

TOWNSHIP OF LOWER GWYNEDD

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2011

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Supervisors
Township of Lower Gwynedd
Spring House, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Lower Gwynedd as of December 31, 2011, and for the year then ended, which collectively comprise the Township of Lower Gwynedd's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Lower Gwynedd's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Lower Gwynedd as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012, on our consideration of the Township of Lower Gwynedd'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* and should be considered in assessing the results of our audit.

To the Board of Supervisors
Township of Lower Gwynedd
Spring House, Pennsylvania

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison information on page 46, trend data on infrastructure condition on page 47, pension plan funding progress on page 48 and postemployment benefits other than pension funding progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

Maillo Falconieri + Company, LLP

Oaks, Pennsylvania
April 19, 2012

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Our discussion and analysis of Lower Gwynedd Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Assets.

FINANCIAL HIGHLIGHTS

- The assets of the Township exceeded its liabilities by \$42,209,145 (net assets). Of this amount, \$9,665,895 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net assets decreased by \$409,757.
- As of December 31, 2011, the fund balance for the General Fund was \$2,267,801.
- Outstanding debt at year ending 2011 was \$5,335,000.
- The Township's debt rating remained at Aaa by Moody's Investors Service after their review of all municipalities.
- The Township increased Real Estate Taxes by .106 mills which was the first tax increase in 14 years.
- Local Service Tax was collected for the first time in 2011, which generated \$231,231 in additional revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Township. The components of the report include the Independent Auditors' Report, Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements and Notes to the Basic Financial Statements. This report also contains other Required and Supplementary Information in addition to the basic financial statements.

The Independent Auditors' Report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

Management's Discussion and Analysis (MD&A), prepared by the Township's management, provides an overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the Statement of Net Assets, Statement of Activities, Fund Financial Statements and the Notes to the Basic Financial Statements. Statements of Net Assets and Activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Township.

- The Statement of Net Assets focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

- The Statement of Activities focuses on gross and net costs of the Township programs and the extent to which such programs rely upon taxes and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other sources.
- Fund Financial Statements focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column titled "Other Governmental Funds." Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net assets, revenues, expenses and changes in net assets and cash flows. The Proprietary Fund represents the Township's Sewer Operating Fund and can be found in more detail beginning with the Statement of Net Assets, Proprietary Fund. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The Notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

Other Required Supplementary Information (RSI) is additional information consisting of budgetary comparisons for the General Fund, trend data on infrastructure condition and pension and OPEB schedules of funding progress.

Other Supplementary Information consists of the following:

- Combining Balance Sheet and Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficit) for Other Governmental Funds.
- Combining Schedule of Fiduciary Net Assets and Combining Schedule of Changes in Fiduciary Net Assets for Fiduciary Funds.

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Assets and Statement of Activities

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

These two statements report the Township's net assets and changes in them during the year. Over time, increases or decreases in the Township's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Township's property tax base and the condition of the Township's assets, to assess the overall fiscal health of the Township.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

In these statements, we divided the Township into two kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including police, public works, safety and codes, parks and recreation and administration. Real estate, earned income and business taxes, fees and charges and grants finance most of these activities.
- **Business-Type Activities** - The Township charges a fee to customers to cover all or most of the cost of services it provides. The Township's sewer system is reported here. The Township also includes a separate legal entity in its report--the Lower Gwynedd Township Municipal Authority. The Municipal Authority is a public authority, which exists to provide facilities for use in the sewer operation of the Township Sewer Fund. The Municipal Authority is considered a blended component unit and is included with the business-type activities. Although legally separate, the Municipal Authority is important because the Township is financially accountable for it, and, therefore, it has been included as an integral part of the primary government.

The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Township's governmental and business-type activities. Assets exceeded liabilities by \$42,209,145 at the close of 2011. This is a decrease of \$409,757 from the previous year.

Table 1
Condensed Statements of Net Assets
December 31, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
ASSETS						
Cash and investments	\$ 6,708,446	\$ 7,131,203	\$ 3,654,495	\$ 3,108,748	\$ 10,362,941	\$ 10,239,951
Other assets	871,186	880,854	111,358	165,049	982,544	1,045,903
Capital assets	<u>33,435,910</u>	<u>33,471,249</u>	<u>4,038,433</u>	<u>4,784,184</u>	<u>37,474,343</u>	<u>38,255,433</u>
TOTAL ASSETS	\$ <u>41,015,542</u>	\$ <u>41,483,306</u>	\$ <u>7,804,286</u>	\$ <u>8,057,981</u>	\$ <u>48,819,828</u>	\$ <u>49,541,287</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Other liabilities	\$ 775,070	\$ 984,408	\$ 199,124	\$ 211,698	\$ 974,194	\$ 1,196,106
Long-term debt	4,165,000	4,308,000	1,170,000	1,280,000	5,335,000	5,588,000
OPEB liability	301,489	138,279	-	-	301,489	138,279
TOTAL LIABILITIES	<u>5,241,559</u>	<u>5,430,687</u>	<u>1,369,124</u>	<u>1,491,698</u>	<u>6,610,683</u>	<u>6,922,385</u>
NET ASSETS						
Invested in capital assets, net of related debt	29,330,694	29,163,249	2,904,262	3,504,184	32,234,956	32,667,433
Restricted	308,294	-	-	-	308,294	-
Unrestricted	<u>6,134,995</u>	<u>6,889,370</u>	<u>3,530,900</u>	<u>3,062,099</u>	<u>9,665,895</u>	<u>9,951,469</u>
TOTAL NET ASSETS	<u>35,773,983</u>	<u>36,052,619</u>	<u>6,435,162</u>	<u>6,566,283</u>	<u>42,209,145</u>	<u>42,618,902</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>41,015,542</u>	\$ <u>41,483,306</u>	\$ <u>7,804,286</u>	\$ <u>8,057,981</u>	\$ <u>48,819,828</u>	\$ <u>49,541,287</u>

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

The largest portion of the Township's net assets \$32,234,956 or 76.4%, is reflected in its investment in capital assets (e.g., land, buildings, streets, equipment) less any related debt which is still outstanding. The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending, and the resources needed to repay this debt must be provided from other sources. Cash and investments represent 21.2% of Lower Gwynedd Township's total assets.

Long-term debt totaled \$5,335,000. The proceeds were used to finance two major projects; the expansion of the municipal complex including the installation of an emergency generator and the construction of Pen-Ambler Park. The expansion of the municipal complex and the construction of Pen-Ambler Park have been completed. Funds from the Bond proceeds, originally budgeted for the Fire/Ambulance Sub-Station, were reallocated for the installation of an emergency generator at the Township Building. Due to the sluggish economy and unexpected difficulties in acquiring land, the construction of the Fire/Ambulance Sub-Station has been postponed. The Township refinanced the 2005 General Obligation Bonds and received net proceeds of \$265,991.

Assets in the business-type activities column reflect the Township's investment in its sewer system. Cash and investments represent 46.8% of Lower Gwynedd Township's total business-type assets, which will allow for future investment in the sewer system. The Township operates and maintains three pumping stations, five metering stations and 147 miles of sewer lines.

Accumulated depreciation reflects 18.8% of total capital assets for governmental activities and 79.3% of total capital assets for business-type activities. The percentages reflect the Township's commitment to provide services through effective and efficient use of resources.

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2011 was \$7,368,462.

The Township's governmental activities sustained a net decrease of \$278,636, and the business-type activities sustained a net decrease of \$131,121. The total decline of net assets of the Township was \$409,757.

Table 2 shows the changes in net assets for the years ended December 31, 2011 and 2010.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Table 2
Changes in Net Assets
Years Ended December 31, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues						
Charges for services	\$ 911,413	\$ 669,721	\$ 2,812,491	\$ 2,650,878	\$ 3,723,904	\$ 3,320,599
Operating grants and contributions	718,876	489,541	202,897	-	921,773	489,541
Capital grants and contributions	-	-	-	40,936	-	40,936
General revenues						
Taxes						
Real estate tax	1,518,220	1,507,032	-	-	1,518,220	1,507,032
Real estate transfer tax	296,300	318,563	-	-	296,300	318,563
Earned income tax	2,865,290	3,053,273	-	-	2,865,290	3,053,273
Business privilege tax	237,132	271,699	-	-	237,132	271,699
Mercantile tax	138,042	114,128	-	-	138,042	114,128
Local services tax	231,231	-	-	-	231,231	-
Cable TV franchise fees	183,930	197,900	-	-	183,930	197,900
Investment income	130,383	149,863	24,923	33,507	155,306	183,370
Gain (loss) on sale/disposition of assets	30,089	(14,441)	-	-	30,089	(14,441)
Miscellaneous	1,820	-	-	-	1,820	-
Interfund transfers, net	105,736	109,789	(105,736)	(109,789)	-	-
TOTAL REVENUES	7,368,462	6,867,068	2,934,575	2,615,532	10,303,037	9,482,600
EXPENSES						
General government	1,219,953	1,199,922	-	-	1,219,953	1,199,922
Public safety	3,482,982	3,359,581	-	-	3,482,982	3,359,581
Highways/streets	1,311,826	1,304,725	-	-	1,311,826	1,304,725
Culture and recreation	486,082	470,962	-	-	486,082	470,962
Insurance	60,895	86,320	-	-	60,895	86,320
Workmen's compensation	66,515	68,524	-	-	66,515	68,524
Payments to fire companies	185,311	182,565	-	-	185,311	182,565
Interest on long-term debt	146,493	186,084	-	-	146,493	186,084
Depreciation, unallocated	687,041	677,161	-	-	687,041	677,161
Sewer operations	-	-	3,065,696	3,479,509	3,065,696	3,479,509
TOTAL EXPENSES	7,647,098	7,535,844	3,065,696	3,479,509	10,712,794	11,015,353
CHANGE IN NET ASSETS	(278,636)	(668,776)	(131,121)	(863,977)	(409,757)	(1,532,753)
NET ASSETS AT BEGINNING OF YEAR	36,052,619	36,721,395	6,566,283	7,430,260	42,618,902	44,151,655
NET ASSETS AT END OF YEAR	\$ 35,773,983	\$ 36,052,619	\$ 6,435,162	\$ 6,566,283	\$ 42,209,145	\$ 42,618,902

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

The cost of all governmental activities this year was \$7,647,098. The amount that our taxpayers ultimately financed for these activities through Township taxes was \$6,016,809.

