

TOWNSHIP OF LOWER GWYNEDD

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2012

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Lower Gwynedd as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Township of Lower Gwynedd's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Lower Gwynedd as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 17, budgetary comparison information on page 49, trend data on infrastructure condition on page 50, pension plan funding progress on page 51 and postemployment benefits other than pension funding progress on page 52 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.

Other Information

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 and individual 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.

Emphasis of Matter

As discussed in Note L to the financial statements, for the year ended December 31, 2012, the Township of Lower Gwynedd adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013, 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* in considering the Township of Lower Gwynedd's internal control over financial reporting and compliance.

Maillie Falconiero Company, LLP

Oaks, Pennsylvania
April 9, 2013

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

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, 2012. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Position.

FINANCIAL HIGHLIGHTS

- The assets of the Township exceeded its liabilities by \$43,285,563 (net position). Of this amount, \$10,291,000 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net position increased by \$1,076,418.
- As of December 31, 2012, the fund balance for the General Fund was \$2,682,861.
- Outstanding debt at year ending 2012 was \$4,789,000.
- The Township's debt rating remained at Aaa by Moody's Investors Service.
- The Township's Total Real Estate Taxes in mills is 1.223.

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.

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

The basic financial statements include the Statement of Net Position, Statement of Activities, Fund Financial Statements and the Notes to the Basic Financial Statements. Statements of Net Position 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 Position 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.
- 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 position, revenues, expenses and changes in net position 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 Position, 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 for Other Governmental Funds.
- Combining Schedule of Fiduciary Net Position and Combining Schedule of Changes in Fiduciary Net Position for Fiduciary Funds.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2012

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Position and Statement of Activities

Our analysis of the Township as a whole begins with the Statement of Net Position. 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 Position 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 position and changes in it during the year. Over time, increases or decreases in the Township's net position 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.

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.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2012

The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's governmental and business-type activities. Assets exceeded liabilities by \$43,285,563 at the close of 2012. This is an increase of \$1,076,418 from the previous year.

Table 1
Condensed Statements of Net Position
December 31, 2012 and 2011

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
ASSETS						
Cash and investments	\$ 7,694,516	\$ 6,708,446	\$ 3,556,893	\$ 3,654,495	\$ 11,251,409	\$ 10,362,941
Other assets	543,232	871,186	79,501	111,358	622,733	982,544
Capital assets	34,010,210	33,435,910	3,428,550	4,038,433	37,438,760	37,474,343
TOTAL ASSETS	<u>42,247,958</u>	<u>41,015,542</u>	<u>7,064,944</u>	<u>7,804,286</u>	<u>49,312,902</u>	<u>48,819,828</u>
DEFERRED OUTFLOW OF RESOURCES						
Deferred amount on refunding, net of accumulated amortization of \$3,538	10,613	-	-	-	10,613	-
LIABILITIES						
Other liabilities	671,242	775,070	157,171	199,124	828,413	974,194
Long-term debt	3,729,000	4,165,000	1,060,000	1,170,000	4,789,000	5,335,000
OPEB liability	420,539	301,489	-	-	420,539	301,489
TOTAL LIABILITIES	<u>4,820,781</u>	<u>5,241,559</u>	<u>1,217,171</u>	<u>1,369,124</u>	<u>6,037,952</u>	<u>6,610,683</u>
NET POSITION						
Net investment in capital assets	30,252,959	29,270,910	2,368,550	2,868,433	32,621,509	32,139,343
Restricted	373,054	308,294	-	-	373,054	308,294
Unrestricted	6,811,777	6,194,779	3,479,223	3,566,729	10,291,000	9,761,508
TOTAL NET POSITION	<u>\$ 37,437,790</u>	<u>\$ 35,773,983</u>	<u>\$ 5,847,773</u>	<u>\$ 6,435,162</u>	<u>\$ 43,285,563</u>	<u>\$ 42,209,145</u>

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

The largest portion of the Township's net position, \$32,621,509 or 75.36% 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 22.8% of Lower Gwynedd Township's total assets.

Long-term debt total is \$4,789,000. 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 re-financed the 2005 General Obligation Bond 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 50.3% 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 19.9% of total capital assets for governmental activities and 82.6% 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 2012 was \$9,588,844.

The Township's governmental activities sustained a net increase of \$1,663,807 and the business-type activities sustained a net decrease of \$587,389. The total increase of net position for the Township was \$1,076,418.

Table 2 shows the changes in net position for the years ended December 31, 2012 and 2011.

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2012

Table 2
Changes in Net Position
Years Ended December 31, 2012 and 2011

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues	\$ 640,295	\$ 911,413	\$ 2,702,659	\$ 2,812,491	\$ 3,342,954	\$ 3,723,904
Charges for services	1,462,743	718,876	34,643	202,897	1,497,386	921,773
Operating grants and contributions	1,003,192	-	-	-	1,003,192	-
Capital grants and contributions						
General revenues						
Taxes						
Real estate tax	1,661,743	1,518,220	-	-	1,661,743	1,518,220
Real estate transfer tax	341,354	296,300	-	-	341,354	296,300
Earned income tax	3,463,874	2,865,290	-	-	3,463,874	2,865,290
Business privilege tax	214,297	237,132	-	-	214,297	237,132
Mercantile tax	158,890	138,042	-	-	158,890	138,042
Local services tax	231,684	231,231	-	-	231,684	231,231
Cable TV franchise fees	215,380	183,930	-	-	215,380	183,930
Investment income	90,171	130,383	18,904	24,923	109,075	155,306
Gain on sale/disposition of assets	8,003	30,089	10,100	-	18,103	30,089
Miscellaneous	-	1,820	-	-	-	1,820
Interfund transfers, net	97,218	105,736	(97,218)	(105,736)	-	-
TOTAL REVENUES	9,588,844	7,368,462	2,669,088	2,934,575	12,257,932	10,303,037
EXPENSES						
General government	1,256,891	1,219,953	-	-	1,256,891	1,219,953
Public safety	3,479,747	3,482,982	-	-	3,479,747	3,482,982
Highways/streets	1,480,716	1,311,826	-	-	1,480,716	1,311,826
Culture and recreation	478,684	486,082	-	-	478,684	486,082
Insurance	64,583	60,895	-	-	64,583	60,895
Workmen's compensation	62,776	66,515	-	-	62,776	66,515
Payments to fire companies	184,910	185,311	-	-	184,910	185,311
Interest on long-term debt	199,255	146,493	-	-	199,255	146,493
Depreciation, unallocated	717,475	687,041	-	-	717,475	687,041
Sewer operations	-	-	3,256,477	3,065,696	3,256,477	3,065,696
TOTAL EXPENSES	7,925,037	7,647,098	3,256,477	3,065,696	11,181,514	10,712,794
CHANGE IN NET POSITION	1,663,807	(278,636)	(587,389)	(131,121)	1,076,418	(409,757)
NET POSITION AT BEGINNING OF YEAR	35,773,983	36,052,619	6,435,162	6,566,283	42,209,145	42,618,902
NET POSITION AT END OF YEAR	\$ 37,437,790	\$ 35,773,983	\$ 5,847,773	\$ 6,435,162	\$ 43,285,563	\$ 42,209,145

