</b>	<b>\$ 44,588,449</b>	<b>\$ 41,479,716</b>	<b>\$ 97,833,051</b>	<b>\$ 97,167,183</b>

### Governmental Activities

The Township's governmental activities net assets decreased by \$2,442,865 in 2013 compared to a \$1,530,691 decrease in 2012. Revenues increased by \$2,173,879 or 9%. The increase in revenue is attributable in an increase in earned income taxes. The expenses increased \$3,086,053 or 12% from prior year. The increase was mostly due to increases in public safety and highways expenditures.

Several revenue sources fund our Governmental Activities with the Township real estate taxes being the biggest contributor. The real estate tax rate of 2.5537 mills was approved in December 2012. The local income tax is the next largest revenue generator. The local income tax rate is 1%. The real estate taxes and the local tax account for 69% of revenue sources. Funding sources from various government programs account for 13% of the revenues.

Public Safety is the major activity of the Township, consisting of 54% of governmental activity expenses. The other major activity of the Township is maintaining streets. The streets accounts for 25% of the Township's expenditures.

### ***Business-Type Activities***

The net assets from business-type activities increased by \$3,108,733 in 2013 compared to an increase of \$1,306,672 in 2012. This increase in 2013 is due to contributions to the sewer system from the Millcreek Township Sewer Authority. The Sewer Revenue Fund total expenses and transfers of \$9,247,986 is 4.5% more than the prior year's total expenses of \$8,843,179. The increase is due to increases in retirement contributions, insurance and utilities.

### **THE TOWNSHIP'S FUNDS**

Information about the Township's major governmental funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of \$53,644,995 and expenditures of \$52,618,525, resulting in an increase in combined fund balance of 162,018. The increase in fund balance of the general fund was less than the budgeted decrease in fund balance. The decrease in fund balance of the state fund was due to an increase in highway expenditures in 2013. The decrease in the sinking fund balance was due to debt service payments. The supplementary schedules on pages 50 thru 53 show the detail of the variances with the final and adjusted budgeted amounts.

### **BUDGET**

For the general fund, original and final budgeted revenues were \$21,697,025. The actual revenues were \$2,024,000 more than projected revenues. This was due to real estate tax revenue being more than projected. The original and final budgeted expenditures were \$24,645,815. The actual expenditures were 4% less than projected.

### **CAPITAL ASSETS**

At December 31, 2013, Millcreek Township had \$58,382,316 invested in capital assets, in governmental activities and \$53,284,403 in business-type activities. The major additions in the governmental activities in the current year were highways and storm retention basins. Additional information about these changes in capital assets is included in Note 4 to the financial statements.

### **DEBT ADMINISTRATION**

As of January 1, 2013, the Township had total outstanding debt payable of \$25,307,684. During the year the Township and its component units incurred new debt in the amount of \$1,744,802 and paid principal payments of \$823,318, resulting in an ending outstanding debt as of December 31, 2013 of \$26,224,168. More detailed information about long-term liabilities is included in Note 8 to the financial statements.

### **CONTACTING THE TOWNSHIP'S FINANCING DEPARTMENT**

The financial report is designed to provide our citizen's, taxpayers, creditors, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Treasurer of Millcreek Township at 3608 West 26<sup>th</sup> Street, Erie, PA 16506.

The individual financial statements of Millcreek Township's Sewer and Water Authority's can be obtained by contacting the Millcreek Township Water Authority at 3608 West 26<sup>th</sup> Street, Erie, PA 16506.

**MILLCREEK TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities Fund</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Sewer Authority</u>	<u>Water Authority</u>
<b><u>Assets</u></b>					
Cash	\$ 3,320,145	\$ 2,251,110	\$ 5,571,255	\$ 3,401,238	\$ 3,251,041
Receivables					
Taxes receivable, Net	2,405,413		2,405,413		
Assessments receivable	66,408		66,408	2,499,045	95,388
Lease rentals receivable				11,455,000	
Other accounts receivable	603,231	842,670	1,445,901	327,108	916,297
Due from other governments	131,287	235,920	367,207		
Due from component units	87,340		87,340		
Accrued interest receivable					18,518
Prepaid interest		34,260	34,260		
Internal balances	73,409		73,409		
Inventories	172,956		172,956		
Restricted assets					
Cash & investments				610,779	
Capital assets, not being depreciated	3,746,175		3,746,175		
Capital assets, being depreciated	54,636,141	53,284,403	107,920,544	487,751	24,247,459
<b><u>Total Assets</u></b>	<u>65,242,505</u>	<u>56,648,363</u>	<u>121,890,868</u>	<u>18,780,921</u>	<u>28,528,703</u>
<b><u>Liabilities</u></b>					
Accounts payable	720,674	167,151	887,825	490,785	298,231
Accrued salaries and benefits	334,014	34,332	368,346		
Payroll withholdings	1,604		1,604		
Contractor deposits	746,993		746,993	75,000	7,200
Other liabilities		256,897	256,897		992,851
Accrued interest					46,474
Non current liabilities					
Due within one year	205,244	615,000	820,244	615,000	155,107
Due in more than one year	9,962,582	10,986,534	20,949,116	11,325,328	4,482,851
<b><u>Total Liabilities</u></b>	<u>11,971,111</u>	<u>12,059,914</u>	<u>24,031,025</u>	<u>12,506,113</u>	<u>5,982,714</u>
<b><u>Deferred Inflows of Resources</u></b>	<u>26,792</u>		<u>26,792</u>	<u>1,776,351</u>	
<b><u>Net Position</u></b>					
Investment in capital assets	58,213,907	41,829,403	100,043,310	487,751	19,962,451
Restricted for:					
Capital Activity and Debt Service				205,567	3
Road surface repairs	506		506		
Unrestricted (deficit)	(4,969,811)	2,759,046	(2,210,765)	3,805,139	2,583,535
<b><u>Total Net Position</u></b>	<u>\$ 53,244,602</u>	<u>\$ 44,588,449</u>	<u>\$ 97,833,051</u>	<u>\$ 4,498,457</u>	<u>\$ 22,545,989</u>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 3,822,084	\$ 2,151,876	\$ 130,487	\$ 312,954
Public Safety	15,160,769	386,299	533,510	
Highways	7,161,379	223,195	1,224,694	
Parks and recreation	1,423,339	253,642		
Community	247,474		200,474	
Other expenditures	432,321			
Interest on long-term debt	5,705			
<b><u>Total Governmental Activities</u></b>	<u>28,253,071</u>	<u>3,015,012</u>	<u>2,089,165</u>	<u>312,954</u>
<b>Business-type activities:</b>				
Sewer Revenue Fund	9,230,578	9,918,673	-	2,346,834
<b><u>Total Primary Government</u></b>	<u>\$ 37,483,649</u>	<u>\$ 12,933,685</u>	<u>\$ 2,089,165</u>	<u>\$ 2,659,788</u>
<b><u>Component Units:</u></b>				
Water Authority	<u>\$ 4,622,646</u>	<u>\$ 3,874,752</u>	<u>\$ -</u>	<u>\$ 200,842</u>
Sewer Authority	<u>\$ 5,061,857</u>	<u>\$ 13,023</u>	<u>\$ -</u>	<u>\$ 3,564,649</u>

**General Revenues:**  
Property Taxes Levied for:  
    General Purposes  
    Capital Outlay  
Income Taxes Levied for:  
    General Purposes  
    Other taxes  
Investment earnings  
Miscellaneous  
Transfers  
    Total General Revenues and Transfers

**Change in net position**

**Net position - beginning**

**Net position - ending**

**MILLCREEK TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Net (Expense) Revenue and  
Changes in Net Position**

<u>Primary Government</u>			<u>Component Unit</u>	
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Sewer Authority</u>	<u>Water Authority</u>
\$ (1,226,767)	\$ -	\$ (1,226,767)		
(14,240,960)		(14,240,960)		
(5,713,490)		(5,713,490)		
(1,169,697)		(1,169,697)		
(47,000)		(47,000)		
(432,321)		(432,321)		
(5,705)		(5,705)		
<u>(22,835,940)</u>	<u>-</u>	<u>(22,835,940)</u>	<u>-</u>	<u>-</u>
-	3,034,929	3,034,929	-	-
<u>(22,835,940)</u>	<u>3,034,929</u>	<u>(19,801,011)</u>	<u>-</u>	<u>-</u>
				(547,052)
			(1,484,185)	
9,151,848		9,151,848		
565,860		565,860		
8,368,259		8,368,259		
1,975,873		1,975,873		
25,748	91,212	116,960	44,258	12,783
288,079		288,079	65,313	294,043
17,408	(17,408)	-	-	-
<u>20,393,075</u>	<u>73,804</u>	<u>20,466,879</u>	<u>109,571</u>	<u>306,826</u>
(2,442,865)	3,108,733	665,868	(1,374,614)	(240,226)
<u>55,687,467</u>	<u>41,479,716</u>	<u>97,167,183</u>	<u>5,873,071</u>	<u>22,786,215</u>
<u>\$ 53,244,602</u>	<u>\$ 44,588,449</u>	<u>\$ 97,833,051</u>	<u>\$ 4,498,457</u>	<u>\$ 22,545,989</u>

**MILLCREEK TOWNSHIP**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2013**

	General	Capital Projects Fund	State Fund Special Revenue Fund	Sinking Fund	Total Governmental Funds
<b><u>Assets</u></b>					
Cash	\$ 2,141,813	\$ 890,806	\$ 554	\$ 286,972	\$ 3,320,145
Taxes receivable	2,405,413				2,405,413
Assessment receivables	66,408				66,408
Other accounts receivable	426,306				426,306
Due from other governments	131,287				131,287
Due from other funds	73,457				73,457
Due from component units	87,340				87,340
Inventories	172,956				172,956
<b><u>Total Assets</u></b>	<b><u>\$ 5,504,980</u></b>	<b><u>\$ 890,806</u></b>	<b><u>\$ 554</u></b>	<b><u>\$ 286,972</u></b>	<b><u>\$ 6,683,312</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b><u>Liabilities</u></b>					
Accounts payable	\$ 720,674				\$ 720,674
Accrued salaries and benefits	334,014				334,014
Payroll withholdings	1,604				1,604
Amount due other funds			48		48
Contractor deposits	746,993				746,993
<b><u>Total Liabilities</u></b>	<b><u>1,803,285</u></b>	<b><u>-</u></b>	<b><u>48</u></b>	<b><u>-</u></b>	<b><u>1,803,333</u></b>
<b><u>Deferred inflows of resources</u></b>	<b><u>559,011</u></b>				<b><u>559,011</u></b>
<b><u>Fund Balances</u></b>					
Nonspendable	172,956				172,956
Restricted for:					
Road surface repairs			506		506
Assigned to:					
Debt service				286,972	286,972
Capital Projects		890,806			890,806
Traffic signals	28,853				28,853
Subsequent years' budget	2,940,875				2,940,875
<b><u>Total Fund Balances</u></b>	<b><u>3,142,684</u></b>	<b><u>890,806</u></b>	<b><u>506</u></b>	<b><u>286,972</u></b>	<b><u>4,320,968</u></b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 5,504,980</u></b>	<b><u>\$ 890,806</u></b>	<b><u>\$ 554</u></b>	<b><u>\$ 286,972</u></b>	<b><u>\$ 6,683,312</u></b>