As indicated by the governmental program expenses, public safety programs account for approximately 45.5% of the total expenditures of the Township's governmental activities. General administration and high-ways/streets services account for approximately 16.0% and 17.2%, respectively, of the total expenditures for 2011.

Real estate taxes, earned income taxes and other general revenues not restricted or applicable to specific programs provide the major revenue sources for governmental activities. Real estate taxes and real estate transfer taxes provide approximately 20.6% and 4.0% of total governmental revenues, respectively. Earned income taxes provide 38.9% of the governmental revenues. Local Service Tax was instituted in the year 2011 which provided 3.1% of the total governmental revenues. Below are the charts showing the prior years of Real Estate Tax, Transfer Tax and Earned Income Tax receipts.

Real Estate Tax

Year	Assessment	Rate of Change	Change in Assessment	Millage	Assessment Change	Increase in Real Estate Tax Billed	Real Estate Tax Billed	Real Estate Tax Collected (Face)
2012	\$ 1,358,357,360	99.46%	\$ (7,357,590)	1.223	\$ (8,998)	\$ 136,634	\$ 1,678,352	\$ N/A
2011	1,365,714,950	101.12%	15,155,000	1.117	16,928	17,215	1,541,718	1,526,595
2010	1,350,559,950	100.19%	2,566,120	1.117	2,866	2,867	1,524,503	1,507,032
2009	1,347,993,830	101.45%	19,240,240	1.117	21,491	21,491	1,521,636	1,507,664
2008	1,328,753,590	101.38%	18,146,970	1.117	20,270	20,257	1,500,145	1,495,715
2007	1,310,606,620	100.97%	12,571,660	1.117	14,043	14,730	1,479,888	1,470,706
2006	1,298,034,960	100.83%	10,744,390	1.117	12,001	11,849	1,465,158	1,449,951

Transfer Tax

2011	2010	2009	2008	2007	2006
<u>\$ 296,300</u>	<u>\$ 318,563</u>	<u>\$ 335,550</u>	<u>\$ 666,429</u>	<u>\$ 653,528</u>	<u>\$ 487,323</u>

Earned Income Tax

2011	2010	2009	2008	2007	2006
<u>\$ 2,865,290</u>	<u>\$ 3,053,273</u>	<u>\$ 2,956,517</u>	<u>\$ 3,350,100</u>	<u>\$ 3,248,253</u>	<u>\$ 3,421,140</u>

Business-Type Activities

The Lower Gwynedd Township sewer system was constructed by the Lower Gwynedd Township Municipal Authority at the request of the Township's Board of Supervisors. The Municipal Authority retains ownership of the system and leases it to the Township, which is responsible for its operation, maintenance and repair. Total revenue from this activity is \$2,934,575. Total expense is \$3,065,696, which exceeded revenues by 4.47%. In July 2010, the Township raised its sewer usage charge for metered water to \$80.00 for 12,000 gallons and \$5.25 per additional 1,000 gallons.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments fall into two categories, transfers or supplemental appropriations, and can only be made after April 1st of the budget year in accordance with the Pennsylvania Second Class Township Code. Transfers are made between budget line items, and supplemental appropriations are a result of additional unanticipated revenues. The following is a brief summary of budget amendments between the original budget and the final amended budget for fiscal 2011:

- \$134,710 decrease of Earned Income Tax due to economic conditions.
- \$35,387 decrease of Business Privilege Tax due to softness in the economy.
- \$34,366 decrease of Interest Earnings due to low interest rates and lower cash surpluses.
- \$119,804 increase of Municipal Pension System State Aid due to a one-time adjustment from the Commonwealth.
- \$96,800 increase in Building Permits due to industrial projects.
- \$10,835 increase in Professional Services- Financial due to actuarial services for Other Post Retirement Benefit.
- \$17,175 decrease in Professional Services- Engineering due to slow down in the economy.
- \$19,285 decrease in Wages-Interior Maintenance due to over estimates.
- \$42,760 increase in Architectural Services due to building permit activities.
- \$15,230 decrease in Worker's Compensation Insurance due to over estimates.
- \$1,955,934 increase in Transfer to Capital Reserve to comply with the new Fund Balance Policy.

The General Fund Balance changed due to the new Fund Balance Policy, which has a target range of 25 to 35 percent of unrestricted fund balance. When the General Fund expenditures were adjusted for the transfer to the Capital Reserve Fund of \$1,955,934, the General Fund revenues exceeded the expenditures by \$206,014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lower Gwynedd Township's investment in capital assets for its governmental and business-type activities as of December 31, 2011, totals \$33,435,910 and \$4,038,433, respectively (net of accumulated depreciation). Township investments in capital assets include land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements and infrastructure (see Table 3). Infrastructure includes roads, bridges, storm sewers and traffic signals. The business-type activities are the sanitary sewer lines, pumping stations and equipment.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Table 3
Capital Assets at Year-End (Net of Depreciation)
December 31, 2011

GOVERNMENTAL ACTIVITIES		
Land		\$ 9,594,371
Infrastructure		13,154,136
Construction in progress		14,250
	TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>22,762,757</u>
Infrastructure		4,349,262
Buildings and building improvements		5,334,922
Furniture, equipment and vehicles		988,969
	TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>10,673,153</u>
	TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	33,435,910
BUSINESS-TYPE ACTIVITIES		
Sewer system and equipment		<u>4,038,433</u>
	TOTAL CAPITAL ASSETS	<u>\$ 37,474,343</u>

This year's major additions included:

GOVERNMENTAL ACTIVITIES		
Demolition of Siman Building		\$ 15,537
Acquisition of Land for Pedestrian Trail		54,716
Infrastructure of Georgetown Area Trail		124,756
Infrastructure of Penllyn Pike Trail		59,257
Computer Software and Hardware		17,413
Backhoe Loader		80,689
Street, Hopes Lane		201,900
BUSINESS-TYPE ACTIVITIES		
Sewer system improvements and equipment		\$ 19,664

Building and improvements, equipment and infrastructure of the primary government, as well as the component unit, are depreciated using the straight-line method. However, for road and street infrastructure, the Township elected to use the modified approach. The modified approach allows Lower Gwynedd Township to record the current costs of preserving eligible infrastructure in lieu of depreciation. The streets are maintained at an acceptable level and these maintenance costs are expensed. Only expenditures that increase capacity or efficiency of the infrastructure are capitalized.

A summary of changes in Capital Assets is presented in Note C of the Financial Statements.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Debt

As a result of the re-calibration to the Global Scale, Moody's maintained the Township as Aaa, which is the highest possible rating. The high rating reflects the Township's multi-year trend of ample available reserves that well-exceed the national median for similarly-rated credits, wealth and income levels that are at least two times national medians, modest debt burden with limited future debt plans, moderately-sized and growing tax base outside of Philadelphia and conservative spending policies.

The Township's Gross Borrowing Base and Debt Capacity calculation is \$26,856,724 for Non-electoral Debt and \$37,599,413 Non-electoral and Lease Rental Debt.

At year end for the Governmental Activities, the Township's debt was \$4,165,000 compared to \$4,308,000 the previous year. The debt that is due within one year for Governmental Activities is \$436,000. For the Business-Type Activities, the Township had \$1,170,000 in outstanding debt at year end compared to \$1,280,000 the previous year. The debt that is due within one year for Business-Type Activities is \$110,000.

Table 4		
Outstanding Debt		
December 31, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 4,165,000	\$ 4,308,000
BUSINESS-TYPE ACTIVITIES		
Guaranteed Sewer Revenue Bonds	<u>1,170,000</u>	<u>1,280,000</u>
	<u>\$ 5,335,000</u>	<u>\$ 5,588,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

Lower Gwynedd Township is located in the southeastern section of Montgomery County and is 15 miles from Philadelphia. Lower Gwynedd is bounded by the townships of Montgomery, Horsham, Upper Dublin, Whitpain and Upper Gwynedd and Ambler Borough.

The Township is served by a network of major roads which offers convenient access to the City of Philadelphia. The roads that go through the Township are State Routes 63, 202 and 309. Major reconstruction has been completed this year on Route 309 through Lower Gwynedd Township. Major reconstruction of a portion of Route 202 will be completed in 2012. The Township is also served by two SEPTA passenger rail stations within its borders, Penllyn and Gwynedd Valley Stations.

The Township is home to Gwynedd Mercy College, Wissahickon High School, Middle and Elementary Schools, as well as the prestigious Gwynedd Mercy Academy Elementary and High Schools. These schools provide convenient and close access to both public and private educational institutions.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Local industry, close proximity to major employment centers and educational institutions play an important role in the Township's economy. The largest employer in the Township is Gwynedd Mercy College. Dow Chemical, Janssen, a subsidiary of Johnson & Johnson, Siemens Energy and BASF Corporation provide the Township with a strong industrial base. Other noted employers in the Township are Wissahickon School District, Acts Retirement Life Community, Foulkeways at Gwynedd and Country Inn Associates (a.k.a. The William Penn Inn). Merck & Co. has their world headquarters in West Point, Pennsylvania, approximately five (5) miles west of the Township. Merck & Co. owns a 130-acre site on Sumneytown Pike which is mostly undeveloped.