TOWNSHIP OF LOWER GWYNEDD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2012

The cost of all governmental activities this year was \$7,925,037. The amount that our taxpayers ultimately financed for these activities through Township taxes was \$4,818,807.

As indicated by the governmental program expenses, public safety programs account for approximately 43.9% of the total expenditures of the Township's governmental activities. General administration and highways/streets services account for approximately 15.9% and 18.7%, respectively, of the total expenditures for 2012.

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 17.3% and 3.6% of total governmental revenues, respectively. Earned income taxes provide 36.1% of the governmental revenues. Local Service Tax provided 2.4% 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)
2013	\$ 1,358,656,170	100.02%	\$ 298,810	1.223	\$ 365	\$ 367	\$ 1,678,719	\$ N/A
2012	1,358,357,360	99.46%	(7,357,590)	1.223	(8,998)	136,634	1,678,352	1,658,396
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	1,512,425
2009	1,347,993,830	101.45%	19,240,240	1.117	21,491	21,491	1,521,636	1,511,959
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

2012	2011	2010	2009	2008	2007	2006
\$ <u>341,354</u>	\$ <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

2012	2011	2010	2009	2008	2007	2006
\$ <u>3,463,874</u>	\$ <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 \$2,720,448. Total expense is \$3,307,837 which exceeded revenues by 21.59%. Lower Gwynedd Township pays 36.2% of the costs to the Borough of Ambler for capital improvements to the Ambler Wastewater Treatment Plant. In 2012 and 2013 a major capital project was undertaken. In 2012, capital expenditures totaled \$602,584.83. After 2013, it is anticipated that capital cost will normalize and reflect cost in the \$300,000 range. 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, 2012

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 2012:

- \$41,354 increase of Earned Income Tax due to Act 32 collection change.
- \$26,165 increase of Mercantile Tax due to collection change.
- \$53,316 decrease of Local Service Tax economic slowdown.
- \$60,703 decrease of Business Privilege due to collection change.
- \$19,985 decrease of Interest Earnings due to low interest rates and lower cash surpluses.
- \$17,297 increase of Northern Montgomery Recycling Commission due to reporting issues from prior year.
- \$11,225 decrease of Special Police Services due to less billable activities.
- \$15,483 decrease in Building Permits due to soft economic activities.
- \$23,880 decrease in Utilities due to programmable thermostats and efficient lighting.
- \$18,305 decrease in Special Detail due to less billable activities.
- \$17,443 increase in Architectural Services due to under estimate of commission on building permits.
- \$36,346 decrease in Other Legal Services due to unchallenged zoning issues.
- \$11,373 decrease in Liability Insurance due to use of the Rate Stabilization Fund.
- \$11,263 decrease in Worker's Compensation Insurance due to use of the Rate Stabilization Fund.

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

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, 2012, totals \$34,010,210 and \$3,428,550 respectively (net of accumulated depreciation). Township investments in capital assets includes land, buildings and improvement, 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.

Table 3

**Capital Assets at Year-End (Net of Depreciation)
December 31, 2012**

GOVERNMENTAL ACTIVITIES	
Land	\$ 10,595,063
Infrastructure	13,154,136
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>23,749,199</u>
Infrastructure	4,222,971
Buildings and building improvements	5,137,535
Furniture, equipment and vehicles	900,505
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>10,261,011</u>
TOTAL GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	34,010,210
BUSINESS-TYPE ACTIVITIES	
Sewer system and equipment	<u>3,428,550</u>
TOTAL CAPITAL ASSETS	<u>\$ 37,438,760</u>

This year's major additions included:

GOVERNMENTAL ACTIVITIES	
Land, 8.02 acres for open space	\$ 1,000,692
Memorial Park Expansion	71,862
Welsh and Cedar Hill Road Traffic Signal	64,012
Trail Paving at Dager Road	19,640
Computer Software and Hardware	17,413
Chevrolet Tahoe and Fit-out	30,019
Crafco Crack Sealing Machine	36,700
Munis SQL Server and Licenses	16,212
BUSINESS-TYPE ACTIVITIES	
Sewer system improvement and equipment	\$ 142,314

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

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 cost 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 Statement.

Debt

The Township has the highest possible rating from Moody's, Aaa. 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.

At year end for the Governmental Activities, the Township's debt was \$3,729,000 compared to \$4,165,000 the previous year. The debt that is due within one year for Governmental Activities is \$518,000. For the Business-Type Activities, the Township had \$1,060,000 in outstanding debt at year end compared to \$1,170,000 the previous year. The debt that is due within one year for Business-Type Activities is \$115,000.

Table 4
Outstanding Debt
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 3,729,000	\$ 4,165,000
BUSINESS-TYPE ACTIVITIES		
Guaranteed Sewer Revenue Bonds	<u>1,060,000</u>	<u>1,170,000</u>
	<u>\$ 4,789,000</u>	<u>\$ 5,335,000</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. The Township is also served by two SEPTA passenger rail stations within its borders, Penllyn and Gwynedd Valley Stations.

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

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.