**MILLCREEK TOWNSHIP**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

**Total Fund Balances - Governmental Funds** \$ 4,320,968

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$94,738,199 and the accumulated depreciation is \$36,355,883. 58,382,316

Property taxes receivable will be collected this year but are not available soon enough to pay for current period's expenditures, and therefore are deferred in the funds. 532,222

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Loans payable	(168,409)	
Post employment benefits	(8,374,008)	
Compensated absences (sick pay and vacations)	(1,448,487)	<u>(9,990,904)</u>

**Total Net Position - Governmental Activities** \$ 53,244,602

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Capital Projects Fund	State Fund Special Revenue Fund	Sinking Fund	HUD Program	Total Governmental Funds
<b><u>Revenues</u></b>						
Property and other taxes	\$ 19,449,751	\$ 565,860	\$ -	\$ -	\$ -	\$ 20,015,611
Licenses and permits	1,035,344					1,035,344
Fines	198,188					198,188
Intergovernmental	1,907,191		1,152,897		200,474	3,260,562
Charges for services	186,402					186,402
Special Assessments	545,322					545,322
Rentals	149,828					149,828
Investment earnings	21,525		2,877	1,346		25,748
Miscellaneous	227,990					227,990
<b>Total Revenues</b>	<b>23,721,541</b>	<b>565,860</b>	<b>1,155,774</b>	<b>1,346</b>	<b>200,474</b>	<b>25,644,995</b>
<b><u>Expenditures</u></b>						
General government	3,234,602					3,234,602
Public safety	12,664,987					12,664,987
Highways	6,034,494	531,161	1,156,336			7,721,991
Parks and recreation	1,291,537					1,291,537
Community	47,000				200,474	247,474
Miscellaneous	420,397					420,397
Debt Service:						
Principal				31,833		31,833
Interest and other charges				5,704		5,704
<b>Total Operating Expenditures</b>	<b>23,693,017</b>	<b>531,161</b>	<b>1,156,336</b>	<b>37,537</b>	<b>200,474</b>	<b>25,618,525</b>
Excess (deficiency) of revenues over expenditures	28,524	34,699	(562)	(36,191)	-	26,470
<b><u>Other Financing Sources</u></b>						
Sale of Fixed Assets	118,140					118,140
Transfers in (out)	17,408					17,408
<b>Total other financing sources</b>	<b>135,548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135,548</b>
<b>Net change in fund balances</b>	<b>164,072</b>	<b>34,699</b>	<b>(562)</b>	<b>(36,191)</b>	<b>-</b>	<b>162,018</b>
<b>Fund balances - beginning</b>	<b>2,978,612</b>	<b>856,107</b>	<b>1,068</b>	<b>323,163</b>	<b>-</b>	<b>4,158,950</b>
<b>Fund balances - ending</b>	<b>\$ 3,142,684</b>	<b>\$ 890,806</b>	<b>\$ 506</b>	<b>\$ 286,972</b>	<b>\$ -</b>	<b>\$ 4,320,968</b>

**MILLCREEK TOWNSHIP**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Net Change in Fund Balances - Governmental Funds**

Amounts reported for governmental activities in the statement of net assets are different because:		\$ 162,018
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Depreciation Expense	(2,601,554)	
Capital Outlays	<u>1,678,219</u>	(923,335)
<p>Because some property taxes will not be collected for several months after the Township's year ends, they are not considered as "available" revenues in the governmental funds. Deferred revenues increased by this amount this year.</p>		
		46,230
<p>In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the book value of the fixed assets sold.</p>		
		(28,488)
<p>Payment of loan principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.</p>		
		31,832
<p>In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resource used. This amount represented the difference between the amount earned versus the amount used.</p>		
		13,680
<p>On the statement of activities the actual and projected long term expenditures for post employment benefits are reported whereas on the government funds only the actual expenditures are recorded for post employment benefits.</p>		
		<u>(1,744,802)</u>
<b><u>Total Change in Net Position - Governmental Activities</u></b>		<b><u>\$ (2,442,865)</u></b>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2013**

	<b>Business-type Activity - Sewer Revenue Fund</b>
<b><u>Assets</u></b>	
<b><u>Current Assets:</u></b>	
Cash	\$ 2,251,110
Credit due from City of Erie	748,403
Due from other governments	235,920
Prepaid interest	34,260
<b><u>Total Current Assets</u></b>	<b>3,269,693</b>
 <b><u>Noncurrent Assets</u></b>	
Other receivables	94,267
Property and equipment, net	53,284,403
<b><u>Total Noncurrent Assets</u></b>	<b>53,378,670</b>
 <b><u>Total Assets</u></b>	<b>56,648,363</b>
 <b><u>Liabilities:</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable	167,151
Accrued salaries and benefits	34,332
Other liabilities	256,897
Current portion of lease rental payable	615,000
<b><u>Total Current Liabilities</u></b>	<b>1,073,380</b>
 <b><u>Long-Term Liabilities</u></b>	
Lease rental payable	10,840,000
Long-term portion of compensated absences	146,534
<b><u>Total Long-Term Liabilities</u></b>	<b>10,986,534</b>
<b><u>Total Liabilities</u></b>	<b>12,059,914</b>
 <b><u>Net Position</u></b>	
Investment in capital assets	41,829,403
Unrestricted	2,759,046
<b><u>Total Net Position</u></b>	<b>\$ 44,588,449</b>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Business Type Activity - Sewer Revenue Fund</b>
	<b>Fund</b>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 9,918,673
<b><u>Operating Expenses</u></b>	
Sewer treatment and transportation	4,758,356
Inspection and maintenance wages	993,811
Social security taxes	74,312
Insurance	375,583
Repairs and maintenance	395,668
Vehicle operating expense	76,551
Clean Water Fund	4,000
Retirement	110,445
Utilities	173,938
Miscellaneous expenses	13,892
Sewer system repairs	697,093
Administrative expenses	220,053
Depreciation	778,033
<b><u>Total Operating Expenses</u></b>	<b>8,671,735</b>
<b><u>Operating Income (Loss)</u></b>	<b>1,246,938</b>
<b><u>Non Operating Expenses</u></b>	
Penalties and interest	91,212
Interest expense	(558,843)
<b><u>Total Non Operating Expenses</u></b>	<b>(467,631)</b>
<b><u>Income (Loss) Before Contributions and Transfers</u></b>	<b>779,307</b>
Transfers Out	(17,408)
Contributions	2,346,834
<b>Change in Net Position</b>	<b>3,108,733</b>
<b><u>Total Net Position - Beginning - restated</u></b>	<b>41,479,716</b>
<b><u>Total Net Position - Ending</u></b>	<b>\$ 44,588,449</b>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Business Type Activity - Sewer Revenue Fund</b>
<b><u>Increase (Decrease) in Cash and Cash Equivalents</u></b>	
<b><u>Cash Flows from Operating Activities</u></b>	
Cash received from customers	\$ 9,876,048
Cash received from Water and Sewer Authorities	280,067
Cash payment to vendors and employees for goods and services	(7,718,571)
<b><u>Net Cash Provided by Operating Activities</u></b>	<b>2,437,544</b>
<b><u>Cash Flows From Non-Capital Financing Activities:</u></b>	
Transfers Out	(17,408)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition of capital assets	(62,577)
Interest paid on debt	(558,843)
Lease rental payment for bonds	(600,000)
<b><u>Net Cash Used for Capital and Related Financing Activities</u></b>	<b>(1,221,420)</b>
<b><u>Cash Flows From Investing Activities:</u></b>	
Interest and penalties	91,212
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	1,289,928
<b><u>Cash and Cash Equivalents at Beginning of Year</u></b>	961,182
<b><u>Cash and Cash Equivalents at End of Year</u></b>	<b>\$ 2,251,110</b>
 <b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>	
<b><u>Operating Income</u></b>	<b>\$ 1,246,938</b>
<b><u>Adjustments to Reconcile Operating Income (Loss) to</u></b>	
<b><u>Net Cash Provided by Operating Activities:</u></b>	
Depreciation	778,033
Changes in Assets and Liabilities:	
(Increase) decrease in receivables and prepaid expenses	348,795
Increase (decrease) in accounts payable and accruals	63,778
<b><u>Total Adjustments</u></b>	<b>1,190,606</b>
<b><u>Net Cash Provided by Operating Activities</u></b>	<b>\$ 2,437,544</b>
 <b><u>Noncash Transactions</u></b>	
Contributed Assets	<b>\$ 2,346,834</b>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2013**

	Trust Funds	
	Pension Total	Deferred Compensation
<b><u>Assets:</u></b>		
Cash	\$ 39,306	\$
Accrued interest receivable	113,417	
Due from general fund		
Investments at fair value:		
Pension trust	55,909,249	
Deferred compensation		4,888,211
<b><u>Total Assets</u></b>	<b>56,061,972</b>	<b>4,888,211</b>
<b><u>Liabilities:</u></b>		
Earned income tax escrow liability		
Due to general fund		
Contractor deposits		
Amount due escheat		
Future compensation due to employees		4,888,211
<b><u>Total Liabilities</u></b>	<b>-</b>	<b>4,888,211</b>
<b><u>Net Position</u></b>		
Deposits held intrust for pension benefits	56,061,972	
<b><u>Total Net Position</u></b>	<b>\$ 56,061,972</b>	<b>\$ -</b>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2013**

<u>Earned Income</u>	<u>Agency Funds</u>		<u>Total</u>
	<u>Tax Escrow</u>	<u>Escheats Escrow</u>	
\$ 633,966	\$ 3,610	\$ 881,120	\$ 1,558,002
			113,417
97,857			97,857
			55,909,249
			4,888,211
<u>731,823</u>	<u>3,610</u>	<u>881,120</u>	<u>62,566,736</u>
731,823			731,823
		41,808	41,808
		839,312	839,312
	3,610		3,610
			4,888,211
<u>731,823</u>	<u>3,610</u>	<u>881,120</u>	<u>6,504,764</u>
			56,061,972
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,061,972</u>

**MILLCREEK TOWNSHIP**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b><u>Pension Funds</u></b>
<b><u>Additions:</u></b>	
Contributions - Commonwealth of Pennsylvania	\$ 858,443
Contributions - Millcreek Township	1,494,247
Contributions - Employees	442,218
Total Contributions	<u>2,794,908</u>
<b><u>Investment Income:</u></b>	
Investment earnings	1,053,309
Net increase in fair value of investments	7,634,435
Total Investment Earnings	<u>8,687,744</u>
<b><u>Total Additions</u></b>	<u>11,482,652</u>
<b><u>Deductions:</u></b>	
Benefit payments	2,342,810
Contract administration and actuarial services	323,515
<b><u>Total Deductions</u></b>	<u>2,666,325</u>
<b><u>Change in Net Position</u></b>	8,816,327
<b><u>Total Net Position - Beginning</u></b>	<u>47,245,645</u>
<b><u>Total Net Position - Ending</u></b>	<u>\$ 56,061,972</u>

MILLCREEK TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. Reporting Entity***

Millcreek Township is a second class township. It was organized in 1803 under the laws of the State of Pennsylvania. The Township is governed by three elected supervisors, which serve a six-year term. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Each discretely presented component unit is reported separately to emphasize that they are legally separate from the Township.