The Township's population has grown steadily over the past 25 years. According to the U.S. Census Bureau, the population in 1980 was 6,902. In 2000, the population was counted at 10,422 with 4,360 dwelling units. In 2010, the Township's population was 11,405 with 4,906 dwelling units. The Township continues to attract high-end residential development. According to the Montgomery County Planning Commission, the median sale price for all housing units, new and resale, in Lower Gwynedd for the year 2009 was \$436,000 compared to the median sale price of \$263,000 in Montgomery County. This is consistent with income levels, as nearly 50% of all households in Lower Gwynedd have incomes in excess of \$100,000. The Planning Commission estimates that 9,355 people work in Lower Gwynedd Township.

These statistics all bode well for the Township's tax base and revenue stream. The Township's use of conservative revenue estimates has created significant cash reserves in the General Fund and Capital Reserve Fund. This has reduced the impact of recent revenue shortfalls. Receipts are monitored closely in order to proactively adjust to economic conditions. Lower Gwynedd Township had a modest tax increase in 2012 from 1.117 mills to 1.223 mills.

Next Year's Budget

The 2012 Budget and Fiscal Plan was approved by the Board of Supervisors on December 13, 2011. In 2011, the Township saw revenues sensitive to economic conditions remain flat. The Local Services Tax was collected in 2011 for the first time which added an additional \$231,231 of revenues. Total 2012 expenditures of all funds are estimated at \$16,421,522.

The assessed value of all taxable properties in Lower Gwynedd is \$1,358,357,360 in 2012, which is a decrease of .54% from the year before. Successful assessment appeals, driven by reduced real estate prices, continue to depress real estate assessed valuations.

The main operating fund for general government is the General Fund. The 2012 General Fund budget totaled \$6,215,399. This amount reflects an increase of 5.5%. A home assessed at \$350,000 will pay \$428.65 in Township Real Estate Taxes in 2012. It is one of the lowest rates in Montgomery County.

Operating and pension expenses for the police department will total \$3,242,841 in 2012, representing 53% of General Fund expenditures. The Township will provide \$57,720 to North Penn Fire Company and \$134,680 to Wissahickon Fire Company for fire protection from the two volunteer fire companies in 2012. The Community Ambulance Association of Ambler is budgeted to receive a donation of \$15,000. The Recreation Fund budget will total \$504,059 in 2012.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2011

Capital projects total \$2,333,461 in 2012. Of that total, \$804,555 is for sewer system improvements. In 2012, the Township will complete the construction of trails on Penllyn Pike with the assistance of a county open space grant. The 2012 Road Improvement Program will total \$618,505.

The 2012 Budget did not include an increase in sewer rates. Lower Gwynedd Township will pay Ambler Borough \$1,401,535 for treatment and capital costs for sewage flows going into Ambler Borough's Treatment Plant, representing a 31% increase compared to the 2011 budgeted amount of \$1,073,932. This increase is almost entirely due to the planned replacement of plastic media in the nitrification towers which will occur in 2012 and 2013. This major expense can be paid for from existing revenues and surplus. The Sewer Capital Reserve Fund balance as of December 31, 2011, was \$1,407,655. These funds are available for capital improvements and contingencies. An amount totaling \$50,000 is budgeted in 2012 to reduce extraneous flows in the collection system. This work is necessary to replace aging sewer system infrastructure in the Township and to reduce sewage flows from the Township into the Ambler Wastewater Treatment Plant.

The Open Space Fund was created to provide funding to take advantage of opportunities to purchase land in the Township for recreational or preservation purposes. Revenues are received via transfers of surplus funds from the General or Capital Reserve Funds. The balance in the Open Space Fund as of December 31, 2011, was \$582,054. The completion of the trail connection along Penllyn Pike to the Green Ribbon Trail and the demolition of the building at Bethlehem Pike and Penllyn Pike were paid for from this fund. The Township expects to receive reimbursement in the amount of \$416,000 from Montgomery County, representing partial reimbursement for the purchase of the Siman property to expand Veterans Memorial Park.

The Sinking Fund budget totals \$571,765. Due to the refinancing of a 2005 debt issuance, debt service payments have been reduced compared to 2011. In 2013, debt service payments will increase to \$609,370.

In conclusion, the 2012 Budget and Fiscal Plan included a modest tax increase to partially offset anticipated real estate tax revenue reductions and flat revenue projections from other tax sources. Personnel levels were reduced in 2010 and personnel levels will remain at current levels through 2012. The Fiscal Plan, as adopted will allow the Township to continue to provide a high level of service to its residents.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the funds it receives and disburses. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Finance Director, Lower Gwynedd Township, PO Box 625, Spring House, PA 19477-0625.

General information relating to Lower Gwynedd Township can be found on its website, <http://www.lowergwynedd.org>.

TOWNSHIP OF LOWER GWYNEDD

STATEMENT OF NET ASSETS

December 31, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 6,708,446	\$ 2,843,766	\$ 9,552,212
Investments	-	810,729	810,729
Accounts receivable	70,542	-	70,542
Sewer rents receivable	-	44,287	44,287
Taxes receivable	653,774	-	653,774
Interest receivable	33,041	5,714	38,755
Assessments receivable	-	21,120	21,120
Internal balances	1,499	(1,499)	-
Prepaid expenses	7,778	5,907	13,685
Bond issue costs, net of accumulated amortization of \$3,436	62,531	-	62,531
Bond discount, net of accumulated amortization of \$34,120	-	35,829	35,829
Deferred amount on refunding, net of accumulated amortization of \$6,003	42,021	-	42,021
Capital assets			
Sewer system and equipment	-	19,508,121	19,508,121
Land	9,594,371	-	9,594,371
Buildings and building improvements	9,300,032	-	9,300,032
Furniture, equipment, automobiles and trucks	2,170,895	-	2,170,895
Infrastructure	20,106,475	-	20,106,475
Construction in progress	14,250	-	14,250
Accumulated depreciation	(7,750,113)	(15,469,688)	(23,219,801)
TOTAL ASSETS	\$ 41,015,542	\$ 7,804,286	\$ 48,819,828

	Governmental Activities	Business-Type Activities	Totals
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 258,195	\$ 123,332	\$ 381,527
Accrued interest	21,240	12,840	34,080
Escrow deposits	450,867	62,952	513,819
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	436,000	110,000	546,000
Portion due or payable after one year			
Bonds payable	3,729,000	1,060,000	4,789,000
Bond premium, net of accumulated amortization of \$2,460	44,768	-	44,768
OPEB liability	301,489	-	301,489
TOTAL LIABILITIES	5,241,559	1,369,124	6,610,683
NET ASSETS			
Invested in capital assets, net of related debt	29,330,694	2,904,262	32,234,956
Restricted	308,294	-	308,294
Unrestricted	6,134,995	3,530,900	9,665,895
TOTAL NET ASSETS	35,773,983	6,435,162	42,209,145
TOTAL LIABILITIES AND NET ASSETS	\$ 41,015,542	\$ 7,804,286	\$ 48,819,828

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,219,953	\$ 292,840	\$ 169,440	\$ -	\$ (757,673)	\$ -	\$ (757,673)
Public safety	3,482,982	344,565	314,591	-	(2,823,826)	-	(2,823,826)
Public works, highways, roads and streets	1,311,826	165,658	234,845	-	(911,323)	-	(911,323)
Culture and recreation	486,082	108,350	-	-	(377,732)	-	(377,732)
Insurance	60,895	-	-	-	(60,895)	-	(60,895)
Workmen's compensation	66,515	-	-	-	(66,515)	-	(66,515)
Payments to fire companies	185,311	-	-	-	(185,311)	-	(185,311)
Interest on long-term debt	146,493	-	-	-	(146,493)	-	(146,493)
Depreciation, unallocated	687,041	-	-	-	(687,041)	-	(687,041)
TOTAL GOVERNMENTAL ACTIVITIES	<u>7,647,098</u>	<u>911,413</u>	<u>718,876</u>	<u>-</u>	<u>(6,016,809)</u>	<u>-</u>	<u>(6,016,809)</u>
BUSINESS-TYPE ACTIVITIES							
Sewer	3,065,696	2,812,491	202,897	-	-	(50,308)	(50,308)
TOTAL TOWNSHIP ACTIVITIES	<u>\$ 10,712,794</u>	<u>\$ 3,723,904</u>	<u>\$ 921,773</u>	<u>\$ -</u>	<u>(6,016,809)</u>	<u>(50,308)</u>	<u>(6,067,117)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					1,518,220	-	1,518,220
Transfer taxes					296,300	-	296,300
Local services tax					231,231	-	231,231
Earned income taxes					2,865,290	-	2,865,290
Business privilege and mercantile taxes					375,174	-	375,174
Cable TV franchise fees					183,930	-	183,930
Investment income					130,383	24,923	155,306
Gain on sale/disposition of assets					30,089	-	30,089
Miscellaneous					1,820	-	1,820
TOTAL GENERAL REVENUES					<u>5,632,437</u>	<u>24,923</u>	<u>5,657,360</u>
INTERFUND TRANSFERS, net					<u>105,736</u>	<u>(105,736)</u>	<u>-</u>
CHANGE IN NET ASSETS					<u>(278,636)</u>	<u>(131,121)</u>	<u>(409,757)</u>
NET ASSETS AT BEGINNING OF YEAR					<u>36,052,619</u>	<u>6,566,283</u>	<u>42,618,902</u>
NET ASSETS AT END OF YEAR					<u>\$ 35,773,983</u>	<u>\$ 6,435,162</u>	<u>\$ 42,209,145</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,073,927	\$ 637,006	\$ 2,977,790	\$ 1,019,723	\$ 6,708,446
Accounts receivable	69,082	-	-	1,460	70,542
Taxes receivable, net	645,727	-	-	1,489	647,216
Interest receivable	13,074	428	16,156	3,383	33,041
Prepaid expenses	7,778	-	-	-	7,778
Due from other funds	77,663	-	-	-	77,663
	<u>2,887,251</u>	<u>637,434</u>	<u>2,993,946</u>	<u>1,026,055</u>	<u>7,544,686</u>
TOTAL ASSETS					
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 168,583	\$ 55,380	\$ 19,963	\$ 14,269	\$ 258,195
Due to other funds	-	-	71,454	4,710	76,164
Escrow deposits	450,867	-	-	-	450,867
	<u>619,450</u>	<u>55,380</u>	<u>91,417</u>	<u>18,979</u>	<u>785,226</u>
TOTAL LIABILITIES					
FUND BALANCES					
Restricted					
Streets and highway repair	-	-	-	157,844	157,844
Street lighting	-	-	-	13,803	13,803
Fire protection	-	-	-	1,077	1,077
Fire hydrant	-	-	-	75,687	75,687
Debt service	-	-	-	59,883	59,883
Assigned					
Capital projects	-	582,054	2,902,529	-	3,484,583
Traffic improvement	-	-	-	710,695	710,695
Unassigned	2,267,801	-	-	(11,913)	2,255,888
	<u>2,267,801</u>	<u>582,054</u>	<u>2,902,529</u>	<u>1,007,076</u>	<u>6,759,460</u>
TOTAL FUND BALANCES					
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,887,251</u>	<u>\$ 637,434</u>	<u>\$ 2,993,946</u>	<u>\$ 1,026,055</u>	<u>\$ 7,544,686</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