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. Janssen, a subsidiary of Johnson & Johnson, and Siemens Energy 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 Sunneytown Pike which is mostly undeveloped. Dow Chemical has announced it will be moving its Spring House operations to Collegeville. This move will occur gradually over the next two years, resulting in a loss of approximately 800 jobs. The 130-acre sites adjacent to the 309 interchange will attract significant development interest. Jansen is in the midst of an expansion that when completed, will bring an additional 1,200 employees to the facility in Lower Gwynedd Township.

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 medium sales 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 a 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 2013 Budget and Fiscal Plan was approved by the Board of Supervisors on December 11, 2012. There was no real estate tax or sewer user fee increase. The General Fund Budget will total \$6,058,840, representing a reduction of 2.5% compared to the 2012 General Fund Budget. A property assessed at \$350,000 will pay \$428.05 in Township real estate taxes in 2013.

The Township will devote 51% of \$3,759,728 of its General Fund revenues for the Police Department and associated pension costs. The Township will contribute \$801,882 to its pension plans in 2013. This represents 13% of the General Fund budget. The Township will pay over \$1,000,000 for health insurance for its (40) full-time employees in 2013.

In 2013, the Township has budgeted \$654,757 to pave six roads in the Township; replacement of the twenty-five (25) year old heating system (\$100,000); and updating the telephone system (\$35,000). The Township has budgeted \$90,000 to continue the Penllyn Pike Trail project in cooperation with Whitpain Township. This project is dependent upon the receipt of County Open Space Fund.

TOWNSHIP OF LOWER GWYNEDD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Revenues from the Real Estate Transfer and Earned Income Tax increased in 2012, perhaps reflecting improved economic conditions. Under Act 32, in 2012 collection of Earned Income Tax (EIT) is being done on a county-wide basis by a different agency. This change may have created a change in the cash flow that will be monitored. Until the Township is confident that cash flow from the EIT has normalized, The Township will continue to conservatively estimate revenue from this major revenue source.

In 2012, the Township received a \$416,000 grant from Montgomery County as reimbursement for the purchase of open space; and a \$475,000 reimbursement from the Commonwealth under RCAP. These funds were deposited into the Open Space Fund and Capital Reserve Fund respectively.

In conclusion, the 2013 Budget and Fiscal Plan that was adopted by the Board of Supervisors did not require a tax increase due to a combination of cost-reduction measures undertaken by the Township over recent years. The Township is well-positioned to maintain its strong balance sheet and Aaa bond rating, while providing its citizens with a high level of services.

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 POSITION

December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 7,694,516	\$ 2,753,196	\$ 10,447,712
Investments	-	803,697	803,697
Accounts receivable	78,378	-	78,378
Sewer rents receivable	-	57,198	57,198
Taxes receivable	450,533	-	450,533
Interest receivable	8,124	2,324	10,448
Assessments receivable	-	11,322	11,322
Internal balances	1,262	(1,262)	-
Prepaid items	4,935	5,748	10,683
Bond discount, net of accumulated amortization of \$34,120	-	4,171	4,171
Capital assets			
Sewer system and equipment	-	19,650,435	19,650,435
Land	10,595,063	-	10,595,063
Buildings and building improvements	9,404,605	-	9,404,605
Furniture, equipment, automobiles and trucks	2,224,777	-	2,224,777
Infrastructure	20,216,991	-	20,216,991
Accumulated depreciation	(8,431,226)	(16,221,885)	(24,653,111)
TOTAL ASSETS	<u>42,247,958</u>	<u>7,064,944</u>	<u>49,312,902</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amount on refunding, net of accumulated amortization of \$3,538	<u>10,613</u>	<u>-</u>	<u>10,613</u>
LIABILITIES			
Accounts payable and accrued expenses	203,568	98,957	302,525
Accrued interest	21,240	11,740	32,980
Escrow deposits	407,570	46,474	454,044
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	518,000	115,000	633,000
Portion due or payable after one year			
Bonds payable	3,211,000	945,000	4,156,000
Bond premium, net of accumulated amortization of \$8,363	38,864	-	38,864
OPEB liability	420,539	-	420,539
TOTAL LIABILITIES	<u>4,820,781</u>	<u>1,217,171</u>	<u>6,037,952</u>
NET POSITION			
Net investment in capital assets	30,252,959	2,368,550	32,621,509
Restricted	373,054	-	373,054
Unrestricted	<u>6,811,777</u>	<u>3,479,223</u>	<u>10,291,000</u>
TOTAL NET POSITION	<u>\$ 37,437,790</u>	<u>\$ 5,847,773</u>	<u>\$ 43,285,563</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,256,891	\$ 284,466	\$ 1,006,850	\$ 1,003,192	\$ 1,037,617	\$ -	\$ 1,037,617
Public safety	3,479,747	231,117	204,797	-	(3,043,833)	-	(3,043,833)
Public works, highways, roads and streets	1,480,716	42,747	251,096	-	(1,186,873)	-	(1,186,873)
Culture and recreation	478,684	81,965	-	-	(396,719)	-	(396,719)
Insurance	64,583	-	-	-	(64,583)	-	(64,583)
Workmen's compensation	62,776	-	-	-	(62,776)	-	(62,776)
Payments to fire companies	184,910	-	-	-	(184,910)	-	(184,910)
Interest on long-term debt	199,255	-	-	-	(199,255)	-	(199,255)
Depreciation, unallocated	717,475	-	-	-	(717,475)	-	(717,475)
TOTAL GOVERNMENTAL ACTIVITIES	<u>7,925,037</u>	<u>640,295</u>	<u>1,462,743</u>	<u>1,003,192</u>	<u>(4,818,807)</u>	<u>-</u>	<u>(4,818,807)</u>
BUSINESS-TYPE ACTIVITIES							
Sewer	<u>3,256,477</u>	<u>2,702,659</u>	<u>34,643</u>	<u>-</u>	<u>-</u>	<u>(519,175)</u>	<u>(519,175)</u>
TOTAL TOWNSHIP ACTIVITIES	<u>\$ 11,181,514</u>	<u>\$ 3,342,954</u>	<u>\$ 1,497,386</u>	<u>\$ 1,003,192</u>	<u>(4,818,807)</u>	<u>(519,175)</u>	<u>(5,337,982)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					1,661,743	-	1,661,743
Transfer taxes					341,354	-	341,354
Local services tax					231,684	-	231,684
Earned income taxes					3,463,874	-	3,463,874
Business privilege and mercantile taxes					373,187	-	373,187
Cable TV franchise fees					215,380	-	215,380
Investment income					90,171	18,904	109,075
Gain on sale/disposition of assets					8,003	10,100	18,103
TOTAL GENERAL REVENUES					<u>6,385,396</u>	<u>29,004</u>	<u>6,414,400</u>
INTERFUND TRANSFERS, net					<u>97,218</u>	<u>(97,218)</u>	<u>-</u>
CHANGE IN NET POSITION					<u>1,663,807</u>	<u>(587,389)</u>	<u>1,076,418</u>
NET POSITION AT BEGINNING OF YEAR					<u>35,773,983</u>	<u>6,435,162</u>	<u>42,209,145</u>
NET POSITION AT END OF YEAR					<u>\$ 37,437,790</u>	<u>\$ 5,847,773</u>	<u>\$ 43,285,563</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<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	\$ 2,726,307	\$ 897,996	\$ 3,041,683	\$ 1,028,530	\$ 7,694,516
Accounts receivable	75,987	-	-	2,391	78,378
Taxes receivable, net	437,001	-	-	2,511	439,512
Interest receivable	596	997	5,685	846	8,124
Prepaid expenses	4,935	-	-	-	4,935
Due from other funds	4,808	-	100	2,975	7,883
	<u>4,808</u>	<u>-</u>	<u>100</u>	<u>2,975</u>	<u>7,883</u>
TOTAL ASSETS	\$ <u>3,249,634</u>	\$ <u>898,993</u>	\$ <u>3,047,468</u>	\$ <u>1,037,253</u>	\$ <u>8,233,348</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 155,781	\$ 9,742	\$ 17,622	\$ 20,423	\$ 203,568
Due to other funds	3,422	-	-	3,199	6,621
Escrow deposits	407,570	-	-	-	407,570
TOTAL LIABILITIES	<u>566,773</u>	<u>9,742</u>	<u>17,622</u>	<u>23,622</u>	<u>617,759</u>
FUND BALANCES					
Restricted					
Streets and highway repair	-	-	-	241,110	241,110
Street lighting	-	-	-	14,485	14,485
Fire hydrant	-	-	-	73,882	73,882
Debt service	-	-	-	43,577	43,577
Assigned					
Capital projects	-	889,251	3,029,846	-	3,919,097
Traffic improvement	-	-	-	648,374	648,374
Unassigned	2,682,861	-	-	(7,797)	2,675,064
TOTAL FUND BALANCES	<u>2,682,861</u>	<u>889,251</u>	<u>3,029,846</u>	<u>1,013,631</u>	<u>7,615,589</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>3,249,634</u>	\$ <u>898,993</u>	\$ <u>3,047,468</u>	\$ <u>1,037,253</u>	\$ <u>8,233,348</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
December 31, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 7,615,589
<p>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 position. Those assets consist of:</p>	
Land	10,595,063
Buildings and building improvements	9,404,605
Furniture, equipment, automobiles and trucks	2,224,777
Infrastructure	20,216,991
Accumulated depreciation	(8,431,226)
<p>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:</p>	
Bond premium	(38,864)
Deferred amount on refunding	10,613
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(21,240)
Bonds payable in future years	(3,729,000)
OPEB liability	(420,539)
<p>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.</p>	
	<u>11,021</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 37,437,790</u>