Discretely Presented Component Units

*Millcreek Township Sewer Authority* - The Millcreek Township Sewer Authority, which is a financing Authority, constructs, alters and improves the sewer system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Sewer Authority.

*Millcreek Township Water Authority* - The Millcreek Township Water Authority, which is an operating Authority, constructs, alters, improves and operates the water system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Water Authority.

Complete financial statements for each of the individual component units may be obtained at the administrative offices of the entities.

***B. Government-wide and Fund Financial Statements***

Financial information for the Township, the primary government, the Sewer Revenue Fund and the component units, is presented as follows:

- Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Township's financial activities.
- Basic Financial Statements:

*Government-wide Financial Statements* – Government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report all of the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services that are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and for the single business-type activity of the Township. 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 of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational and capital requirements of a particular program and interest earned on grants that is required to be used to support 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 with the program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

**Fund Financial Statements** – During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Fiduciary funds are reported by type.

### ***C. Measurement Focus, Basis of Accounting and Basis of Presentation***

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are reported only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

The Township reports the following Governmental Funds:

**General Fund** - The general fund accounts for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** – The Special Revenue fund is used to account for the charges for proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purpose. The State Highway Aid Fund is the only fund in this group.

**Debt Service Fund** – The Debt Service fund is used to account for the property taxes collected for the payment of general long-term debt principal, interest and related costs.

**Capital Project Funds** – The Capital Project funds account for revenues to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

The Township reports the following Proprietary Fund:

**Sewer Revenue Fund** – This is the only enterprise fund of the Township and it accounts for the operations of the sewer system.

The Township applies all Governmental Accounting Standards (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Township also reports the following Fiduciary Fund types:

**Fiduciary Funds** – 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 a Pension Trust fund and a Deferred Compensation fund.

**Agency Funds** – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township has three agency funds to account for assets held as an agent for individuals, and/or other governmental units.

The Township and the Authority's adopted GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows (revenues). The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$527,408 for the Water Authority, and a decrease in the amount of \$129, 882 for the Sewer Authority as described in Note 2.

#### ***D. Budgets and Budgetary Accounting***

An operating budget is adopted each year for the General Fund and the State Fund on a modified accrual basis of accounting. Adoption of the budget by the Township Supervisors constitutes appropriations for the expenditures for the fiscal year. Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are appropriated in the next year.

For the year ended December 31, 2013, expenditures in the State fund exceed the budget by \$37,086.

### *E. Use of Estimates*

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

### *F. Other Accounting Policies*

#### Deposits and Investments

Cash and cash equivalents, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

Investments are reported at their fair market value. The Township is permitted to invest in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

The deposit policy of the Township adheres to state statutes and prudent business practice.

#### Inventories and Prepaid Items

Inventory of materials and supplies is priced at cost. Inventory shown in the General Fund consists of expendable supplies held for consumption. The amount thereof has been recorded as an asset, offset by an equity account of an equal amount. The cost of such inventory has been recorded as an expenditure at the time individual inventory items were purchased.

Payments made to vendors for services that will benefit future periods are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which it was consumed.

#### Restricted Assets

Certain assets of the Sewer Revenue Funds are classified as restricted because their use is limited by applicable covenants.

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$1,500 for equipment, improvements and infrastructure, and an estimated useful life in excess of one-year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Property, plant and equipment of the component units are generally reported using the same policy as the Township.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight-line method over the estimated useful lives as follows:

Description	Governmental	Business-Type
	Activities	Activities
	Estimated Lives	Estimated Lives
Land	N/A	N/A
Buildings and Improvements	5 - 50 years	25 years
Equipment	3 - 25 years	5 - 10 years
Vehicles	3 - 7 years	3 - 7 years
Furniture & Fixtures	7 - 10 years	7- 10 years
Infrastructure	10 - 99 years	25 - 99 years

The sewer system that was constructed by the Millcreek Township Sewer Authority is carried as an asset of the Sewer Revenue Fund of Millcreek Township. The sewer system that was constructed by Millcreek Township is carried at the fair market value of this system as of May 1, 1958. The sewer lines that were installed by private developers are carried at the amount these lines would have cost if they were constructed by the Authority. The appraisal values were determined by the Authority's consulting engineers.

The valuation of the sewer system as of December 31, 2013 and 2012 is comprised of the following:

	2013	2012
Sewer system originally constructed by Township @ appraised value	\$ 1,241,299	\$ 1,241,299
Sewer lines installed by private developers @ appraised value	24,014,343	23,862,907
Sewer system improvements constructed by Sewer Authority @ cost	48,318,802	44,605,072
Sewer system additions-Sewer Revenue Fund	552,206	552,206
	<u>\$ 74,126,650</u>	<u>\$ 70,261,484</u>

#### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Receivables and payables resulting from transactions between primary government and the component unit for services provided or goods received are classified as "Due to Primary Government" or "Due from Component Unit" on the fund financial statements.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

#### Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the Township's termination policy.

The Township's vacation, compensated time and sick pay policy in effect during 2013 is as follows:

##### ***Vacation:***

General Employees:

1-5 years service - 2 weeks annual vacation

5-10 years service - 3 weeks annual vacation

Over 10 years service - 3 weeks plus 1 day for each year service  
over 10 years

Vacation carryover - Maximum 10 days

No vacation during first year of employment.

Police:

Same provisions as general employees except vacation carryover is a maximum of 45 days.

##### ***Compensated Time:***

All Township employees except streets and garage employees can elect to accumulate overtime worked instead of being paid. This accumulated overtime can then be taken as vacation. Streets and garage employees can only elect compensated time for over time worked on holidays. The compensated time can be carried over indefinitely by all employees except management employees.

##### ***Sick Pay:***

General Employees:

Sick days - Hired before 1-1-96 - 15 days per year - none in 1<sup>st</sup> year of employment.

Hired after 1-1-96 - 10 days per year - none in 1<sup>st</sup> year of employment

Maximum accumulation - 165 days payable at rate of 1 hour for 1<sup>st</sup> 50 days, 2 hours for next 50 days and 3 hours for all days over 100 up to maximum of 165 days.  
Payable on termination if eligible for retirement.

Police:

Sick days - 15 days per year after first year of employment; 5 days during 1st year of employment.

Maximum accumulation - 220 days payable at rate of 1/3 of each day accumulated. Payable on termination if eligible for retirement. Effective in 2000, after reaching the maximum accumulation of 220 sick days, one day for each three days not used of the annual fifteen sick days allowed will be paid or time off taken during the following year.

The Water Authority employees are entitled to paid sick and vacation leave depending on the number of years of service. The maximum amount of sick and vacation days that can be carried over is 164 and 10, respectively. The amount of accrued accumulated sick and vacation pay was \$53,763 and \$51,850 December 31, 2013 and 2012 respectively.

#### Long-Term Debt and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

#### Fund Equity

##### Governmental Fund Balances

Generally, governmental fund balances represent the difference between the assets and liabilities under the current financial resources measurement focus of accounting. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Township is bound to honor constraints on the specific purpose to which amounts in those resources can be spent. Fund balances are classified as follows:

*Nonspendable:* This category includes the resources of imprest funds and inventories not available for appropriation. The Township's nonspendable fund balance consists of prepaid expenses and inventory.

*Restricted items:* This category includes items restricted for specific purposes by law or by external parties. The Township includes the State Special revenue fund balance as restricted. These funds are restricted for use on highway and road maintenance and repairs.

*Committed items:* This category includes items that contain self-imposed constraints of the government from its highest level of decision making authority. The Township Board has not committed any portion of the fund balance for 2012.

*Assigned items:* Assigned items represent the Board's intent to use certain resources for specific purposes and are not restricted or committed. Appropriated Assigned Fund Balance is an appropriation of existing fund balance to eliminate a projected budget deficit in the subsequent year's budget in an amount not greater than the projected excess of expected expenditures over expected revenues. The Township has certain funds assigned for debt service, capital projects and traffic signals.

*Unassigned:* This represents the remainder of the Board's equity in governmental fund-type balances. The Township does not currently have a minimum fund balance policy. The Township policy is that assigned funds will be reduced first and then unassigned amounts.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Township's policy is to apply restricted assets first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Township's policy to use fund balance in the following order: Committed, Assigned, Unassigned.

#### Net Position – Proprietary Fund

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted; and unrestricted net assets. Invested in capital, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted net assets consist of all other net assets not included in the above categories.

#### Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

#### Revenues and Rate Structures

Revenues from water and wastewater services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

#### Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Assets when earned. Contributions include system improvements constructed by private developers and by Millcreek Township Sewer Authority.

#### Special and Extraordinary Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

**NOTE 2 – RESTATEMENT OF NET POSITION**

Due to the adoption of GASB 65, net position was restated at January 1, 2012. GASB 65 requires bond issuance costs to be expensed in the period incurred and no longer requires them to be amortized annually. The total amount of unamortized bond issue costs and costs of advanced refunding has been “expensed” by restating net position as shown below.

The following is a reconciliation of the total net position as previously reported at January 1, 2012, and December 31, 2012 to the restated net position.