December 31, 2011

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 6,759,460

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements but are reported in the governmental activities of the statement of net assets. Those assets consist of:

Land	9,594,371
Buildings and building improvements	9,300,032
Furniture, equipment, automobiles and trucks	2,170,895
Infrastructure	20,106,475
Construction in progress	14,250
Accumulated depreciation	(7,750,113)

Costs associated with the issuance of bonds are expensed in the Governmental Funds statements; however, these costs are capitalized and amortized in the government-wide statements:

Bond premium	(44,768)
Deferred amount on refunding	42,021
Bond issue costs	62,531

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(21,240)
Bonds payable in future years	(4,165,000)
OPEB liability	(301,489)

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

6,558

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 35,773,983

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2011

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 4,432,885	\$ -	\$ -	\$ 858,275	\$ 5,291,160
Licenses and permits	219,945	-	-	-	219,945
Fines and forfeits	27,706	-	-	-	27,706
Investment income, rents and royalties	308,520	4,832	26,235	11,112	350,699
Intergovernmental revenues	321,969	162,062	-	234,845	718,876
Charges for services	391,892	-	-	238,068	629,960
Miscellaneous revenue	2,685	-	-	14,472	17,157
TOTAL REVENUES	<u>5,705,602</u>	<u>166,894</u>	<u>26,235</u>	<u>1,356,772</u>	<u>7,255,503</u>
EXPENDITURES					
General government	1,184,737	100	19,480	10,702	1,215,019
Public safety	3,357,967	-	26,628	4,439	3,389,034
Public works, highways, roads and streets	648,395	-	774,820	237,403	1,660,618
Culture and recreation	-	274,369	1,150	464,729	740,248
Insurance	56,590	-	-	4,305	60,895
Workmen's compensation	49,768	-	-	16,747	66,515
Payments to fire companies	-	-	-	185,311	185,311
Debt service	-	-	-	690,961	690,961
TOTAL EXPENDITURES	<u>5,297,457</u>	<u>274,469</u>	<u>822,078</u>	<u>1,614,597</u>	<u>8,008,601</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>408,145</u>	<u>(107,575)</u>	<u>(795,843)</u>	<u>(257,825)</u>	<u>(753,098)</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-	-	2,805,000	2,805,000
Premium on bond proceeds	-	-	-	47,228	47,228
Bond principal, refunded	-	-	-	(2,480,000)	(2,480,000)
Proceeds from sale of Township assets	22,472	-	5,280	-	27,752
Interfund transfers in	105,242	-	2,221,925	344,339	2,671,506
Interfund transfers out	(2,285,779)	(2,000)	(2,000)	(275,991)	(2,565,770)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,158,065)</u>	<u>(2,000)</u>	<u>2,225,205</u>	<u>440,576</u>	<u>505,716</u>
NET CHANGE IN FUND BALANCES	(1,749,920)	(109,575)	1,429,362	182,751	(247,382)
FUND BALANCES AT BEGINNING OF YEAR	<u>4,017,721</u>	<u>691,629</u>	<u>1,473,167</u>	<u>824,325</u>	<u>7,006,842</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,267,801</u>	<u>\$ 582,054</u>	<u>\$ 2,902,529</u>	<u>\$ 1,007,076</u>	<u>\$ 6,759,460</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

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

Year Ended December 31, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (247,382)
Capital outlays are reported in Governmental Funds 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 depreciation exceeds capital outlays in the current period.	(454)
Capital assets are capitalized in the government-wide statements. When those assets are disposed of or sold, the net book value is written off as a component of gain or loss on sale or disposition of assets. This represents the net book value of assets sold or disposed of during the period.	(34,885)
Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. This is the change in real estate tax lien for the current period.	(4,945)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,948,000
Proceeds from the bond issue are a revenue in the Governmental Funds, but this amount increases the long-term liabilities in the statement of net assets	(2,805,000)
Payment of bond issue costs, discounts and premiums is an expenditure in the Governmental Funds, but this amount is capitalized and amortized in the statement of net assets. This is the amount by which the cost of the issue exceeds the amortization for the current period.	11,760
Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	17,480
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the Governmental Funds:	
OPEB liability	<u>(163,210)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (278,636)</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011

	Enterprise Funds			Totals	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 144,307	\$ 1,292,693	\$ 1,406,766	\$ 2,843,766	\$ -	\$ 2,843,766
Sewer rents receivable	-	44,287	-	44,287	-	44,287
Assessments receivable	21,120	-	-	21,120	-	21,120
Prepaid expenses	-	5,907	-	5,907	-	5,907
Interest receivable	-	4,825	889	5,714	-	5,714
TOTAL CURRENT ASSETS	165,427	1,347,712	1,407,655	2,920,794	-	2,920,794
RESTRICTED ASSETS						
Investments	810,729	-	-	810,729	-	810,729
OTHER ASSETS						
Future lease rents receivable	1,170,000	-	-	1,170,000	(1,170,000)	-
BOND DISCOUNT, net of accumulated amortization of \$34,120	-	35,829	-	35,829	-	35,829
CAPITAL ASSETS, net of accumulated depreciation of \$15,469,688	-	4,038,433	-	4,038,433	-	4,038,433
TOTAL ASSETS	\$ 2,146,156	\$ 5,421,974	\$ 1,407,655	\$ 8,975,785	\$ (1,170,000)	\$ 7,805,785
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	\$ -	\$ 123,332	\$ -	\$ 123,332	\$ -	\$ 123,332
Accrued interest	-	12,840	-	12,840	-	12,840
Current portion of long-term debt	110,000	-	-	110,000	-	110,000
Escrow deposits	62,952	-	-	62,952	-	62,952
Due to other funds	-	1,499	-	1,499	-	1,499
TOTAL CURRENT LIABILITIES	172,952	137,671	-	310,623	-	310,623
LONG-TERM DEBT, less current portion	1,060,000	1,170,000	-	2,230,000	(1,170,000)	1,060,000
NET ASSETS						
Invested in capital assets, net of related debt	-	2,868,433	-	2,868,433	-	2,868,433
Unrestricted	913,204	1,245,870	1,407,655	3,566,729	-	3,566,729
TOTAL NET ASSETS	913,204	4,114,303	1,407,655	6,435,162	-	6,435,162
TOTAL LIABILITIES AND NET ASSETS	\$ 2,146,156	\$ 5,421,974	\$ 1,407,655	\$ 8,975,785	\$ (1,170,000)	\$ 7,805,785

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2011

	Enterprise Funds			Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund		
OPERATING REVENUES					
Charges for services	\$ -	\$ 2,788,953	\$ -	\$ 2,788,953	\$ 2,788,953
Fees	16,213	-	-	16,213	16,213
Interest on capital lease financing	55,430	-	-	55,430	(55,430)
PennDOT reimbursements	202,897	-	-	202,897	-
Other operating revenues	-	7,325	-	7,325	-
TOTAL OPERATING REVENUES	274,540	2,796,278	-	3,070,818	(55,430)
OPERATING EXPENSES					
Professional fees	47,365	1,777	-	49,142	-
Engineering	127,830	-	-	127,830	-
Rent	-	95,518	-	95,518	-
General operating expenses	-	714,423	-	714,423	-
Insurance	-	183,535	-	183,535	-
Workmen's compensation	-	18,128	-	18,128	-
Depreciation and amortization	-	769,529	-	769,529	-
Miscellaneous	-	-	215	215	-
Maintenance expense	54,533	220,615	-	275,148	-
Treatment expenses	-	777,816	-	777,816	-
TOTAL OPERATING EXPENSES	229,728	2,781,341	215	3,011,284	-
OPERATING INCOME (LOSS)	44,812	14,937	(215)	59,534	(55,430)
NONOPERATING REVENUES (EXPENSES)					
Interest expense	(55,430)	(54,412)	-	(109,842)	55,430
Interest and investment income	63	13,546	11,314	24,923	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(55,367)	(40,866)	11,314	(84,919)	55,430
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(10,555)	(25,929)	11,099	(25,385)	-
OPERATING TRANSFERS					
Operating transfers in	-	19,663	305,778	325,441	(325,441)
Operating transfers out	-	(409,514)	(21,663)	(431,177)	325,441
TOTAL OPERATING TRANSFERS	-	(389,851)	284,115	(105,736)	-
CHANGE IN NET ASSETS	(10,555)	(415,780)	295,214	(131,121)	-
NET ASSETS AT BEGINNING OF YEAR	923,759	4,530,083	1,112,441	6,566,283	-
NET ASSETS AT END OF YEAR	\$ 913,204	\$ 4,114,303	\$ 1,407,655	\$ 6,435,162	\$ -