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, 2012

	<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	\$ 5,216,720	\$ -	\$ -	\$ 850,659	\$ 6,067,379
Licenses and permits	253,226	-	-	-	253,226
Fines and forfeits	24,315	-	-	-	24,315
Investment income, rents and royalties	258,849	3,222	25,988	6,431	294,490
Intergovernmental revenues	209,036	416,000	571,611	252,886	1,449,533
Charges for services	284,648	-	-	91,954	376,602
Contributions	550	-	-	12,000	12,550
Miscellaneous revenue	50	-	-	10,900	10,950
	<u>6,247,394</u>	<u>419,222</u>	<u>597,599</u>	<u>1,224,830</u>	<u>8,489,045</u>
TOTAL REVENUES					
EXPENDITURES					
General government	1,207,272	100	38,540	70,552	1,316,464
Public safety	3,415,711	-	16,418	3,330	3,435,459
Public works, highways, roads and streets	648,316	-	632,551	235,527	1,516,394
Culture and recreation	-	109,925	19,640	466,045	595,610
Insurance	60,155	-	-	4,428	64,583
Workmen's compensation	46,737	-	-	16,039	62,776
Payments to fire companies	-	-	-	191,628	191,628
Debt service	-	-	-	547,220	547,220
	<u>5,378,191</u>	<u>110,025</u>	<u>707,149</u>	<u>1,534,769</u>	<u>7,730,134</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>869,203</u>	<u>309,197</u>	<u>(109,550)</u>	<u>(309,939)</u>	<u>758,911</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	105,145	-	238,867	326,494	670,506
Interfund transfers out	(559,288)	(2,000)	(2,000)	(10,000)	(573,288)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(454,143)</u>	<u>(2,000)</u>	<u>236,867</u>	<u>316,494</u>	<u>97,218</u>
NET CHANGE IN FUND BALANCES					
	415,060	307,197	127,317	6,555	856,129
FUND BALANCES AT BEGINNING 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>
FUND BALANCES AT END OF YEAR					
	<u>\$ 2,682,861</u>	<u>\$ 889,251</u>	<u>\$ 3,029,846</u>	<u>\$ 1,013,631</u>	<u>\$ 7,615,589</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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 856,129
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 capital outlays exceeds capital depreciation in the current period.	577,197
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.	(2,897)
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.	4,463
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	436,000
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 position. This is the amount by which the cost of the issue exceeds the amortization for the current period.	(88,035)
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>(119,050)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,663,807</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	Enterprise Funds			Totals	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 214,855	\$ 1,072,383	\$ 1,465,958	\$ 2,753,196	\$ -	\$ 2,753,196
Sewer rents receivable	-	57,198	-	57,198	-	57,198
Assessments receivable	11,322	-	-	11,322	-	11,322
Due from other funds	-	-	347	347	-	347
Prepaid expenses	-	5,748	-	5,748	-	5,748
Interest receivable	-	659	1,665	2,324	-	2,324
TOTAL CURRENT ASSETS	226,177	1,135,988	1,467,970	2,830,135	-	2,830,135
RESTRICTED ASSETS						
Investments	803,697	-	-	803,697	-	803,697
OTHER ASSETS						
Future lease rents receivable	1,060,000	-	-	1,060,000	(1,060,000)	-
BOND DISCOUNT, net of accumulated amortization of \$541	-	4,171	-	4,171	-	4,171
CAPITAL ASSETS, net of accumulated depreciation of \$16,221,885	-	3,428,550	-	3,428,550	-	3,428,550
TOTAL ASSETS	2,089,874	4,568,709	1,467,970	8,126,553	(1,060,000)	7,066,553
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	-	84,244	14,713	98,957	-	98,957
Accrued interest	-	11,740	-	11,740	-	11,740
Current portion of long-term debt	115,000	-	-	115,000	-	115,000
Escrow deposits	46,474	-	-	46,474	-	46,474
Due to other funds	-	1,609	-	1,609	-	1,609
TOTAL CURRENT LIABILITIES	161,474	97,593	14,713	273,780	-	273,780
LONG-TERM DEBT, less current portion	945,000	1,060,000	-	2,005,000	(1,060,000)	945,000
TOTAL LIABILITIES	1,106,474	1,157,593	14,713	2,278,780	(1,060,000)	1,218,780
NET POSITION						
Net investment in capital assets	-	2,368,550	-	2,368,550	-	2,368,550
Unrestricted	983,400	1,042,566	1,453,257	3,479,223	-	3,479,223
TOTAL NET POSITION	\$ 983,400	\$ 3,411,116	\$ 1,453,257	\$ 5,847,773	\$ -	\$ 5,847,773