	<b>Millcreek Township Water Authority</b>	<b>Millcreek Township Sewer Authority</b>
<b><u>Reconciliation of Net Position</u></b>	<b><u>Total Net Position</u></b>	<b><u>Total Net Position</u></b>
Net Position at January 1, 2012, as previously stated	\$ 22,902,560	\$ 6,917,126
Adjustments:		
Adoption of GASB 65	<u>(527,408)</u>	<u>(129,882)</u>
Net Position at January 1, 2012 as restated	<u>\$ 22,375,152</u>	<u>\$ 6,787,244</u>
 <b><u>Reconciliation of Increase in Net Position at December 31, 2012</u></b>		
Increase (decrease) in Net position as previously stated	\$ 389,763	\$ (5,995,314)
Adjustments		
Adoption of GASB 65	<u>21,300</u>	<u>122,243</u>
Increase in Net Position at December 31, 2012 as restated	<u>\$ 411,063</u>	<u>\$ (5,873,071)</u>

**NOTE 3 - CASH AND INVESTMENTS:**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in other investments consistent with sound business practice.

The deposit and investment policy of the Township adheres to state statutes and prudent business practice. Deposits of the governmental funds are maintained in demand deposits. The deposits and investments of the pension trust funds and the deferred compensation trust fund are administered by the investment managers and are held separately from those of the other municipal funds.

**Deposits**

Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (balance sheet) and bank balances for Millcreek Township are listed below.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Primary Government	\$ 5,571,255	\$ 6,862,323
Fiduciary Funds	1,558,002	1,558,002
Component Units	7,263,058	6,794,585
<b>Total Reporting Entity</b>	<u>\$ 14,392,315</u>	<u>\$ 15,214,910</u>

The following reconciles deposits and investments to cash and cash equivalents, as presented in the balance sheet:

<b>December 31, 2013</b>	<u>Primary Government</u>	<u>Fiduciary Funds</u>
<b>Disclosures regarding deposits:</b>		
Deposits	\$ 5,571,255	\$ 1,558,002
Investments		60,797,460
Total	<u>\$ 5,571,255</u>	<u>\$ 62,355,462</u>
<b>Balance Sheet Amounts:</b>		
Cash and cash equivalents:		
Unrestricted	\$ 4,364,624	\$ -
Restricted	1,206,631	1,558,002
Total cash and cash equivalents	<u>5,571,255</u>	<u>1,558,002</u>
Investments:		
Restricted	-	60,797,460
Total Investments	-	60,797,460
Total	<u>\$ 5,571,255</u>	<u>\$ 62,355,462</u>

<b>Component Units</b>	<u>December 31, 2013</u>
<b>Disclosures regarding deposits:</b>	
Deposits	\$ 6,857,846
Investments	405,212
Total	<u>\$ 7,263,058</u>
<b>Balance Sheet Amounts:</b>	
Cash and cash equivalents:	
Unrestricted	\$ 6,652,279
Restricted	205,567
Total cash and cash equivalents	<u>6,857,846</u>
Investments:	
Restricted	405,212
Total Investments	<u>405,212</u>
Total	<u>\$ 7,263,058</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Millcreek Township does not have a policy for custodial credit risk. As of December 31, 2013, \$5,999,841 of Millcreek Township's bank balance was exposed to custodial credit risk. \$862,482 of the bank balance was covered by federal depository insurance. The balance was insured by assets pledged by the trust bank, but not in the Township's name. The depositories secure the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of the 1971.

Investments

As of December 31, 2013 the Township had the following investments:

	<u>Fair Value/ Carrying Amount</u>
<u>Primary Government:</u>	
General Employee and Police Pension Fund:	
Short Term Investment Funds	\$ 2,973,384
US Government Securities	5,328,951
Agency	3,283,316
Corporate Stocks	32,035,153
Corporate Debt	3,550,422
Mortgage	227,090
Other Fixed Assets	8,510,933
	<u>55,909,249</u>
<u>Total Pension Trust Funds</u>	<u>55,909,249</u>
Agency Fund:	
Deferred Compensation Fund	4,888,211
<u>Total Primary Government</u>	<u>60,797,460</u>
<u>Component Units</u>	<u>405,212</u>
<u>Total Reporting Entity</u>	<u>\$ 61,202,672</u>

Investment Maturities 9 in Years

<u>Police Pension</u>					
Investment Type	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt Securities:					
S-T Investment Fund	\$ 2,086,367	\$ 2,086,367			
Agency	3,283,316.07			11,465.04	3,271,851.03
U.S. Government Sec	5,328,951.20		4,741,762.25	587,188.95	
Corporate Stock	32,035,152.75	32,035,152.75			
Corporate Debt	3,550,421.83		1,341,179.25	2,184,756.58	24,486.00
Mortgages	227,091.31		307.83		226,783.48
Other Fixed Income	5,155,018.42	5,155,018.42			
Other - Trust	3,355,914.71	3,355,914.71			
	<u>\$ 55,022,233</u>	<u>\$ 42,632,453</u>	<u>\$ 6,083,249</u>	<u>\$ 2,783,411</u>	<u>\$ 3,523,121</u>

### Employees Pension

Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities:					
S-T Investment Fund	\$ 887,016	\$ 887,016	\$ -	\$ -	\$ -

The investments in cash and cash equivalents, short-term investments, and certain domestic and international equities are valued based on quoted market prices, and therefore classified within Level 1 of the fair value hierarchy.

### Interest Rate Risk

Millcreek Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Credit Risk

This is the risk that an issuer of a debt type investment will not fulfill its obligations to the holder of the investment. This is measured as a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. 9.5% of the Pension funds were invested in U.S. government securities. The Township does not have a formal investment policy with respect to credit risk.

### Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. As of December 31, 2013, all the investments were restricted investments for deferred compensation and pension funds.

### Custodial Credit Risk

For an investment, custodial credit risk, the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral security that are in the possession of an outside party. The Township has some investments in the pension funds that are subject to custodial credit risk.

Pension Funds	Debt Securities by Investment Type							
	ST Invmt Fd	Agency	US Govt Sec	Corp. Debt/Stk	Mortgages	Other Fixed	Total	%
AAA	\$ -		\$ 5,328,951	\$ 423,440	\$ 197,532		\$ 5,949,923	10.81%
AA3	-			173,857			173,857	0.32%
AA2	-			52,645			52,645	0.10%
A3	-			206,228			206,228	0.37%
A2	-			312,170			312,170	0.57%
A1	-			131,802			131,802	0.24%
BAA3	-			526,468			526,468	0.96%
BAA2	-			1,164,815			1,164,815	2.12%
BAA1	-			558,997			558,997	1.02%
NR	2,086,367	3,283,316		32,035,153	29,559	8,510,933	45,945,329	83.50%
Fair Value	\$ 2,086,367	\$ 3,283,316	\$ 5,328,951	\$ 35,585,575	\$ 227,091	\$ 8,510,933	\$ 55,022,234	100.00%

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
<b>Government Activities</b>				
Capital Assets, Non-depreciable:				
Land	\$ 3,746,175	\$ -	\$ -	\$ 3,746,175
Total Capital Assets, Non-Depreciable	<u>3,746,175</u>	<u>-</u>	<u>-</u>	<u>3,746,175</u>
Capital Assets, Depreciable				
Building and Improvements	9,750,403	-		9,750,403
Infrastructure	70,728,570	1,204,606		71,933,176
Equipment	4,563,576	215,411		4,778,987
Vehicles	4,671,584	268,457	410,583	4,529,458
Total Capital Assets, Depreciable	<u>89,714,133</u>	<u>1,688,474</u>	<u>410,583</u>	<u>90,992,024</u>
Less Accumulated Depreciation:				
Building and Improvements	(5,075,319)	(265,141)		(5,340,460)
Infrastructure	(22,489,917)	(1,652,010)		(24,141,927)
Equipment	(3,433,377)	(213,838)		(3,647,215)
Vehicles	(3,127,557)	(470,565)	(371,841)	(3,226,281)
Total Accumulated Depreciation	<u>(34,126,170)</u>	<u>(2,601,554)</u>	<u>(371,841)</u>	<u>(36,355,883)</u>
Total Capital Assets, Depreciable, Net	<u>55,587,963</u>	<u>(913,080)</u>	<u>38,742</u>	<u>54,636,141</u>
Governmental Activities Capital Assets, Net	<u>\$ 59,334,138</u>	<u>\$ (913,080)</u>	<u>\$ 38,742</u>	<u>\$ 58,382,316</u>

**Business-Type Activities**

Capital Assets, Depreciable				
Sewer System	\$ 70,261,484	\$ 3,865,166	\$ -	\$ 74,126,650
Operating Equipment	476,536	12,446	-	488,982
Office Equipment	93,717	-	-	93,717
Vehicles	646,387	28,546	-	674,933
Building	92,346	-	-	92,346
Total Capital Assets, Depreciable	<u>71,570,470</u>	<u>3,906,158</u>	<u>-</u>	<u>75,476,628</u>
Less Accumulated Depreciation	<u>(21,435,775)</u>	<u>(756,450)</u>	<u>-</u>	<u>(22,192,225)</u>
Total Capital Assets, Depreciable, Net	<u>\$ 50,134,695</u>	<u>\$ 3,149,708</u>	<u>\$ -</u>	<u>\$ 53,284,403</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 364,217
Public Safety	1,170,699
Highways	936,560
Parks and Recreation	130,078
	<u>\$ 2,601,554</u>
Business-Type Activities:	
Sewer Revenue Fund	<u>\$ 756,450</u>

Capital asset activity for the discretely presented component units are as follows:

Millcreek Township Water Authority:

	Balance 1/1/2013	Additions	Disposition	Balance 12/31/2013
Water Distribution System	\$ 32,803,457	\$ 358,329	\$ (26,505)	\$ 33,135,281
Office Equipment	240,383	3,594	-	243,977
Operating Equipment	137,059	-	-	137,059
Auto and Truck	123,177	36,075	-	159,252
Total Property and Equipment	33,304,076	397,998	(26,505)	33,675,569
Accum Depreciation	(8,887,793)	(540,317)	-	(9,428,110)
<b>Net Property &amp; Equipment</b>	<u>\$ 24,416,283</u>	<u>\$ (142,319)</u>	<u>\$ (26,505)</u>	<u>\$ 24,247,459</u>

Millcreek Township Sewer Authority:

	Balance 1/1/13	Additions	Dispositions	Balance 12/31/13
Operating equipment	\$ 546,911	\$ 35,214	\$ -	\$ 582,126
Office equipment	167,717	-	-	167,717
Total Property & Equipment	714,628	35,214	-	749,843
Accumulated Depreciation	(203,456)	(58,636)	-	(262,092)
<b>Net Property &amp; Equipment</b>	<u>\$ 511,172</u>	<u>\$ (23,422)</u>	<u>\$ -</u>	<u>\$ 487,751</u>

**NOTE 5 - TAXES LEVIED AND RECEIVABLE:**

**A. Real Estate Taxes:**

Based upon assessed valuations provided by the County, the Township, through the elected tax collector, bills and collects its real estate taxes. The schedule for real estate taxes which were levied for 2013 is as follows:

March 1	-	levy date
March 1 - April 30	-	2% discount period
May 1 - June 30	-	face payment period
July 1 - Settlement Date	-	5% penalty period
Settlement Date	-	lien date

The Township tax rate for all purposes in 2013 was 2.5537 mills (\$25.537 per \$1,000 assessed valuation) which consisted of the following:

	<u>Mills</u>
General Purposes	2.3729
Permanent Public Improvements	.1808
	<u>2.5537</u>

Real estate taxes receivable of \$597,853 as of December 31, 2013 has been determined from records supplied by the elected tax collector and the Erie County Tax Claims Office. The amount of real estate taxes receivable so determined has been recorded on the balance sheet as an asset, offset by deferred revenue of \$478,170 which represents real estate taxes which will not be available to pay current liabilities.