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2011

	Enterprise Funds			Totals	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from users	\$ 97,656	\$ 2,812,027	\$ -	\$ 2,909,683	\$ (55,430)	\$ 2,854,253
Cash received from grants	202,897	-	-	202,897	-	202,897
Payments to and on behalf of employees	-	(628,226)	-	(628,226)	-	(628,226)
Payments to vendors and others	(212,944)	(1,408,219)	(1,562)	(1,622,725)	-	(1,622,725)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>87,609</u>	<u>775,582</u>	<u>(1,562)</u>	<u>861,629</u>	<u>(55,430)</u>	<u>806,199</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payments	-	(110,000)	-	(110,000)	-	(110,000)
Interest payments	(55,430)	(54,412)	-	(109,842)	55,430	(54,412)
Operating transfers to other funds	-	(409,514)	(21,663)	(431,177)	325,255	(105,922)
Operating transfers from other funds	-	19,477	305,778	325,255	(325,255)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(55,430)</u>	<u>(554,449)</u>	<u>284,115</u>	<u>(325,764)</u>	<u>55,430</u>	<u>(270,334)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of equipment	-	(19,663)	-	(19,663)	-	(19,663)
Change in investments	(275,709)	-	-	(275,709)	-	(275,709)
Investment income	63	13,402	16,080	29,545	-	29,545
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(275,646)</u>	<u>(6,261)</u>	<u>16,080</u>	<u>(265,827)</u>	<u>-</u>	<u>(265,827)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(243,467)</u>	<u>214,872</u>	<u>298,633</u>	<u>270,038</u>	<u>-</u>	<u>270,038</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>387,774</u>	<u>1,077,821</u>	<u>1,108,133</u>	<u>2,573,728</u>	<u>-</u>	<u>2,573,728</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 144,307</u>	<u>\$ 1,292,693</u>	<u>\$ 1,406,766</u>	<u>\$ 2,843,766</u>	<u>\$ -</u>	<u>\$ 2,843,766</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 44,812	\$ 14,937	\$ (215)	\$ 59,534	\$ (55,430)	\$ 4,104
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation	-	765,414	-	765,414	-	765,414
Amortization	-	4,115	-	4,115	-	4,115
Decrease in						
Receivables, net	26,013	15,749	-	41,762	-	41,762
Prepaid expenses	-	3,378	-	3,378	-	3,378
Increase (decrease) in						
Accounts payable and accrued expenses	-	(28,011)	(1,347)	(29,358)	-	(29,358)
Escrow deposits	16,784	-	-	16,784	-	16,784
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 87,609</u>	<u>\$ 775,582</u>	<u>\$ (1,562)</u>	<u>\$ 861,629</u>	<u>\$ (55,430)</u>	<u>\$ 806,199</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2011

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 372,856
Investments	<u>7,621,780</u>
TOTAL ASSETS	<u>\$ 7,994,636</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 13,461
NET ASSETS	
Held in trust for pension benefits	<u>7,981,175</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,994,636</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended December 31, 2011

	<u>Pension Trust Funds</u>
ADDITIONS	
Member contributions	\$ 75,465
Employer contribution	493,754
State contribution	307,804
Loss on investments	(436,906)
Interest	<u>262,939</u>
TOTAL ADDITIONS	<u>703,056</u>
DEDUCTIONS	
Employee benefit payments	561,244
Other expenses	<u>71,102</u>
TOTAL DEDUCTIONS	<u>632,346</u>
CHANGE IN NET ASSETS	70,710
NET ASSETS AT BEGINNING OF YEAR	<u>7,910,465</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,981,175</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Township of Lower Gwynedd (the "Township") operates as a Second Class Township under the laws of the Commonwealth of Pennsylvania. The Township provides the following services: general township administration, public safety, maintenance and repairs of highways and streets, health, culture and recreation and public improvements.

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to government units.

In accordance with governmental accounting standards, the Township has determined that the Lower Gwynedd Township Municipal Authority (the "Municipal Authority") is part of the Township's reporting entity and is included in the Township's financial statements as part of the Enterprise Funds. The criteria for determining the reporting entity includes oversight responsibility, which embraces such factors as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Complete financial statements of the Municipal Authority can be obtained directly from its administrative office. The financial statements of the Municipal Authority are shown as a blended presentation in the Proprietary Funds.

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Township and for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Accounting - The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Township are grouped into the categories governmental, proprietary and fiduciary.

The Township reports the following major Governmental Funds:

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Open Space Fund (Capital Project Fund) - The Open Space Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets (other than those financed by the Industrial Compact Fund, Capital Reserve Fund, Construction Fund and Proprietary Funds).

Capital Reserve Fund (Capital Project Fund) - The Capital Reserve Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets (other than those financed by the Industrial Compact Fund, Open Space Fund, Construction Fund and Proprietary Funds).

The Township reports the following major Proprietary Funds:

Municipal Authority Fund - This fund represents the financial results of the Township's Municipal Authority, a component unit of the Township.

Sewer Enterprise Fund - The Sewer Enterprise Fund is used to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

Sewer Reserve Fund - The Sewer Reserve Fund is used for the accumulation of resources for capital expenditures to the sewer system.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Additionally, the Township reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Township's Special Revenue Funds include the Highway Aid Fund, Street Lighting Fund, Fire Protection Fund, Recreation Fund, Traffic Impact Fund and Fire Hydrant Fund.

Industrial Compact Fund - The Industrial Compact Fund is used to account for financial resources to be used for the inspection and liaison of major industries within the Township.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources and the payment of interest and principal on all general obligation debt other than Enterprise Fund debt.

Fiduciary Funds

Pension Trust Funds - Pension Trust Funds are used to account for assets held by the Township in a trustee capacity and include the Police Pension and Non-Uniformed Employees Pension Funds.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor Governmental Funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

Budgets and Budgetary Accounting

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

1. During November, the Township holds budget hearings for the purpose of receiving oral and written comments from interested parties in regard to the proposed budget for the following year.
2. During November, the Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them.
3. Prior to December 31, the Township holds a public hearing to obtain taxpayer comments, after which the budget is legally adopted through passage of an ordinance.
4. All budget revisions require the approval of the Township Board of Supervisors.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on the modified accrual basis of accounting. All appropriations lapse at year-end.

Cash and Cash Equivalents

Bank accounts, certificates of deposit and investment in the Pennsylvania Local Government Investment Trust are all highly liquid investments and are considered to be cash and cash equivalents.

Taxes Receivable

Taxes receivable of the General Fund reflect amounts receivable for real estate taxes, mercantile taxes, business privilege taxes, real estate transfer taxes and earned income taxes.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Investments

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, the Township's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Interfund Transactions

As a result of its operations, the Township has a variety of transactions between funds. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2011, appropriate interfund receivables or payables have been established.

Allowance for Uncollectible Accounts

No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Township is permitted to lien the customer's property if the customer does not remit payment.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g., roads, bridges, curbs, sidewalks, drainage systems and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 (amount not rounded) or purchased with debt proceeds 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 market value at the date of donation.

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

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

	<u>Years</u>
Infrastructure	5-40
Buildings and building improvements	5-30
Furniture, equipment, automobiles and trucks	5-30

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Note that the Township uses the modified approach for various infrastructure assets, and, accordingly, no depreciation is taken on these assets (see Note C). The Township completes an annual assessment of pavement conditions and maintains all roads at an overall good or better condition level.

Use of Estimates

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

Real Estate Property Tax

Real estate property taxes attach as an enforceable lien on property on January 1. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through June 30; and a 10% penalty after June 30. The Township employs an elected tax collector to collect the property tax levied. The tax collector remits Township taxes at least monthly and is paid a salary.

Compensated Absences

Township policy applicable to vacation and sick pay for employees is as follows:

Vacation Pay - Vacation should be used within the current year. Five days may be carried over to the following year.

Sick Pay - Full-time, non-uniformed employees are granted one sick day per month. Unused sick leave for non-uniformed employees may be accumulated up to 100 days. Uniformed employees are granted one and one-quarter days per month. Unused sick leave for uniformed employees may be accumulated up to 130 days. Any employee who terminates or retires shall receive no compensation for accumulated sick leave.

Fund Equity

Beginning with the year ended December 31, 2011, the Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

- **Committed Fund Balance** - Amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (the Board of Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** - Amounts the Township intends to use for a specific purpose. Intent can be expressed by the Board of Supervisors or by an official or body to which the Board of Supervisors delegates the authority.
- **Unassigned Fund Balance** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

Beginning fund balances for the Township's Governmental Funds have been restated to reflect the above classifications.

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

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

NOTE B DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township follows state statute as it relates to custodial credit risk. As of December 31, 2011, \$6,851,154 was insured by the Federal Depository Insurance Corporation. The remaining \$2,813,514 of the Township's bank balance of \$9,664,668 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the Township's name

Township Governmental Funds	\$ <u>1,868,614</u>
Township Proprietary Funds	\$ <u>824,781</u>
Township Fiduciary Funds	\$ <u>120,119</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Investments

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

Credit Risk - The Second Class Township Code authorizes the Township to invest in obligations of the U.S. Treasury, short-term obligations of the U.S. Government or its agencies or instrumentalities, obligations of the United States of America, the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision and insured certificates of deposit.

Investments authorized for pension plans include any investment purchased or retained in the exercise of that degree of judgment and care which men of prudence exercise in the management of their own affairs.