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2012

	Enterprise Funds			Totals	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			
OPERATING REVENUES						
Charges for services	\$ -	\$ 2,532,588	\$ -	\$ 2,532,588	\$ -	\$ 2,532,588
Fees	161,371	-	-	161,371	-	161,371
Interest on capital lease financing	51,360	-	-	51,360	(51,360)	-
PennDOT reimbursements	34,643	-	-	34,643	-	34,643
Other operating revenues	-	8,700	-	8,700	-	8,700
TOTAL OPERATING REVENUES	247,374	2,541,288	-	2,788,662	(51,360)	2,737,302
OPERATING EXPENSES						
Professional fees	45,363	7,416	-	52,779	-	52,779
Engineering	80,455	-	-	80,455	-	80,455
Rent	-	97,428	-	97,428	-	97,428
General operating expenses	-	674,234	-	674,234	-	674,234
Insurance	-	154,039	-	154,039	-	154,039
Workmen's compensation	-	16,811	-	16,811	-	16,811
Depreciation and amortization	-	783,855	-	783,855	-	783,855
Miscellaneous	-	-	249	249	-	249
Maintenance expense	-	602,585	-	602,585	-	602,585
Treatment expenses	-	743,782	-	743,782	-	743,782
TOTAL OPERATING EXPENSES	125,818	3,080,150	249	3,206,217	-	3,206,217
OPERATING INCOME (LOSS)	121,556	(538,862)	(249)	(417,555)	(51,360)	(468,915)
NONOPERATING REVENUES (EXPENSES)						
Interest expense	(51,360)	(50,260)	-	(101,620)	51,360	(50,260)
Interest and investment income	-	9,673	9,231	18,904	-	18,904
Gain on disposal of assets	-	-	10,100	10,100	-	10,100
TOTAL NONOPERATING REVENUES (EXPENSES)	(51,360)	(40,587)	19,331	(72,616)	51,360	(21,256)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	70,196	(579,449)	19,082	(490,171)	-	(490,171)
OPERATING TRANSFERS						
Operating transfers in	-	142,314	170,834	313,148	(170,834)	142,314
Operating transfers out	-	(266,052)	(144,314)	(410,366)	170,834	(239,532)
TOTAL OPERATING TRANSFERS	-	(123,738)	26,520	(97,218)	-	(97,218)
CHANGE IN NET POSITION	70,196	(703,187)	45,602	(587,389)	-	(587,389)
NET POSITION AT BEGINNING OF YEAR	913,204	4,114,303	1,407,655	6,435,162	-	6,435,162
NET POSITION AT END OF YEAR	\$ 983,400	\$ 3,411,116	\$ 1,453,257	\$ 5,847,773	\$ -	\$ 5,847,773

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2012

	Enterprise Funds			Eliminations	Total Proprietary Funds	
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from users	\$ 222,529	\$ 2,528,377	\$ -	\$ 2,750,906	\$ (51,360)	\$ 2,699,546
Cash received from grants	34,643	-	-	34,643	-	34,643
Payments to and on behalf of employees	-	(565,963)	-	(565,963)	-	(565,963)
Payments to vendors and others	(142,296)	(1,770,361)	14,464	(1,898,193)	-	(1,898,193)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>114,876</u>	<u>192,053</u>	<u>14,464</u>	<u>321,393</u>	<u>(51,360)</u>	<u>270,033</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payments	-	(110,000)	-	(110,000)	-	(110,000)
Interest payments	(51,360)	(50,260)	-	(101,620)	51,360	(50,260)
Operating transfers to other funds	-	(266,052)	(144,661)	(410,713)	170,834	(239,879)
Operating transfers from other funds	-	142,424	170,834	313,258	(170,834)	142,424
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(51,360)</u>	<u>(283,888)</u>	<u>26,173</u>	<u>(309,075)</u>	<u>51,360</u>	<u>(257,715)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of equipment	-	(142,314)	-	(142,314)	-	(142,314)
Proceeds from sale of fixed assets	-	-	10,100	10,100	-	10,100
Change in investments	7,032	-	-	7,032	-	7,032
Investment income	-	13,839	8,455	22,294	-	22,294
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>7,032</u>	<u>(128,475)</u>	<u>18,555</u>	<u>(102,888)</u>	<u>-</u>	<u>(102,888)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,548	(220,310)	59,192	(90,570)	-	(90,570)
CASH AND CASH EQUIVALENTS AT BEGINNING 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>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 214,855</u>	<u>\$ 1,072,383</u>	<u>\$ 1,465,958</u>	<u>\$ 2,753,196</u>	<u>\$ -</u>	<u>\$ 2,753,196</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 121,556	\$ (538,862)	\$ (249)	\$ (417,555)	\$ (51,360)	\$ (468,915)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	-	752,197	-	752,197	-	752,197
Amortization	-	31,658	-	31,658	-	31,658
(Increase) decrease in						
Receivables, net	9,798	(12,911)	-	(3,113)	-	(3,113)
Prepaid expenses	-	159	-	159	-	159
Increase (decrease) in						
Accounts payable and accrued expenses	-	(40,188)	14,713	(25,475)	-	(25,475)
Escrow deposits	(16,478)	-	-	(16,478)	-	(16,478)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 114,876</u>	<u>\$ 192,053</u>	<u>\$ 14,464</u>	<u>\$ 321,393</u>	<u>\$ (51,360)</u>	<u>\$ 270,033</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 262,355
Investments	<u>9,246,980</u>
 TOTAL ASSETS	 9,509,335
 LIABILITIES	
Accounts payable	<u>14,967</u>
 NET POSITION	
Held in trust for pension benefits	<u>\$ 9,494,368</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended December 31, 2012