**B. Earned Income Taxes:**

The Township's tax rate on earned income in 2013 was .5%.

The amount of earned income taxes receivable as of December 31, 2013 is \$1,524,459. This is the amount of Earned Income Tax, which will be available to pay current liabilities, and consists of claims for resident taxes outstanding at December 31, 2013.

**C. Other Taxes:**

Other taxes include realty transfer tax and occupational privilege tax. The Township's tax rate on these taxes in 2013 is as follows:

<u>Tax</u>	<u>Rate</u>
Realty Transfer Tax	.5%
Local Services Tax	\$52 per capita

The amount of taxes receivable as of December 31, 2013 is \$2,405,413. This is the amount that will be available to pay current liabilities, and consists of the following:

Real Estate Tax	\$ 597,853
Earned Income Tax	1,524,259
Realty Transfer Tax	53,278
Local Services Tax	230,023
	<u>\$ 2,405,413</u>

**NOTE 6 - ASSESSMENTS RECEIVABLE:**

Water and street light assessments receivable in the amount of \$66,408 as of December 31, 2013 have been determined from records maintained by the Township Lien Department. The amount of assessments so determined has been recorded on the balance sheet of the General Fund as an asset, offset by deferred revenue in the fund financial statements of \$64,788 which represents assessments, which will not be available to pay current liabilities.

**NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

The individual interfund receivables and payables of the Township as of December 31, 2013 are shown as follows:

Due to General Fund		
Perf. & Surety Fund	\$	41,808
Sewer Revenue Fund		129,506
		<u>171,314</u>
Due from General Fund		
Tax Escrow Fund		(97,857)
Net Interfund Receivable	\$	<u>73,457</u>

As of December 31, 2013 the following amounts were due the primary government from the component units:

	<u>Water Auth.</u>	<u>Sewer Auth.</u>	<u>Total</u>
Current	<u>\$ -</u>	<u>\$ 87,340</u>	<u>\$ 87,340</u>

Operating transfers in the amount of \$17,408 were made by the Sewer Revenue Fund to the Township's general fund during the years ended December 31, 2013 and 2012, respectively. The 2013 and 2012 transfers provided for the reimbursement of the Township's general fund for the sanitary sewer system related debt service.

**NOTE 8 - LONG TERM DEBT:**

The original loan date, interest rate and original issuance amount for each of the Township's loans are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<b>Governmental Activities:</b>			
Pennvest	1998	1.56%-3.07%	\$ 571,447
Kearsarge Fire Department Loan	2009	4.19%	\$ 283,000
<b>Component Units:</b>			
Millcreek Township Water Authority			
Pennvest	2000	1.62%-3.24%	\$ 661,634
Refunding Bonds	2011	0.60%-5.35%	\$ 4,715,000
Millcreek Township Sewer Authority			
Refunding Bonds	2011	1.00%-4.50%	\$ 13,150,000

A schedule of changes in long-term debt of the Township during 2013 is as follows:

	Balance 1/1/2013	Additions	Payments	Balance 12/31/2013	Due in One Year
<b>Governmental Activities:</b>					
Pennvest	\$ 200,241		\$ 31,832	\$ 168,409	\$ 32,825
Kearsarge Fire Department Loan	205,737		28,815	176,922	27,570
Total Bonds and Notes	405,978	-	60,647	345,331	60,395
Compensated absences	1,462,167	-	13,680	1,448,487	144,849
Post-employment benefits	6,629,203	1,744,805		8,374,008	
<b>Total Governmental Debt</b>	<b>\$ 8,497,348</b>	<b>\$ 1,744,805</b>	<b>\$ 74,327</b>	<b>\$ 10,167,826</b>	<b>\$ 205,244</b>

	Balance 1/1/2013	Additions	Payments	Balance 12/31/2013	Due in One Year
<b>Component Units:</b>					
Millcreek Township Water Authority					
Pennvest, 2000	305,336		33,991	271,345	35,107
Refunding Bonds, 2011	4,450,000		120,000	4,330,000	120,000
	4,755,336	-	153,991	4,601,345	155,107
Millcreek Township Sewer Authority					
Refunding Bonds, Series 2011	12,055,000		600,000	11,455,000	615,000
	12,055,000	-	600,000	11,455,000	615,000
<b>Total Component Unit of Debt</b>	<b>\$ 16,810,336</b>	<b>\$ -</b>	<b>\$ 753,991</b>	<b>\$ 16,056,345</b>	<b>\$ 770,107</b>
<b>Total Township Debt</b>	<b>\$ 25,307,684</b>	<b>\$ 1,744,802</b>	<b>\$ 828,318</b>	<b>\$ 26,224,171</b>	<b>\$ 975,351</b>

The Township borrowed \$283,000 from First National Bank on a general obligation note dated October 6, 2009, to provide funds for the Kearsarge Fire Department to purchase equipment. The Fire Department is obligated to make all debt service payments on this loan. This loan is payable in 120 monthly payments of \$2,890 including interest at 4.19%. The balance of the loan at December 31, 2013 was \$176,922.

All debt, except the Kearsarge Fire Department debt is secured by the full faith and credit of the Township. The General Obligation Note, Pennvest loan, and renovation loans are to be repaid from general property taxes levied on all property located within the Township. The Fire Department loan is secured by the vehicle purchased. An accounts receivable equivalent to the balance of the Fire Department debt is recorded on the government-wide financial statements at December 31, 2013.

The annual debt service requirements to maturity, including principal and interest, on bonds and notes payable as of December 31, 2013, are as follows:

Year Ending December 31,	Primary Government			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 32,825	\$ 4,712	\$ 37,537	\$ 770,107	\$ 605,297	\$ 1,375,404
2015	33,847	3,690	37,537	786,261	585,203	1,371,464
2016	34,901	2,636	37,537	807,452	568,832	1,376,284
2017	36,201	1,336	37,537	828,683	547,738	1,376,421
2018	36,130	436	36,566	844,954	525,733	1,370,687
2019	-	-	-	871,266	501,713	1,372,979
2020	-	-	-	902,622	474,592	1,377,214
2021	-	-	-	930,000	444,555	1,374,555
2022-2034	-	-	-	9,315,000	2,281,809	11,596,809
	<u>\$ 173,904</u>	<u>\$ 12,810</u>	<u>\$ 186,714</u>	<u>\$ 16,056,345</u>	<u>\$ 6,535,472</u>	<u>\$ 22,591,817</u>

**NOTE 9 – PENSION PLANS:**

**A. Plan Descriptions:**

The Township sponsors two contributory single employer defined benefit pension plans through Mockenhaupt Benefits Group, covering substantially all full-time employees. Eligibility for participation in the Police Pension Plan and the General Employees Pension Plan occurs at date of hire. 100% vesting occurs in the Police Pension Plan after completion of twelve years of service. 100% vesting occurs in the General Employees Pension Plan upon termination if ineligible for any other benefit from the Plan for participants hired before January 1, 1991. For participants hired on or after January 1, 1991, 100% vesting occurs after completion of ten years of service. Normal retirement under the Police Pension Plan is the later of age 50 or completion of 25 years of service. Participants hired prior to December, 1965 may retire upon attainment of age 60 and completion of 20 years of service if earlier. Normal retirement under the General Employees Pension Plan is later of age 62 or the completion of ten years of service.

At December 31, 2013 participants in the Plans are as follows:

	Police	General Employees
Active employees	55	111
Retirees and beneficiaries	51	50
	<u>106</u>	<u>161</u>

**B. Benefits:**

The Police Pension Plan provides for a monthly benefit for normal retirement equal to 50% of the average monthly salary averaged over the final 36 months of employment, plus a service increment of \$20 per year of service in excess of 25 years, up to a maximum increment of \$100 per month. In addition, a retiree will receive a cost of living adjustment on each October 1. The total of all increases may not exceed 30% of the retiree's original benefit nor may the sum of the retiree's benefit and all increases exceed 75% of salary used to compute the original benefit. The General Employees Pension Plan provides for a monthly benefit equal to 2.5% of final average earnings multiplied by the number of years of service, up to a maximum of 20 years.

**C. Contributions:**

Covered employees, under the General Employees Pension Plan, were required to contribute 4% of monthly compensation to the Plan during 2013. All general employees with 20 years of service were required to contribute 2% of compensation to the Plan. Covered employees, under the Police Pension Plan, were required to contribute 5% of monthly compensation to the Plan during 2013. The Township is required to contribute the remaining amounts necessary, as determined by the actuary, to pay benefits when due.

The Plans have been established by Township ordinance with the authority for municipal contributions required by Act 205 of the Pennsylvania Legislature.

**D. Annual Pension Costs:**

**Police**

Year Ended December 31,	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
2005	\$ 351,349	\$ 351,349	100%
2006	453,859	453,859	100%
2007	454,327	454,327	100%
2009	479,766	469,613	98%
2011	729,333	718,419	99%
2013	845,513	1,122,693	133%

**Employees**

Year Ended December 31,	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
2005	\$ 319,018	\$ 319,018	100%
2006	414,855	414,855	100%
2007	427,671	427,671	100%
2009	609,218	609,218	100%
2011	573,419	573,419	100%
2013	596,549	596,549	100%

The actuarial assumptions for the December 31, 2013 actuarial valuations include the following:

	<u>Police</u>	<u>Employees</u>
Valuation Date	1/1/2013	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	14 years	12 years
Asset valuation method	4-year smoothing	4-year smoothing
Actuarial Assumptions:		
Investment rate of return	7.50%	7.50%

## NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

### *Plan Descriptions*

The Township sponsors two single employer defined benefit healthcare plans. The Police plan provides lifetime medical, prescription drug, dental and visions insurance for eligible retirees and their spouses through the township's group health insurance plan, which covers both active and retired members. Police retirees are also provided a \$10,000 life insurance benefit until age 70 then \$5,000 thereafter. The General Employee plan provides medical and prescription drug coverage expenses for the retiree and dependents from the retiree's age 62 until Medicare eligibility assumed to be age 65. General Employee retirees are provided \$20,000 of life insurance until age 70, then \$5,000 thereafter. The Police and General Employee Retiree Health Plans do not issue a publicly available financial report.