As of December 31, 2011, the Township had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities One Year or Less</u>	<u>Investment Rating</u>
FIDUCIARY FUNDS			
Commodity Mutual Funds	\$ 289,302	\$ 289,302	N/A
Real Estate Mutual Funds	280,355	280,355	N/A
Emerging Markets Mutual Funds	366,437	366,437	N/A
Domestic Large Cap Mutual Funds	2,764,981	2,764,981	N/A
Domestic Mid Cap Mutual Funds	413,267	413,267	N/A
Domestic Small Cap Mutual Funds	305,092	305,092	N/A
International Mutual Funds	1,428,090	1,428,090	N/A
Taxable bond Mutual Funds	1,774,256	1,774,256	N/A
	<u>\$ 7,621,780</u>	<u>\$ 7,621,780</u>	

Investment concentrations of the Township's investments are disclosed below as a percentage of total investments:

Commodity Mutual Funds	3.80%
Real Estate Mutual Funds.....	3.68%
Emerging Markets Mutual Funds	4.81%
Domestic Large Cap Mutual Funds.....	36.28%
Domestic Mid Cap Mutual Funds	5.42%
Domestic Small Cap Mutual Funds	4.00%
International Mutual Funds	18.74%
Taxable bond Mutual Funds	23.27%

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE C CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2011
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 9,515,288	\$ 79,083	\$ -	\$ 9,594,371
Infrastructure	12,952,236	201,900	-	13,154,136
Construction in progress	1,011,893	12,117	(1,009,760)	14,250
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	23,479,417	293,100	(1,009,760)	22,762,757
Capital assets being depreciated				
Infrastructure	5,693,095	1,259,244	-	6,952,339
Buildings and building improvements	9,300,032	-	-	9,300,032
Furniture, equipment, automobiles and trucks	2,158,190	121,253	(108,548)	2,170,895
TOTAL CAPITAL ASSETS BEING DEPRECIATED	17,151,317	1,380,497	(108,548)	18,423,266
Accumulated depreciation				
Infrastructure	(2,404,010)	(199,067)	-	(2,603,077)
Buildings and building improvements	(3,663,333)	(301,777)	-	(3,965,110)
Furniture, equipment, automobiles and trucks	(1,092,142)	(186,197)	96,413	(1,181,926)
TOTAL ACCUMULATED DEPRECIATION	(7,159,485)	(687,041)	96,413	(7,750,113)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	9,991,832	693,456	(12,135)	10,673,153
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	33,471,249	986,556	(1,021,895)	33,435,910
BUSINESS-TYPE ACTIVITIES				
Sewer system and equipment	19,488,457	19,664	-	19,508,121
Accumulated depreciation	(14,704,273)	(765,415)	-	(15,469,688)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	4,784,184	(745,751)	-	4,038,433
TOTAL CAPITAL ASSETS, net	\$ 38,255,433	\$ 240,805	\$ (1,021,895)	\$ 37,474,343

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE D DEBT

Bonded Debt, Municipal Authority

The Municipal Authority occasionally issued bonds to provide a sanitary sewerage system to serve portions of the Township. The system is leased to the Township. As a result of the provision for refunding Sewer Revenue Bonds, Series of 1961, 1967, 1972, 1978, 1985 and 1993, the lease securing such issues has been terminated, and a new lease, dated December 2003, was executed. In the lease, the Township covenants to maintain sewer rates and charges at a level sufficient to pay all expenses of operating and maintaining the sewer system and to pay 105% of the fixed lease rentals specified in the lease (which fixed lease rentals have been computed to be sufficient to pay the debt service on the bonds). The Township also covenants to operate and maintain the sewer system in good repair and to exercise all powers conferred upon it by law to collect such rates and charges. The Municipal Authority covenants in the indenture to require the Township to perform all its obligations under the lease. The lease expires October 1, 2020, at which date the bonds will be fully redeemed.

General Obligation Bonds

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the Township. General Obligation Bonds require the Township to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity.

On July 15, 1998, the Township issued General Obligation Bonds, Series of 1998, in the amount of \$1,625,000. The bonds were issued for the purpose of providing funds for the advance refund of principal and interest of the Township's Series of 1993 bonds and to finance certain capital expenditures.

On March 2, 2002, the Township issued General Obligation Bonds, Series of 2002, in the amount of \$1,695,000. The bonds were issued for the purpose of providing funds for the advance refund of principal and interest of the Township's Series of 1995 bonds and to provide funds to cover the issuance cost of the obligation.

On September 6, 2002, the Township issued General Obligation Bonds, Series A of 2002, in the amount of \$1,745,000. The bonds were issued for the purpose of providing funds for the advance refund of principal and interest of the Township's Series of 1997 bonds and to provide funds to cover the issuance cost of the obligation.

On January 1, 2005, the Township issued General Obligation Bonds, Series of 2005, in the amount of \$2,785,000. The bonds were issued for the purpose of providing funds to pay for renovations and additions to the existing Township Building, acquire land for open space and recreational purposes, develop public safety facilities, pay for various other capital projects and cover the costs and expenses incurred in connection with the issuance of the bonds.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

The following is a summary of transactions affecting long-term obligations for the year ended December 31, 2011:

	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Balance Outstanding January 1, 2011</u>	<u>Proceeds from New Obligations</u>	<u>Retired During Year</u>	<u>Balance Outstanding December 31, 2011</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Series of 1998, maturing in 2011	3.50% to 4.10%	\$ 1,625,000	\$ 150,000	\$ -	\$ (150,000)	\$ -	\$ -
Series of 2002, maturing in 2011	3.03%	1,695,000	217,000	-	(217,000)	-	-
Series A of 2002, maturing in 2014	3.80%	1,745,000	1,411,000	-	(51,000)	1,360,000	436,000
Series of 2005, maturing in 2018	2.10% to 4.00%	2,785,000	2,530,000	-	(2,530,000)	-	-
Series of 2011, maturing in 2019	2.00% to 2.20%	2,805,000	-	2,805,000	-	2,805,000	-
TOTAL GENERAL OBLIGATION BONDS		<u>10,655,000</u>	<u>4,308,000</u>	<u>2,805,000</u>	<u>(2,948,000)</u>	<u>4,165,000</u>	<u>436,000</u>
Bond premium		-	-	47,228	(2,460)	44,768	-
Net OPEB obligation		-	138,279	163,210	-	301,489	-
		<u>10,655,000</u>	<u>4,446,279</u>	<u>3,015,438</u>	<u>(2,950,460)</u>	<u>4,511,257</u>	<u>436,000</u>
BUSINESS-TYPE ACTIVITIES							
Municipal Authority							
Guaranteed Sewer Revenue Bonds, Series of 2003	1.10% to 4.60%	1,960,000	1,280,000	-	(110,000)	1,170,000	110,000
TOTAL LONG-TERM LIABILITIES		<u>\$ 12,615,000</u>	<u>\$ 5,726,279</u>	<u>\$ 3,015,438</u>	<u>\$ (3,060,460)</u>	<u>\$ 5,681,257</u>	<u>\$ 546,000</u>

Debt Service Requirements

A summary of long-term debt service requirements to maturity, including principal and interest, is as follows:

General Obligation Bonds

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 436,000	\$ 105,508	\$ 541,508
2013	518,000	83,930	601,930
2014	561,000	64,881	625,881
2015	575,000	47,790	622,790
2016	590,000	36,140	626,140
2017	600,000	24,240	624,240
2018	615,000	12,090	627,090
2019	270,000	2,970	272,970
	<u>\$ 4,165,000</u>	<u>\$ 377,549</u>	<u>\$ 4,542,549</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

During the year, General Obligation Bonds totaling \$2,805,000 were issued to currently refund the Township's General Obligation Bonds, Series of 2005, finance capital projects and pay the costs and expenses incurred in connection with the issuance of the bonds. The new General Obligation Bonds, Series of 2011, bear interest of 2.00% to 2.20% and are due in installments ranging from \$65,000 to \$615,000 through February 2019. The new issue will increase debt service payments by \$160,085 and have an overall economic loss of approximately \$1,522,000. General Obligation Bonds are direct obligations and pledge the full faith and credit of the Township.

Guaranteed Sewer Revenue Bonds, Series of 2003

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 110,000	\$ 51,360	\$ 161,360
2013	115,000	46,960	161,960
2014	120,000	42,360	162,360
2015	125,000	37,560	162,560
2016	130,000	31,935	161,935
2017	135,000	26,085	161,085
2018	140,000	20,010	160,010
2019	150,000	13,570	163,570
2020	<u>145,000</u>	<u>6,670</u>	<u>151,670</u>
	<u>\$ 1,170,000</u>	<u>\$ 276,510</u>	<u>\$ 1,446,510</u>

The Township financed the General Obligation Bonds, Series of 2002 and Series A of 2002, through the Delaware Valley Regional Finance Authority (DeVal). DeVal has, in turn, entered into interest rate swap agreements with various counterparties to provide fixed interest rates to borrowers. These agreements may be terminated under the following circumstances: (1) DeVal and the counterparty mutually consent to termination, (2) the borrower defaults on its loan, or (3) DeVal or the counterparty default or their financial conditions deteriorate to make a default imminent. Upon termination, DeVal would receive or make a payment depending on the market value of the related interest rate swap. If DeVal were obligated to make such a payment and sufficient funds were not available, DeVal could assess each borrower its allocable share of the termination payment.

As of December 31, 2011, DeVal would have received a payment of nearly \$206 million if all of the swap agreements were terminated. Therefore, no amounts are reflected on the Township's financial statements.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE E COMMITMENTS

In February 1989, the Township entered into a five-year, noncancelable agreement for the lease of office space, with an option to renew. In October 1993, the lessee exercised the option to renew for the next ten years. In April 2004, the lessee exercised the option to renew until April 2009. In April 2009, the lessee exercised the option to renew for an additional five years until April 2014. For the year ended December 31, 2011, lease payments received by the Township were \$103,778.