	<u>Pension Trust Funds</u>
ADDITIONS	
Member contributions	\$ 75,869
Employer contribution	612,557
State contribution	196,686
Gain on investments	909,656
Interest	<u>232,403</u>
TOTAL ADDITIONS	<u>2,027,171</u>
DEDUCTIONS	
Employee benefit payments	451,138
Other expenses	<u>62,840</u>
TOTAL DEDUCTIONS	<u>513,978</u>
CHANGE IN NET POSITION	1,513,193
NET POSITION AT BEGINNING OF YEAR	<u>7,981,175</u>
NET POSITION AT END OF YEAR	<u>\$ 9,494,368</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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 position 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, 2012

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 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 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, 2012

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.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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 position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Township finances and meets the cash flow needs of its proprietary activities.

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.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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.

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, 2012, 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.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Township has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying amount value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or refunded debt.

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

Net Position Flow Assumption

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

Fund Equity

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

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

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

- **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. As of December 31, 2012, the Board has not delegated the authority to assign fund balance.
- **Unassigned Fund Balance** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

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, 2012, \$6,634,805 was insured by the Federal Depository Insurance Corporation. The remaining \$3,928,528 of the Township's bank balance of \$10,563,333 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

Total Governmental Funds	\$ <u>3,224,294</u>
Township Proprietary Funds	\$ <u>665,390</u>
Township Fiduciary Funds	\$ <u>38,844</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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, 2012, 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>
PROPRIETARY FUNDS			
Money Market Accounts	\$ <u>803,697</u>	\$ <u>803,697</u>	N/A
FIDUCIARY FUNDS			
Mutual Funds	\$ <u>9,246,980</u>	\$ <u>9,246,980</u>	N/A

At December 31, 2012, there were no investments in any one organization that represented 5% or more of total investments other than mutual funds, which do not require disclosure of concentration per GASB Statement No. 40.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE C CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 9,594,371	\$ 1,000,692	\$ -	\$ 10,595,063
Infrastructure	13,154,136	-	-	13,154,136
Construction in progress	14,250	-	(14,250)	-
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>22,762,757</u>	<u>1,000,692</u>	<u>(14,250)</u>	<u>23,749,199</u>
Capital assets being depreciated				
Infrastructure	6,952,339	110,516	-	7,062,855
Buildings and building improvements	9,300,032	104,573	-	9,404,605
Furniture, equipment, automobiles and trucks	2,170,895	93,141	(39,259)	2,224,777
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>18,423,266</u>	<u>308,230</u>	<u>(39,259)</u>	<u>18,692,237</u>
Accumulated depreciation				
Infrastructure	(2,603,077)	(236,807)	-	(2,839,884)
Buildings and building improvements	(3,965,110)	(301,960)	-	(4,267,070)
Furniture, equipment, automobiles and trucks	(1,181,926)	(178,708)	36,362	(1,324,272)
TOTAL ACCUMULATED DEPRECIATION	<u>(7,750,113)</u>	<u>(717,475)</u>	<u>36,362</u>	<u>(8,431,226)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>10,673,153</u>	<u>(409,245)</u>	<u>(2,897)</u>	<u>10,261,011</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>33,435,910</u>	<u>591,447</u>	<u>(17,147)</u>	<u>34,010,210</u>
BUSINESS-TYPE ACTIVITIES				
Sewer system and equipment	19,508,121	142,314	-	19,650,435
Accumulated depreciation	(15,469,688)	(752,197)	-	(16,221,885)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>4,038,433</u>	<u>(609,883)</u>	<u>-</u>	<u>3,428,550</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 37,474,343</u>	<u>\$ (18,436)</u>	<u>\$ (17,147)</u>	<u>\$ 37,438,760</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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 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 July 19, 2011, the Township issued General Obligation Bonds, Series of 2011, in the amount of \$2,805,000. The bonds were issued for the purpose of currently refunding 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.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The following is a summary of transactions affecting long-term obligations for the year ended December 31, 2012:

	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Balance Outstanding January 1, 2012</u>	<u>Proceeds from New Obligations</u>	<u>Retired During Year</u>	<u>Balance Outstanding December 31, 2012</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Series A of 2002, maturing in 2014	3.80%	\$ 1,745,000	\$ 1,360,000	\$ -	\$ (436,000)	\$ 924,000	\$ 453,000
Series of 2011, maturing in 2019	2.00% to 2.20%	2,805,000	2,805,000	-	-	2,805,000	65,000
TOTAL GENERAL OBLIGATION BONDS		<u>4,550,000</u>	<u>4,165,000</u>	<u>-</u>	<u>(436,000)</u>	<u>3,729,000</u>	<u>518,000</u>
Bond premium		-	44,768	-	(5,904)	38,864	-
Net OPEB obligation		-	301,489	119,050	-	420,539	-
		<u>4,550,000</u>	<u>4,511,257</u>	<u>119,050</u>	<u>(441,904)</u>	<u>4,188,403</u>	<u>518,000</u>
BUSINESS-TYPE ACTIVITIES							
Municipal Authority							
Guaranteed Sewer Revenue Bonds, Series of 2003	1.10% to 4.60%	1,960,000	1,170,000	-	(110,000)	1,060,000	115,000
TOTAL LONG-TERM LIABILITIES		<u>\$ 6,510,000</u>	<u>\$ 5,681,257</u>	<u>\$ 119,050</u>	<u>\$ (551,904)</u>	<u>\$ 5,248,403</u>	<u>\$ 633,000</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>
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>\$ 3,729,000</u>	<u>\$ 272,041</u>	<u>\$ 4,001,041</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Guaranteed Sewer Revenue Bonds, Series of 2003

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>\$ 1,060,000</u>	<u>\$ 225,150</u>	<u>\$ 1,285,150</u>

The Township financed the General Obligation Bonds, 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, 2012, DeVal would have received a payment of nearly \$174 million if all of the swap agreements were terminated. Therefore, no amounts are reflected on the Township's financial statements.