### *Funding Policy*

Contribution requirements are negotiated between the Township and union representatives. GASB Statement #45 does not mandate the prefunding of postemployment benefits liability. Currently the employees pay \$30 per pay towards the cost of the healthcare plans. The Plan is financed on a pay-as-you-go basis.

### *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). The Township has elected to calculate the ARC and related information using the normal cost and an amortization payment towards unfunded actuarial accrued liability. GASB #45 requires that the period of amortization be at most 30 years, which is the period used by the Township. 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 Retiree healthcare Plans;

Normal cost	\$ 886,599
Amortization of unfunded	1,778,663
Annual required contribution	<u>\$ 2,665,262</u>
Annual required contribution	\$ 2,665,262
Interest and adjustments to ARC	<u>(108,663)</u>
Annual OPEB Cost	2,556,599
Projected Contributions made	<u>(811,794)</u>
Increase in Net OPEB Obligation	1,744,805
Net OPEB Obligation - beginning of year	<u>6,629,203</u>
Net OPEB Obligation - end of year	<u>\$ 8,374,008</u>

### *Funded Status and Funding Progress*

As of December 31, 2013, the actuarial accrued liability for benefits was \$28,972,436, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$10,458,236, and the ratio of unfunded actuarial accrued liability to the covered payroll was 277%.

The projection of future benefit payments for an ongoing plan involves 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 information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs. The 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.

The following assumptions were made:

Actuarial valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Interest rate	4.5%

*Retiring age for active employees –*

Police (Years of Service)			General	
Age	25	26 or more	Age	Rate
50	40%	40%	55-59	2%
51-54	40%	20%	60-61	10%
55-59	50%	25%	62	40%
60-61	50%	50%	63-65	30%
62 and over	100%	100%	66-69	20%
			70+	100%

*Mortality:* RP-2000 Combined Healthy Mortality Table, with blue collar adjustment

*Marital Status:* 90% males elect husband/wife coverage and 10% elect individual coverage; 60% of females elect husband/wife coverage and 40% elect individual coverage. Female spouses are assumed to be three years younger than male spouse.

*Withdrawal From Service:* Table T-2 from Actuary’s Pension Handbook

*Healthcare Cost Trend Rate*

The expected rate of increase in healthcare insurance premiums was based on projections by Mockenhaupt Benefits Group.

For many benefits, age tends to be a significant factor in average claims cost per person. The average amount of retiree claims will tend to be slightly higher than the average amount of active claims. The average will be higher than if only active employees were covered but lower than if only retirees were covered. Therefore the rates include an implicit subsidy for the retirees. GASB #45 requires recognition of this subsidy where significant. Age is a significant factor in the cost of medical care and prescription drug coverage for Millcreek Township. Accordingly, age-adjusted per person costs have been estimated. The following table represents the cost of the

PPO medical coverage:

Age Group	Age-Adjusted Annual Cost
Children	\$ 3,852
45	\$ 7,537
50	\$ 8,865
55	\$ 10,427
60	\$ 12,445
64	\$ 14,006

**NOTE 11 - PUBLIC EMPLOYEES DEFERRED COMPENSATION FUND:**

The Township maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees and eligible former employees. The assets of the Plan are held by insurance carriers and remain the property of the Township until they become due and payable to the Plan participants under the terms of the Plan. The Township has recorded the assets of the Plan and the corresponding liability in the combined balance sheets. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$4,888,211 and \$3,939,038 at December 31, 2013 and 2012, respectively.

The Sewer Authority maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees. The assets of the Plan are held by insurance carriers and remain the property of the Sewer Authority until they become due and payable to the Plan participants under the terms of the Plan. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$405,212 and \$319,708 at December 31, 2013 and 2012, respectively.

**NOTE 12 – YEAR 2014 BUDGET:**

A summary of the 2014 General, State and Sinking Fund budgets follows:

	<u>2014 Budgets</u>			
	<u>General &amp; Capital Projects Funds</u>	<u>State Fund</u>	<u>Sinking Fund</u>	<u>Combined Total</u>
	Budget Expenditures	\$ 27,020,835	\$ 1,114,045	\$ 37,537
Budget Revenues	27,136,140	1,116,545	1,346	28,254,031
	115,305	2,500	(36,191)	81,614
December 31, 2013 Assigned				
Fund Balances	3,142,684	506	286,972	3,430,162
	<u>\$ 3,257,989</u>	<u>\$ 3,006</u>	<u>\$ 250,781</u>	<u>\$ 3,511,776</u>

**NOTE 13 - RELATED PARTY TRANSACTIONS:**

***A. Lease Rentals Payable in Future Years:***

The Township entered into a lease dated December 1, 1992 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1992, Guaranteed Sewer Revenue Bonds dated December 15, 1992 in the principal amount of \$5,000,000 which were issued for the purpose of constructing Sewer System improvements.

The Township entered into the First Supplemental Agreement of Lease dated as of November 15, 1993 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1993 Guaranteed Sewer Refunding Bonds in the principal amount of \$5,230,000, which were dated as of November 15, 1993. All of the provisions of the agreement of lease between the Sewer Authority and the Township dated December 1, 1992 are ratified and reaffirmed by the Lease dated as of November 15, 1993 and all the provisions thereof apply as well to the 1993 bonds.

The Township entered into the Second Supplemental Agreement of Lease dated as of April 15, 1997 with the Sewer Authority in connection with the Authority's issuance of 1997 Guaranteed Sewer Revenue Bonds in the principal amount of \$4,000,000 which were dated as of April 15, 1997. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992 and November 15, 1993 are ratified and reaffirmed by the lease dated April 15, 1997 and all the provisions thereof apply as well to the 1997 bonds.

The Township entered into the Third Supplemental Agreement of Lease dated as of June 1, 1998 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 1998 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,525,000 which were dated as of June 1, 1998. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993 and April 15, 1997 are ratified and reaffirmed by the lease dated June 1, 1998 and all the provisions thereof apply as well to the 1998 bonds.

The Township entered into the Fourth Supplemental Agreement of Lease dated as of July 15, 2002 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2002 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,700,000 which were dated as of July 15, 2002. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, and June 1, 1998 are ratified and reaffirmed by the lease dated July 15, 2002 and all the provisions thereof apply as well to the 2002 bonds.

The Township entered into the Fifth Supplemental Agreement of Lease dated as of October 15, 2004 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2004 Guaranteed Sewer Revenue Bonds Series A and B in the principal amount of \$9,895,000 which were dated as of October 15, 2004. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, and July 15, 2002 are ratified and reaffirmed by the lease dated October 15, 2004 and all the provisions thereof apply as well to the 2004 bonds.

Millcreek Township entered into the Sixth Supplemental Agreement of Lease dated as of October 23, 2009 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2009 Guaranteed Sewer Revenue Note in the principal amount of \$700,000 which were dated as of October 23, 2009. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002 and October 15, 2004 are ratified and reaffirmed by the lease dated October 23, 2009 and all of the provisions thereof apply as well to the 2009 note.

Millcreek Township entered into the Seventh Supplemental Agreement of Lease dated as of June 15, 2011 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2011 Guaranteed Sewer Revenue Bonds in the principal amount of \$13,150,000 which were dated as of June 1, 2011. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002, October 15, 2004 and October 23, 2009 are ratified and reaffirmed by the lease dated June 1, 2011 and all of the provisions thereof apply as well to the 2011 bonds.

The Township, lessee, is obligated to pay minimum annual lease rentals to the Millcreek Township Sewer Authority, lessor, in an amount equal to the annual debt service requirements of the outstanding bond issues.

The following schedule sets forth the remaining minimum annual lease rental payments required to be made by the Township to the Authority under the lease agreements:

Year	Series of 2011		Total
	Principal	Interest	
2014	\$ 615,000	\$ 411,133	\$ 1,026,133
2015	630,000	394,233	1,024,233
2016	645,000	381,633	1,026,633
2017	660,000	364,833	1,024,833
2018	675,000	347,673	1,022,673
2019	695,000	328,866	1,023,866
2020	720,000	307,556	1,027,556
2021	740,000	283,344	1,023,344
2022	770,000	257,288	1,027,288
2023	795,000	228,413	1,023,413
2024-28	4,510,000	616,388	5,126,388
	<u>\$ 11,455,000</u>	<u>\$ 3,921,360</u>	<u>\$ 15,376,360</u>

The outstanding \$11,455,000 principal amount of the Millcreek Township Sewer Authority, Series 2011 Guaranteed Sewer Revenue Refunding Bonds are shown as a liability of the Sewer Revenue Fund of Millcreek Township, at December 31, 2013 as lease rentals payable. The current maturities of the bonds are classified as current liabilities of the Sewer Revenue Fund.

**B. Sewer System Management Agreement:**

The Township and the Sewer Authority entered into a Sewer System Management Agreement dated November 15, 1990. This agreement was modified by the parties effective September 21, 2004 in connection with the agreement of lease entered into by the Township and Sewer Authority.

The Agreement provides, in part, that the Sewer Authority will continue to be responsible for planning, designing, financing and constructing all major renewals and replacements and new sewer extensions to the sanitary sewer system of Millcreek Township.

The Agreement also provides, in part, that the Township will continue to operate and maintain the sewer system and collect sewer use revenues for the sewer system.

The Agreement also provides that the Township will pay to the Sewer Authority an annual amount equal to one percent (1%) of the valuation of the sewer system as annually reported by the Sewer Revenue Fund. These funds shall be used for costs related to repairs and improvements to the sewer system. In accordance with this provision, the Sewer Revenue Fund of Millcreek Township paid \$697,093 and \$680,751 to the Sewer Authority during the years 2013 and 2012, respectively. During the year ended December 31, 2013, the Sewer Revenue Fund of Millcreek Township will pay \$735,744 to the Sewer Authority.

This Agreement further provides that the Township is responsible for maintaining the Sewer Authority's Construction and Administrative fund at a balance of \$2,478,000 as adjusted annually by the Engineering News Record Construction Cost Index for Twenty Cities. The Township is required to replenish any deficiency in this fund within twenty-four (24) months of notice to the Township by the Authority. There was no deficiency in this fund at December 31, 2013.