NOTE F INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
GOVERNMENTAL FUNDS		
General Fund	\$ 77,663	\$ -
Capital Reserve Fund	-	71,454
Special Revenue Funds	-	270
Industrial Compact Fund	-	4,440
PROPRIETARY FUNDS		
Sewer Enterprise Fund	<u>-</u>	<u>1,499</u>
	<u>\$ 77,663</u>	<u>\$ 77,663</u>

NOTE G INTERFUND TRANSFERS

Interfund transfers were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
GOVERNMENTAL FUNDS		
General Fund	\$ 105,242	\$ 2,285,779
Open Space Fund	-	2,000
Capital Reserve Fund	2,221,925	2,000
Debt Service Fund	89,339	265,991
Special Revenue Funds	255,000	10,000
PROPRIETARY FUNDS		
Enterprise Funds	<u>325,441</u>	<u>431,177</u>
	<u>\$ 2,996,947</u>	<u>\$ 2,996,947</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE H RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Township participates in the Delaware Valley Insurance Trust (the "Trust"). The Township entered into a participation agreement with certain surrounding townships in Montgomery and Bucks Counties, Pennsylvania, to form the Delaware Valley Insurance Trust. The Trust has created a self-insurance pool to offer coverage to eligible townships. The Township is participating in the Trust insurance coverage.

On April 1, 2006, the Township entered into an agreement to participate in the Delaware Valley Health Insurance Trust. The Delaware Valley Health Insurance Trust is a regional risk sharing pool providing health insurance benefits to employees and dependents of participating municipalities.

For the pool coverage, there is a total risk and cost sharing for all participants. Liabilities in excess of assets of the Trust may be assessed to participating members. Specific excess insurance is provided to protect against catastrophic losses.

Premiums are paid by the General Fund and reimbursed from the other funds for their share. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE I PENSION PLANS - PRIMARY GOVERNMENT

Plan Descriptions

The Township sponsors two single-employer defined benefit pension plans: Non-Uniformed Employees Pension Plan and Police Pension Plan. These plans cover substantially all full-time employees. Both plans provide retirement benefits to plan members. Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth (the "Act"). The authority to establish and amend benefit provisions rests with the Township Supervisors. The plans do not issue separate reports.

At January 1, 2011, the date of the most recent actuarial valuation, participants in the plans were as follows:

	<u>Non-Uniformed Employees Pension Plan</u>	<u>Police Pension Plan</u>
PARTICIPANTS		
Retirees and beneficiaries	7	12
Active employees	23	16
Terminated vested members	5	1

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Summary of Significant Accounting Policies

Financial information of the Township's plans is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the individual plan.

Investments of the plans are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

Contributions and Funding Policy

The Act requires that annual contributions be based upon the calculation of the minimum municipal obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Non-uniformed employees are not required to contribute under the Act. The Commonwealth allocates certain funds to assist in pension funding. Any financial requirement established by the MMO which exceeds the Commonwealth allocation must be funded by the Township (and could include employee contributions).

In 2011, the MMO obligation for the Non-Uniformed Employees Pension Plan was \$244,165. Contributions of \$115,447 and \$128,718 were made by the Township and the Commonwealth, respectively.

In 2011, the MMO obligation for the Police Pension Plan was \$557,393. Contributions of \$378,307 and \$179,086 were made by the Township and the Commonwealth, respectively. Employee contributions of \$75,465 were made to the plan.

Administrative costs, including investment, custodial trustee and actuarial services, are charged to the appropriate plan and fund from investment earnings.

	<u>Non-Uniformed Employees Pension Plan</u>	<u>Police Pension Plan</u>
Normal cost for plan year beginning January 1, 2011	\$150,755	\$322,693
Actuarial valuation date	January 1, 2011	January 1, 2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar open	Level dollar open
Asset valuation method	Adjusted market value	Adjusted market value
Amortization period	11 years	11 years
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	5.5%

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Investment Concentration

Total plan net assets as of December 31, 2011, were \$2,254,335 for the Non-Uniformed Employees Pension Plan and \$5,740,301 for the Police Pension Plan. At December 31, 2011, there were no investments in any one organization that represented 5% or more of total plan assets available for benefits other than mutual funds, which do not require disclosure of concentration per GASB Statement No. 40.

Schedule of Funding Progress

Non-Uniformed Employees Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) Actuarial Accrued Liability as a Percentage of Payroll (c)/(e)
2011	\$ 2,205,569	\$ 3,061,296	\$ 855,727	72.05%	\$ 1,338,748	63.92%

Police Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) Actuarial Accrued Liability as a Percentage of Payroll (c)/(e)
2011	\$ 6,363,039	\$ 9,784,606	\$ 3,421,567	65.03%	\$ 1,498,304	228.36%

Schedule of Contributions from the Employer and Other Contributing Entities

Year Ended December 31,	Non-Uniformed Employees Pension Plan		Police Pension Plan	
	Annual Pension Cost	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2009	\$ 249,536	100.0%	\$ 559,098	100.0%
2010	253,129	100.0%	559,063	100.0%
2011	244,165	100.0%	557,393	100.0%

NOTE: Contributions include state pension aid.

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

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE J POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Township provides medical and prescription drug insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by the Township Supervisors and can be amended by the Township through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the Township's General Fund.

Funding Policy

The Township negotiates the contribution percentage between the Township and employees through contracts and its personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Township currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Township.

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Township's net OPEB obligation to the plan are as follows:

Normal cost	\$ 42,664
Amortization of unfunded actuarial accrued liability	79,670
Interest on annual required contribution	4,893
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>127,227</u>
Interest on net OPEB obligation	7,861
Adjustment to ARC	<u>(18,112)</u>
ANNUAL OPEB EXPENSE	116,976
Estimated pay-as-you-go contributions	<u>(12,000)</u>
INCREASE IN NET OPEB OBLIGATION	104,976
Net OPEB obligation at beginning of year	138,279
Adjustment to net OPEB at beginning of year	<u>58,234</u>
Restated net OPEB obligation at beginning of year	<u>196,513</u>
NET OPEB OBLIGATION AT END OF YEAR	<u>\$ 301,489</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 68,377	0%	\$ 68,377
2010	69,902	0%	138,279
2011	116,976	10%	301,489

GASB No. 45 was implemented in 2009 on the basis that the ARC would be funded. However, the ARC has not been funded, and the plan is funded on a pay-as-you-go basis. As a result, the 2009 and 2010 OPEB costs were understated. The 2011 OPEB cost was determined reflecting that the plan is funded on a pay-as-you-go basis. The adjustment was made in 2011 to increase the net OPEB obligation to the correct amount.

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$847,411 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,498,305, and the ratio of the UAAL to the covered payroll was 56.6%.

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 on page 49, presents multiyear trend 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 (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

In the January 1, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of 1.0% to an ultimate rate of 6.0% after three years. The unfunded AAL is being amortized over a 15-year period. The remaining amortization period at December 31, 2011, was 14 years.

NOTE K FUND BALANCE

As of December 31, 2011, the Township has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by a Board of Supervisors resolution. This includes the budget reserve account.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of Supervisors or by an official or body to which the Board of Supervisors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 18). As discussed in Note A, restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER GWYNEDD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,698,719	\$ 4,536,090	\$ 4,432,885	\$ (103,205)
Licenses and permits	216,800	215,950	219,945	3,995
Fines and forfeits	35,000	27,380	27,706	326
Interest income, rents and royalties	324,298	308,523	308,520	(3)
Intergovernmental revenues	237,720	363,835	321,969	(41,866)
Charges for services	251,050	351,126	391,892	40,766
Contributions	1,200	-	-	-
Miscellaneous revenue	250	2,685	2,685	-
TOTAL REVENUES	<u>5,765,037</u>	<u>5,805,589</u>	<u>5,705,602</u>	<u>(99,987)</u>
EXPENDITURES				
General government	1,284,433	1,201,668	1,184,737	16,931
Public safety	3,410,217	3,361,956	3,357,967	3,989
Public works, highways, roads and streets	677,870	663,861	648,395	15,466
Insurance	65,810	57,425	56,590	835
Workmen's compensation	65,000	49,770	49,768	2
TOTAL EXPENDITURES	<u>5,503,330</u>	<u>5,334,680</u>	<u>5,297,457</u>	<u>37,223</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>261,707</u>	<u>470,909</u>	<u>408,145</u>	<u>(62,764)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of Township assets	2,500	22,472	22,472	-
Interfund transfers in	105,242	105,242	105,242	-
Interfund transfers out	(387,503)	(2,285,779)	(2,285,779)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(279,761)</u>	<u>(2,158,065)</u>	<u>(2,158,065)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(18,054)	(1,687,156)	(1,749,920)	(62,764)
FUND BALANCE AT BEGINNING OF YEAR	<u>4,017,721</u>	<u>4,017,721</u>	<u>4,017,721</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,999,667</u>	<u>\$ 2,330,565</u>	<u>\$ 2,267,801</u>	<u>\$ (62,764)</u>

TOWNSHIP OF LOWER GWYNEDD
TREND DATA ON INFRASTRUCTURE CONDITION
Year Ended December 31, 2011

The Township has elected to use the modified approach to account for maintenance of its street system. The Township annually inspects its streets and roads, and the Township Road Master uses an internal system based on the PASER Pavement Evaluation Program. The Road Master evaluates individual streets and roads based on a numbering system of 1 through 10, where a rating of 10 represents a new/revitalized condition and a rating of 1 represents a worn/exhausted condition. These condition ratings also reflect the life expectancy before milling and overlay work is needed. The assessment of condition is made by visual test designed to reveal any condition that would reduce highway-user benefits below the level of service. The Township's policy is to maintain the street condition at a level of 5 or better. The average condition for this year was 6.668.