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, 2012, lease payments received by the Township were \$106,891.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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	\$ 4,808	\$ 3,422
Capital Reserve Fund	100	-
Special Revenue Funds	2,975	3,199
PROPRIETARY FUNDS		
Sewer Enterprise Fund	-	1,609
Sewer Reserve Fund	<u>347</u>	<u>-</u>
	<u>\$ 8,230</u>	<u>\$ 8,230</u>

NOTE G INTERFUND TRANSFERS

Interfund transfers were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
GOVERNMENTAL FUNDS		
General Fund	\$ 105,145	\$ 559,288
Open Space Fund	-	2,000
Capital Reserve Fund	238,867	2,000
Industrial Compact Fund	3,000	-
Debt Service Fund	6,073	-
Special Revenue Funds	317,421	10,000
PROPRIETARY FUNDS		
Sewer Enterprise Fund	142,314	266,052
Sewer Reserve Fund	<u>170,834</u>	<u>144,314</u>
	<u>\$ 983,654</u>	<u>\$ 983,654</u>

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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, 2012

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 2012, the MMO obligation for the Non-Uniformed Employees Pension Plan was \$239,441. Contributions of \$157,190 and \$82,251 were made by the Township and the Commonwealth, respectively.

In 2012, the MMO obligation for the Police Pension Plan was \$569,802. Contributions of \$455,367 and \$114,435 were made by the Township and the Commonwealth, respectively. Employee contributions of \$75,869 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, 2012

Investment Concentration

Total plan assets as of December 31, 2012, were \$2,737,259 for the Non-Uniformed Employees Pension Plan and \$6,772,076 for the Police Pension Plan. At December 31, 2012, 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
2010	\$ 253,129	100.0%	\$ 559,063	100.0%
2011	244,165	100.0%	557,393	100.0%
2012	239,441	100.0%	569,802	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, 2012

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	\$ 45,193
Amortization of unfunded actuarial accrued liability	89,202
Interest on annual required contribution	5,376
ANNUAL REQUIRED CONTRIBUTION (ARC)	139,771
Interest on net OPEB obligation	12,183
Adjustment to ARC	(28,752)
ANNUAL OPEB EXPENSE	123,202
Estimated pay-as-you-go contributions	(7,232)
INCREASE IN NET OPEB OBLIGATION	115,970
Net OPEB obligation at beginning of year	301,489
Adjustment to net OPEB at beginning of year	3,080
Restated net OPEB obligation at beginning of year	304,569
NET OPEB OBLIGATION AT END OF YEAR	\$ 420,539

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 69,902	0%	\$ 138,279
2011	116,976	10%	301,489
2012	123,202	6%	420,539

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$905,360 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 \$1,469,776, and the ratio of the UAAL to the covered payroll was 61.6%.

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 52, 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.

In the January 1, 2012 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 7.0% initially, reduced by decrements of 1.0% to an ultimate rate of 6.0% after two years. The unfunded AAL is being amortized over a 15-year period. The remaining amortization period at December 31, 2012, was 13 years.

TOWNSHIP OF LOWER GWYNEDD
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE K FUND BALANCE

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. As of December 31, 2012, the Board has not delegated the authority to assign fund balance.
- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 20). 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.

NOTE L CHANGE IN ACCOUNTING PRINCIPLE

The Township has implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER GWYNEDD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,045,049	\$ 5,000,133	\$ 5,216,720	\$ 216,587
Licenses and permits	235,000	236,545	253,226	16,681
Fines and forfeits	33,000	24,207	24,315	108
Interest income, rents and royalties	279,135	259,150	258,849	(301)
Intergovernmental revenues	248,920	263,103	209,036	(54,067)
Charges for services	257,800	224,339	284,648	60,309
Contributions	1,200	550	550	-
Miscellaneous revenue	150	50	50	-
TOTAL REVENUES	<u>6,100,254</u>	<u>6,008,077</u>	<u>6,247,394</u>	<u>239,317</u>
EXPENDITURES				
General government	1,290,661	1,218,073	1,207,272	10,801
Public safety	3,569,291	3,484,144	3,415,711	68,433
Public works, highways, roads and streets	672,029	654,074	648,316	5,758
Insurance	66,130	60,155	60,155	-
Workmen's compensation	58,000	46,737	46,737	-
TOTAL EXPENDITURES	<u>5,656,111</u>	<u>5,463,183</u>	<u>5,378,191</u>	<u>84,992</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>444,143</u>	<u>544,894</u>	<u>869,203</u>	<u>324,309</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of Township assets	10,000	-	-	-
Interfund transfers in	105,145	105,145	105,145	-
Interfund transfers out	(559,288)	(559,288)	(559,288)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(444,143)</u>	<u>(454,143)</u>	<u>(454,143)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	90,751	415,060	324,309
FUND BALANCE AT BEGINNING OF YEAR	<u>2,267,801</u>	<u>2,267,801</u>	<u>2,267,801</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,267,801</u>	<u>\$ 2,358,552</u>	<u>\$ 2,682,861</u>	<u>\$ 324,309</u>

TOWNSHIP OF LOWER GWYNEDD
TREND DATA ON INFRASTRUCTURE CONDITION
Year Ended December 31, 2012

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 6.336.