**C. Operating Expenditures:**

The Sewer Authority pays reimbursements to the Township for employee benefits, rent, and miscellaneous expenses. The total amount paid as reimbursements during the year ended December 31, 2013 was \$292,643.

The Water Authority pays monthly reimbursements to the Sewer Authority for salaries and office expenses. The total amount paid as reimbursements during the year ended December 31, 2013 was \$464,972.

**NOTE 14 - ECONOMIC DEPENDENCY:**

The Water Authority purchases approximately 95% of the water sold to customers from the City of Erie Water Authority. The remaining 5% is obtained from a well owned by the Water Authority.

**NOTE 15 - COMPONENT UNITS:**

The following presents condensed balance sheets for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained at their administrative office.

	<b>December 31, 2013</b>		
	<b>Water Authority</b>	<b>Sewer Authority</b>	<b>Total</b>
<b><u>Assets:</u></b>			
Cash	\$ 3,251,041	\$ 3,401,238	\$ 6,652,279
Restricted cash and investments	-	610,779	610,779
Assessments receivable	-	2,499,045	2,499,045
Other accounts receivable	1,030,203	47,108	1,077,311
Grant receivable		280,000	280,000
Lease rentals receivables		11,455,000	11,455,000
Property and equipment -- net	24,247,459	487,751	24,735,210
<b>Total Assets</b>	<b>\$ 28,528,703</b>	<b>\$ 18,780,921</b>	<b>\$ 47,309,624</b>

**December 31, 2013**

	<u>Water Authority</u>	<u>Sewer Authority</u>	<u>Total</u>
<u>Liabilities and Fund Equities:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 298,231	\$ 490,785	\$ 789,016
Accrued interest payable	46,474	-	46,474
Project deposits	7,200	75,000	82,200
Escrow for rate dispute	992,851		992,851
Current portion of long-term debt	155,107	615,000	770,107
Long-term debt payable in future years	4,366,139	10,840,000	15,206,139
Post-employment benefits	62,949	80,116	143,065
Future compensation due to employees	53,763	405,212	458,975
<u>Total Liabilities</u>	<u>5,982,714</u>	<u>12,506,113</u>	<u>18,488,827</u>
<u>Deferred inflows of resources</u>	<u>-</u>	<u>1,776,351</u>	<u>1,776,351</u>
<u>Net Position:</u>			
Invested in Capital Assets	19,962,451	487,751	20,450,202
Restricted	3	205,567	205,570
Unrestricted	2,583,535	3,805,139	6,388,674
<u>Total Net Position</u>	<u>22,545,989</u>	<u>4,498,457</u>	<u>27,044,446</u>
<u>Total Liabilities and Net Position</u>	<u>\$ 28,528,703</u>	<u>\$ 18,780,921</u>	<u>\$ 47,309,624</u>

	<u>Water Authority</u>	<u>Sewer Authority</u>	<u>Total</u>
Operating Revenue	\$ 3,874,752	\$ 710,116	\$ 4,584,868
Operating Expenses	4,422,609	5,061,857	9,484,466
Operating Income (Loss)	(547,857)	(4,351,741)	(4,899,598)
Non-Operating Revenue (expense)	106,789	858,238	965,027
Increase in net Position, Before			
Capital Contributions	(441,068)	(3,493,503)	(3,934,571)
Capital Contributions	200,842	2,118,889	2,319,731
Increase in Net Position	(240,226)	(1,374,614)	(1,614,840)
Net Position, Beginning	22,786,215	5,873,071	28,659,286
Net Position, Ending	<u>\$ 22,545,989</u>	<u>\$ 4,498,457</u>	<u>\$ 27,044,446</u>

**NOTE 16 - COMMUNITY DEVELOPMENT BLOCK GRANT:**

Millcreek Township is the grantee of a U.S. Department of Housing and Urban Development Community Block Grant (CDBG), which is being used to fund various approved projects. The Grant is being administered by Erie County. Grant revenue and expenditures in the amount of \$200,474 are included in the revenues and expenditures of Millcreek Township.

**NOTE 17 – OTHER INFORMATION:**

***A. Lease Commitments:***

The Millcreek Township Sewer and Water Authorities lease their office from Millcreek Township on a month to month basis. Under the terms of the current lease the Authorities are required to pay \$61,124 annually in rent. The Authorities are also required to pay a utility fee of \$7,054 annually, which is adjusted every three years. The Authorities are allocating the cost of this as 2/3 for Millcreek Township Sewer Authority and 1/3 for the Millcreek Township Water Authority. The total lease payments made by the Sewer Authority for the years ended December 31, 2013 and 2012 were \$46,576 per year. The total lease payments made by the Water Authority for the years ended December 31, 2013 and 2012 were \$15,525 per year.

***B. Risk Management:***

The Township’s Employee Health Benefit Plan is a modified self-insurance program for insuring hospitalization and medical costs. The Township is limited to losses of \$85,000 annually per covered person. The Township is further limited by an aggregate stop loss of \$4,749,117 for the year ended December 31, 2013. The Plan covers all full-time employees and eligible dependents. At December 31, 2013 there were no material claim liabilities.

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; and natural disasters. The Authority is insured through commercial insurance for risk of loss. Millcreek Township did not have settled claims that exceeded the Authority’s commercial insurance coverage in any of the past three years.

The Authority’s deductibles and maximum coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General liability	\$1,000	\$2,000,000
Building/ Equipment	\$1,000	\$39,192,134
Automobile	\$500/\$1,000	\$1,000,000

***C. Commitments and Contingencies:***

***1. Grant Programs:***

The Township participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

***2. Contingent Liabilities:***

There are various claims and suits pending against the Township that arise in the normal course of the Township’s activities. In the opinion of counsel and Township management, the ultimate disposition of these various claims and suits will have no material effect on the financial position of the Township.

***D. Millcreek Township Water Authority Agreement with the Fairview Township Water Authority:***

The Millcreek Township Water Authority acquired the operating assets of the Erie Division of the Pennsylvania Water Company on August 1, 1985.

The Millcreek Township Water Authority conveyed the Fairview Township portion of the water system to the Fairview Township Water Authority by bill of sale dated November 15, 1985 for \$1,240,200. In addition, the Fairview Township Water Authority agreed to be subject to all terms, conditions and encumbrances required by the Purchase Agreement, the Indenture and the issuance of the 1985 Bonds by the Millcreek Township Water Authority.

The Authority agreed to pay Fairview Township Water Authority its 23.4% proportionate share of the interest income on the Bond Reserve, Maintenance Reserve and Capital Reserve Funds.

The Fairview Township Water Authority has agreed to pay its proportionate share of the cost of debt service requirements on the 2003 Guaranteed Water Revenue Note and the 2001 Bonds which was established at 5.25% and 25.65% respectively. Even though the Authority refinanced their bonds, the Fairview Township Water Authority is paying debt service based on the original agreement. The financial statements include revenue in the amount of \$162,338 representing Fairview's share of debt service recognized as revenue in 2013.

***E. Millcreek Township Water Authority Agreement with Summit Township Water Authority:***

The Water Authority constructed a water line along Peach Street between Davis Avenue and the Summit Township line which cost \$239,862. This water line is jointly used by Millcreek and Summit Townships. The Summit Township Water Authority agreed to pay 61.5% or \$147,515 of the cost of the jointly used facilities.

The Summit Township Water Authority's share of the debt service on the Bonds and Pennvest loan is based on the percentage of Summit Township Water Authority's cost of the jointly used facilities in relationship to the total Bond Issue and Pennvest loan. The Summit Township Water Authority's share of the debt service on the 2003 Bonds and the Pennvest loan was established at .17%. Their share of the debt service on the 2001 Bonds was established at .83%. Even though the Authority refinanced their bonds, the Summit Township Water Authority is paying debt service based on the original agreement.

***F. Sewer Joint Transportation Agreements:***

**Summit Township Sewer Authority**

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Summit Township Sewer Authority in 1994. Under the terms of this agreement the Summit Township Sewer Authority was reimbursing the Millcreek Township Sewer Authority for its share of the costs of three projects completed by the Millcreek Township Sewer Authority as follows:

**Beaver Run Project**

Payable in 80 quarterly installments of \$2,678 ending October 15, 2015.

**Glenwood Park Avenue Relief Sewer and Pumping Station Modifications**

Payable in 80 quarterly installments of \$13,071 ending July 15, 2018.

Pitt/Manor Project

Payable in 80 quarterly installments of \$9,183 ending January 16, 2021.

ORF Project

Payable in 36 semiannual installments ranging from \$13,973 to \$171,861 ending August 1, 2022.

In 2011 Summit Township Sewer Authority paid its share of the remaining balance due on all debt service, totaling \$1,804,554. This amount has been put in deferred revenue to offset future debt service payments. The amount is being recognized based on the original debt service schedule. The balance remaining at December 31, 2013 was \$1,570,791.

Fairview Township Sewer Authority

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Fairview Township Sewer Authority in 1996. Under the terms of this agreement the Fairview Township Sewer Authority is reimbursing the Millcreek Township Sewer Authority for its share of the costs of two projects completed by the Millcreek Township Sewer Authority as follows:

Millfair Heights Increased Pipe Size

Payable in annual principal installments of \$2,510 plus 4.54% interest ending in 2015.

Pitt/Manor Project

Payable in 80 quarterly installments of \$6,336 ending January 16, 2021.

During the years ended December 31, 2013 and 2012, the Fairview Township Sewer Authority reimbursed the Millcreek Township Sewer Authority \$25,342 and \$27,852, respectively, for these projects.

***G. Sewage Treatment Charges:***

The Sewer Revenue Fund pays its sewage treatment charges throughout the year based on an annual estimate determined by the City of Erie. At the conclusion of the year, the City of Erie prepares an annual statement of actual sewage treatment charges. The difference between the estimated and actual operations charges represents either a liability payable to the City of Erie, or a credit due the Sewer Revenue Fund, to be applied against the estimated charges for the succeeding year. The excess of estimated over actual sewage treatment charges for 2013 was \$698,930. The estimated 2014 sewage treatment charges are \$4,169,217. The 2013 and 2012 sewage treatment charges are summarized as follows:

	<u>2013</u>	<u>2012</u>
Operations	\$ 3,690,390	\$ 3,813,586
Act 537 Debt Service	<u>838,778</u>	<u>808,217</u>
	<u>\$ 4,529,168</u>	<u>\$ 4,621,803</u>

***H. Sewage Transportation Charges:***

The Sewer Revenue Fund pays sewage transportation charges to the City of Erie based on an agreement concluded in 1992 between Millcreek Township and the City of Erie which was effective September 1, 1991. Sewage Transportation charges in the amounts of \$229,188 and \$200,566 have been charged to Sewer Revenue Fund operations for the years ended December 31, 2013 and 2012, respectively. The excess of estimates over actual regular and special sewage transportation charges was \$49,472. The estimated 2014 sewage transportation charges are \$279,634.