The budgeted expenditures and amounts actually expensed for maintenance and preservation for the past year are as follows:

	<u>Original Budget</u>	<u>Actual</u>
2011	\$ 584,213	\$ 588,361
2010	452,850	289,910
2009	609,000	425,952
2008	661,300	523,157
2007	351,370	351,364

TOWNSHIP OF LOWER GWYNEDD
PENSION PLAN FUNDING PROGRESS
Year Ended December 31, 2011

Historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed follows.

SCHEDULE OF FUNDING PROGRESS

Non-Uniformed Employees Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) AAL (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) AAL as a Percentage of Payroll (c)/(e)
2007	\$ 1,314,221	\$ 2,321,617	\$ 1,007,396	56.61%	\$ 1,114,814	90.36%
2009	1,561,672	2,681,386	1,119,714	58.24%	1,316,030	85.08%
2011	2,205,569	3,061,296	855,727	72.05%	1,338,748	63.92%

Police Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) AAL (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) AAL as a Percentage of Payroll (c)/(e)
2007	\$ 4,771,685	\$ 7,811,977	\$ 3,040,292	61.08%	\$ 1,350,695	225.09%
2009	5,006,501	8,746,351	3,739,850	57.24%	1,470,384	254.35%
2011	6,363,039	9,784,606	3,421,567	65.03%	1,498,304	228.36%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31,	Non-Uniformed Employees Pension Plan		Police Pension Plan	
	Annual Pension Cost	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2006	\$ 61,900	100%	\$ 205,523	100%
2007	131,972	100%	338,590	100%
2008	239,375	100%	550,418	100%
2009	249,536	100%	559,098	100%
2010	253,129	100%	559,063	100%
2011	244,165	100%	557,393	100%

Note: Contributions include state pension aid.

TOWNSHIP OF LOWER GWYNEDD
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended December 31, 2011

SCHEDULE OF FUNDING PROGRESS

Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
January 1, 2008	\$ -	\$ 524,036	\$ 524,036	0%	\$ 1,580,120	33.2%
2011	-	847,411	847,411	0%	1,498,305	56.6%

SUPPLEMENTARY INFORMATION SECTION

TOWNSHIP OF LOWER GWYNEDD

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

December 31, 2011

	Special Revenue Funds							Total Other Governmental Funds	
	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Recreation Fund	Traffic Impact Fund	Fire Hydrant Fund	Industrial Compact Fund		Debt Service Fund
ASSETS									
Cash and cash equivalents	\$ 157,844	\$ 14,585	\$ 741	\$ 4,874	\$ 706,141	\$ 75,447	\$ 1,252	\$ 58,839	\$ 1,019,723
Accounts receivable	-	-	-	-	1,460	-	-	-	1,460
Taxes receivable, net	-	38	336	120	-	76	-	919	1,489
Interest receivable	-	-	-	-	3,094	164	-	125	3,383
TOTAL ASSETS	\$ 157,844	\$ 14,623	\$ 1,077	\$ 4,994	\$ 710,695	\$ 75,687	\$ 1,252	\$ 59,883	\$ 1,026,055
LIABILITIES AND FUND BALANCES (DEFICIT)									
LIABILITIES									
Accounts payable and accrued expenses	\$ -	\$ 820	\$ -	\$ 13,449	\$ -	\$ -	\$ -	\$ -	\$ 14,269
Due to other funds	-	-	-	270	-	-	4,440	-	4,710
TOTAL LIABILITIES	-	820	-	13,719	-	-	4,440	-	18,979
FUND BALANCES (DEFICIT)									
Restricted									
Streets and highway repair	157,844	-	-	-	-	-	-	-	157,844
Street lighting	-	13,803	-	-	-	-	-	-	13,803
Fire protection	-	-	1,077	-	-	-	-	-	1,077
Fire hydrant	-	-	-	-	-	75,687	-	-	75,687
Debt service	-	-	-	-	-	-	-	59,883	59,883
Assigned, traffic improvement	-	-	-	-	710,695	-	-	-	710,695
Unassigned	-	-	-	(8,725)	-	-	(3,188)	-	(11,913)
TOTAL FUND BALANCES (DEFICIT)	157,844	13,803	1,077	(8,725)	710,695	75,687	(3,188)	59,883	1,007,076
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 157,844	\$ 14,623	\$ 1,077	\$ 4,994	\$ 710,695	\$ 75,687	\$ 1,252	\$ 59,883	\$ 1,026,055

TOWNSHIP OF LOWER GWYNEDD
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)
OTHER GOVERNMENTAL FUNDS
Year Ended December 31, 2011

	Special Revenue Funds							Total Other Governmental Funds	
	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Recreation Fund	Traffic Impact Fund	Fire Hydrant Fund	Industrial Compact Fund		Debt Service Fund
REVENUES									
Taxes	\$ -	\$ 15,647	\$ 195,005	\$ 69,453	\$ -	\$ 43,909	\$ -	\$ 534,261	\$ 858,275
Investment income, rents and royalties	62	7	12	22	9,484	638	-	887	11,112
Intergovernmental revenues	234,845	-	-	-	-	-	-	-	234,845
Charges for services	-	148	-	108,350	129,570	-	-	-	238,068
Miscellaneous revenue	14,472	-	-	-	-	-	-	-	14,472
TOTAL REVENUES	249,379	15,802	195,017	177,825	139,054	44,547	-	535,148	1,356,772
EXPENDITURES									
General government	-	-	-	-	10,628	74	-	-	10,702
Public safety	-	-	-	-	-	-	4,439	-	4,439
Public works, highways, roads and streets	187,369	11,068	-	-	-	38,966	-	-	237,403
Culture and recreation	-	-	-	464,729	-	-	-	-	464,729
Insurance	-	-	827	3,478	-	-	-	-	4,305
Workmen's compensation	-	-	6,854	9,893	-	-	-	-	16,747
Payments to fire companies	-	-	185,311	-	-	-	-	-	185,311
Debt service	-	-	-	-	-	-	-	690,961	690,961
TOTAL EXPENDITURES	187,369	11,068	192,992	478,100	10,628	39,040	4,439	690,961	1,614,597
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	62,010	4,734	2,025	(300,275)	128,426	5,507	(4,439)	(155,813)	(257,825)
OTHER FINANCING SOURCES (USES)									
Bond proceeds	-	-	-	-	-	-	-	2,805,000	2,805,000
Premium on bond proceeds	-	-	-	-	-	-	-	47,228	47,228
Bond principal, refunded	-	-	-	-	-	-	-	(2,480,000)	(2,480,000)
Interfund transfers in	-	-	-	255,000	-	-	-	89,339	344,339
Interfund transfers out	-	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	-	(265,991)	(275,991)
TOTAL OTHER FINANCING SOURCES (USES)	-	(2,000)	(2,000)	253,000	(2,000)	(2,000)	-	195,576	440,576
NET CHANGE IN FUND BALANCES	62,010	2,734	25	(47,275)	126,426	3,507	(4,439)	39,763	182,751
FUND BALANCES AT BEGINNING OF YEAR	95,834	11,069	1,052	38,550	584,269	72,180	1,251	20,120	824,325
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 157,844	\$ 13,803	\$ 1,077	\$ (8,725)	\$ 710,695	\$ 75,687	\$ (3,188)	\$ 59,883	\$ 1,007,076

TOWNSHIP OF LOWER GWYNEDD
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2011

	Pension Trust Funds		
	Non-Uniformed Employees Pension Fund	Police Pension Fund	Totals
ASSETS			
Cash	\$ 92,333	\$ 280,523	\$ 372,856
Investments	<u>2,162,002</u>	<u>5,459,778</u>	<u>7,621,780</u>
TOTAL ASSETS	<u>\$ 2,254,335</u>	<u>\$ 5,740,301</u>	<u>\$ 7,994,636</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 6,512	\$ 6,949	\$ 13,461
NET ASSETS			
Held in trust for pension benefits	<u>2,247,823</u>	<u>5,733,352</u>	<u>7,981,175</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,254,335</u>	<u>\$ 5,740,301</u>	<u>\$ 7,994,636</u>

TOWNSHIP OF LOWER GWYNEDD
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended December 31, 2011

	Pension Trust Funds		
	Non-Uniformed Employees Pension Fund	Police Pension Fund	Totals
ADDITIONS			
Member contributions	\$ -	\$ 75,465	\$ 75,465
Employer contribution	115,447	378,307	493,754
State contribution	128,718	179,086	307,804
Loss on investments	(121,725)	(315,181)	(436,906)
Interest	74,133	188,806	262,939
TOTAL ADDITIONS	<u>196,573</u>	<u>506,483</u>	<u>703,056</u>
DEDUCTIONS			
Employee benefit payments	33,212	528,032	561,244
Other expenses	27,061	44,041	71,102
TOTAL DEDUCTIONS	<u>60,273</u>	<u>572,073</u>	<u>632,346</u>
CHANGE IN NET ASSETS	136,300	(65,590)	70,710
NET ASSETS AT BEGINNING OF YEAR	<u>2,111,523</u>	<u>5,798,942</u>	<u>7,910,465</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,247,823</u>	<u>\$ 5,733,352</u>	<u>\$ 7,981,175</u>



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Independent Auditors' 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

To the Board of Supervisors
Township of Lower Gwynedd
Spring House, Pennsylvania

We have audited the basic financial statements of the Township of Lower Gwynedd as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Township of Lower Gwynedd is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Township of Lower Gwynedd's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Lower Gwynedd's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Lower Gwynedd's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Supervisors
Township of Lower Gwynedd
Spring House, Pennsylvania

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Township of Lower Gwynedd'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the Township, the Board of Supervisors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauro Falconieri + Company, LLP

Oaks, Pennsylvania
April 19, 2012