## **NOTE 18 – CONTINGENCIES**

**Grants** – Amounts received or receivable from government agencies are subject to audit and adjustment by those agencies. The Millcreek Township Sewer Authority has never experienced noncompliance and has never been subject to adjustments or refunds as a result of such audits.

**Keystone Recreation, Park, and Conservation Fund Grant** – The Millcreek Township Sewer Authority was awarded a grant from the Commonwealth of Pennsylvania in the amount of \$100,000 with a local match of \$100,000. \$50,000 was received in 2012. Expenses for the project totaled \$24,658 in 2012 with the remaining \$25,342 being recognized in 2013. The balance remaining on the grant in the amount of \$50,000 has not yet been received. The Authority is working to see if they can get an extension to receive these funds. These grant funds will help pay for the Zimmerly Road Park project.

**Growing Greener Grant** – The Township was awarded a Grant from the PA Department of Environmental Protection in the amount of \$265,000. \$30,000 was received in 2013 and another \$190,000 was recorded as grant receivable at December 31, 2013. The remaining \$45,000 will be requested and is expected to be received in 2014. These grant funds helped pay for the Walnut Creek Stream Bank Stabilization project.

**US Fish and Wildlife Grant** – The Authority was awarded a Grant from the United States Department of the Interior in the amount of \$180,000. \$90,000 was received in 2013 and another \$90,000 was recorded to grants receivable as of December 31, 2013. These grant funds will help pay for the Walnut Creek Stream Bank Stabilization project.

The Millcreek Township Water Authority has been in dispute with the Erie City Water Authority regarding how the bulk rate has been calculated for bulk water purchases from the Erie City Water Authority. The parties went through mediation but no resolution was obtained. The parties have started arbitration in 2013. The Authority believes they have been over charged in excess of \$5,000,000. The Authority began paying the Erie City Water Authority only the portion they believe is actually owed for bulk water in 2013. They have calculated and recorded a contingent liability in the amount of \$922,851 at December 31, 2013.

The Millcreek Township Water Authority also has a dispute with the Erie City Water Authority regarding who is responsible for building and maintaining master meters, back flow preventer, etc. at the Hunter-Willis take point. The cost to build the facility at this connection point is in excess of \$100,000. The mediation process that began in 2013 is unresolved.

The Township also has litigation regarding a condemnation of an easement of property owned by Angela Cres Trust. The Trust submitted to Court of Common Pleas a claim of over \$3 million for counsel fees and expenses said to have been incurred in the 2005 condemnation action. This claim is being aggressively defended and is in the midst of mediation.

## **NOTE 19 – SUBSEQUENT EVENTS**

The Millcreek Township Board of Supervisors decided in January 2014 to undertake fact finding for the sale of the assets of the Millcreek Township Water Authority to Erie City Water Authority.

These financial statements considered subsequent events through April 18, 2014, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>(Unfavorable)</u>
<b><u>Revenues:</u></b>				
Property and other Taxes	\$ 17,457,795	\$ 17,457,795	\$ 19,449,751	\$ 1,991,956
Licenses and Permits	1,036,300	1,036,300	1,035,344	(956)
Fines	223,000	223,000	198,188	(24,812)
Intergovernmental	1,882,285	1,882,285	1,907,191	24,906
Charges for Services	175,000	175,000	186,402	11,402
Special Assessments	570,000	570,000	545,322	(24,678)
Rentals	150,000	150,000	149,828	(172)
Investment Income	31,200	31,200	21,525	(9,675)
Miscellaneous	171,445	171,445	227,990	56,545
<b><u>Total Revenues</u></b>	<u>21,697,025</u>	<u>21,697,025</u>	<u>23,721,541</u>	<u>2,024,516</u>
<b><u>Expenditures:</u></b>				
General Government	4,026,088	4,026,088	3,234,602	791,486
Public Safety	12,179,993	12,179,993	12,664,987	(484,994)
Highways	6,271,119	6,271,119	6,034,494	236,625
Parks and Recreation	1,628,615	1,628,615	1,291,537	337,078
Community	47,000	47,000	47,000	-
Miscellaneous	493,000	493,000	420,397	72,603
<b><u>Total Expenditures</u></b>	<u>24,645,815</u>	<u>24,645,815</u>	<u>23,693,017</u>	<u>952,798</u>
<b><u>Excess of Revenues Over</u></b>				
<b><u>(Under) Expenditures</u></b>	<u>(2,948,790)</u>	<u>(2,948,790)</u>	<u>28,524</u>	<u>2,977,314</u>
<b><u>Other Financing Sources</u></b>				
Sale of Fixed Assets	106,500	106,500	118,140	11,640
Transfers In	17,410	17,410	17,408	(2)
<b><u>Total Other Financing Sources</u></b>	<u>123,910</u>	<u>123,910</u>	<u>135,548</u>	<u>11,638</u>
<b><u>Net Change in Fund Balances</u></b>	<u>\$ (2,824,880)</u>	<u>\$ (2,824,880)</u>	<u>164,072</u>	<u>\$ 2,988,952</u>
<b><u>Fund Balances - Beginning of Year</u></b>			<u>2,978,612</u>	
<b><u>Fund Balances - End of Year</u></b>			<u>\$ 3,142,684</u>	

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues:</u></b>				
Property taxes	\$ 565,860	\$ 565,860	\$ 565,860	\$ -
<b><u>Expenditures:</u></b>				
Highways	565,860	565,860	531,161	34,699
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	-	-	34,699	34,699
<b><u>Net Change in Fund Balance</u></b>	\$ -	\$ -	34,699	\$ 34,699
<b><u>Fund Balance - Beginning of Year</u></b>			856,107	
<b><u>Fund Balance - End of Year</u></b>			\$ 890,806	

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**STATE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues:</u></b>				
Intergovernmental	\$ 1,119,250	\$ 1,119,250	\$ 1,152,897	\$ 33,647
Investment earnings	<u>5,400</u>	<u>5,400</u>	<u>2,877</u>	<u>(2,523)</u>
<b>Total Revenues</b>	<u>1,124,650</u>	<u>1,124,650</u>	<u>1,155,774</u>	<u>31,124</u>
<b><u>Expenditures:</u></b>				
Highways	<u>1,119,250</u>	<u>1,119,250</u>	<u>1,156,336</u>	<u>(37,086)</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>5,400</u>	<u>5,400</u>	<u>(562)</u>	<u>(5,962)</u>
<b><u>Net Change in Fund Balance</u></b>	<u>\$ 5,400</u>	<u>\$ 5,400</u>	<u>(562)</u>	<u>\$ (5,962)</u>
<b><u>Fund Balance - Beginning of Year</u></b>			<u>1,068</u>	
<b><u>Fund Balance - End of Year</u></b>			<u>\$ 506</u>	

**MILLCREEK TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**SINKING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues:</u></b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	1,346	1,346
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>1,346</b>	<b>1,346</b>
<b><u>Expenditures:</u></b>				
Debt Service	37,537	37,537	37,537	-
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(37,537)</b>	<b>(37,537)</b>	<b>(36,191)</b>	<b>1,346</b>
<b><u>Net Change in Fund Balance</u></b>	<b>\$ (37,537)</b>	<b>\$ (37,537)</b>	<b>(36,191)</b>	<b>\$ 1,346</b>
<b><u>Fund Balance - Beginning of Year</u></b>			<u>323,163</u>	
<b><u>Fund Balance - End of Year</u></b>			<u>\$ 286,972</u>	

**MILLCREEK TOWNSHIP**  
**SCHEDULE OF PENSION PLANS' FUNDING PROGRESS**  
**DECEMBER 31, 2013**

**Police Pension Plan**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as a Percentage of Covered Payroll ([b-a]/c)
2013	\$ 25,699,661	\$ 31,875,543	\$ (6,175,882)	80.6%	\$ 4,819,865	128.13%
2011	23,585,452	29,284,056	(5,698,604)	80.5%	4,610,481	123.60%
2009	22,879,821	26,215,129	(3,335,308)	87.3%	6,205,787	53.75%
2007	23,788,770	23,919,527	(130,757)	99.5%	3,326,344	3.93%
2005	20,041,419	20,936,134	(894,715)	95.7%	3,016,169	29.66%
2003	20,568,208	20,446,677	121,531	100.6%	3,545,645	N/A
2001	20,808,353	17,558,136	3,250,217	118.5%	3,315,590	N/A
1999	19,266,095	15,521,963	3,744,132	124.1%	3,065,793	N/A

**Employees Pension Plan**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as a Percentage of Covered Payroll ([b-a]/c)
2013	\$ 21,177,083	\$ 26,284,662	\$ (5,107,579)	80.6%	\$ 6,339,768	80.56%
2011	18,841,476	23,788,708	(4,947,232)	79.2%	6,233,143	79.37%
2009	16,881,530	18,983,094	(2,101,564)	88.9%	3,664,246	57.35%
2007	16,269,518	16,835,729	(566,211)	96.6%	5,704,372	9.93%
2005	13,563,484	13,612,404	(48,920)	99.6%	5,144,442	0.95%
2003	13,027,780	12,110,884	916,896	107.6%	5,023,967	N/A
2001	12,584,704	11,531,555	1,053,149	109.1%	4,479,688	N/A
1999	11,250,719	10,162,099	1,088,620	110.7%	4,069,191	N/A

**MILLCREEK TOWNSHIP**  
**SCHEDULE OF RETIREE HEALTH CARE PLANS' FUNDING PROGRESS**  
**DECEMBER 31, 2013**

**Police Plan**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
2013	\$ -	\$ 25,049,027	\$ 25,049,027	0.0%	\$ 4,819,865	519.70%
2011	-	18,895,602	18,895,602	0.0%	4,585,303	412.09%
2009	-	18,049,181	18,049,181	0.0%	3,664,246	492.58%
2007	-	16,453,437	16,453,437	0.0%	4,127,902	398.59%

**Employees Plan**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (ALL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
2013	\$ -	\$ 3,923,409	\$ 3,923,409	0.0%	\$ 5,638,371	69.58%
2011	-	2,869,605	2,869,605	0.0%	5,383,782	53.30%
2009	-	2,821,500	2,821,500	0.0%	5,422,059	52.04%
2007	-	2,552,698	2,552,698	0.0%	5,350,887	47.71%