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

	<u>Original Budget</u>	<u>Actual</u>
2012	\$ 651,005	\$ 659,353
2011	584,213	588,361
2010	452,850	289,910
2009	609,000	425,952
2008	661,300	523,157

TOWNSHIP OF LOWER GWYNEDD

PENSION PLAN FUNDING PROGRESS

Year Ended December 31, 2012

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
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%
2012	239,441	100%	569,802	100%

Note: Contributions include state pension aid.

TOWNSHIP OF LOWER GWYNEDD
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended December 31, 2012

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u> <u>January 1,</u>	<u>(a)</u> <u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>(b)</u> <u>Entry Age</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>(c)</u> <u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b)-(a)</u>	<u>(d)</u> <u>Funded</u> <u>Ratio</u> <u>(a)/(b)</u>	<u>(e)</u> <u>Covered</u> <u>Payroll</u>	<u>(f)</u> <u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(c)/(e)</u>
2008	\$ -	\$ 524,036	\$ 524,036	0%	\$ 1,580,120	33.2%
2011	-	847,411	847,411	0%	1,498,305	56.6%
2012	-	905,360	905,360	0%	1,469,776	61.6%

SUPPLEMENTARY INFORMATION SECTION

TOWNSHIP OF LOWER GWYNEDD

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

December 31, 2012

	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	\$ 241,110	\$ 16,958	\$ 468	\$ -	\$ 644,854	\$ 73,797	\$ 8,483	\$ 42,860	\$ 1,028,530
Accounts receivable	-	-	-	2,391	-	-	-	-	2,391
Taxes receivable, net	-	88	561	211	-	115	-	1,536	2,511
Interest receivable	-	-	-	-	815	31	-	-	846
Due from other funds	-	-	-	270	2,705	-	-	-	2,975
TOTAL ASSETS	\$ 241,110	\$ 17,046	\$ 1,029	\$ 2,872	\$ 648,374	\$ 73,943	\$ 8,483	\$ 44,396	\$ 1,037,253
LIABILITIES AND FUND BALANCES (DEFICIT)									
LIABILITIES									
Accounts payable and accrued expenses	\$ -	\$ 2,561	\$ 299	\$ 16,683	\$ -	\$ 61	\$ -	\$ 819	\$ 20,423
Due to other funds	-	-	1,583	1,616	-	-	-	-	3,199
TOTAL LIABILITIES	-	2,561	1,882	18,299	-	61	-	819	23,622
FUND BALANCES (DEFICIT)									
Restricted									
Streets and highway repair	241,110	-	-	-	-	-	-	-	241,110
Street lighting	-	14,485	-	-	-	-	-	-	14,485
Fire hydrant	-	-	-	-	-	73,882	-	-	73,882
Debt service	-	-	-	-	-	-	-	43,577	43,577
Assigned, traffic improvement	-	-	-	-	648,374	-	-	-	648,374
Unassigned	-	-	(853)	(15,427)	-	-	8,483	-	(7,797)
TOTAL FUND BALANCES (DEFICIT)	241,110	14,485	(853)	(15,427)	648,374	73,882	8,483	43,577	1,013,631
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 241,110	\$ 17,046	\$ 1,029	\$ 2,872	\$ 648,374	\$ 73,943	\$ 8,483	\$ 44,396	\$ 1,037,253

TOWNSHIP OF LOWER GWYNEDD
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
 Year Ended December 31, 2012

	Special Revenue Funds						Industrial Compact Fund	Debt Service Fund	Total Other Governmental Funds
	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Recreation Fund	Traffic Impact Fund	Fire Hydrant Fund			
REVENUES									
Taxes	\$ -	\$ 16,673	\$ 193,001	\$ 72,707	\$ -	\$ 39,507	\$ -	\$ 528,771	\$ 850,659
Investment income, rents and royalties	333	7	8	12	5,153	588	1	329	6,431
Intergovernmental revenues	251,096	-	-	1,790	-	-	-	-	252,886
Charges for services	3,000	-	-	83,965	4,989	-	-	-	91,954
Contributions	-	-	-	-	-	-	12,000	-	12,000
Miscellaneous revenue	10,900	-	-	-	-	-	-	-	10,900
TOTAL REVENUES	265,329	16,680	193,009	158,474	10,142	40,095	12,001	529,100	1,224,830
EXPENDITURES									
General government	-	-	-	-	70,463	89	-	-	70,552
Public safety	-	-	-	-	-	-	3,330	-	3,330
Public works, highways, roads and streets	182,063	13,998	-	-	-	39,466	-	-	235,527
Culture and recreation	-	-	-	466,045	-	-	-	-	466,045
Insurance	-	-	946	3,482	-	-	-	-	4,428
Workmen's compensation	-	-	5,529	10,510	-	-	-	-	16,039
Payments to fire companies	-	-	186,464	560	-	345	-	4,259	191,628
Debt service	-	-	-	-	-	-	-	547,220	547,220
TOTAL EXPENDITURES	182,063	13,998	192,939	480,597	70,463	39,900	3,330	551,479	1,534,769
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	83,266	2,682	70	(322,123)	(60,321)	195	8,671	(22,379)	(309,939)
OTHER FINANCING SOURCES (USES)									
Interfund transfers in	-	-	-	317,421	-	-	3,000	6,073	326,494
Interfund transfers out	-	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	-	-	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	(2,000)	(2,000)	315,421	(2,000)	(2,000)	3,000	6,073	316,494
NET CHANGE IN FUND BALANCES	83,266	682	(1,930)	(6,702)	(62,321)	(1,805)	11,671	(16,306)	6,555
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	157,844	13,803	1,077	(8,725)	710,695	75,687	(3,188)	59,883	1,007,076
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 241,110	\$ 14,485	\$ (853)	\$ (15,427)	\$ 648,374	\$ 73,882	\$ 8,483	\$ 43,577	\$ 1,013,631

TOWNSHIP OF LOWER GWYNEDD
COMBINING SCHEDULE OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	Pension Trust Funds		
	Non-Uniformed Employees Pension Fund	Police Pension Fund	Totals
ASSETS			
Cash	\$ 52,489	\$ 209,866	\$ 262,355
Investments	<u>2,684,770</u>	<u>6,562,210</u>	<u>9,246,980</u>
TOTAL ASSETS	2,737,259	6,772,076	9,509,335
LIABILITIES			
Accounts payable	<u>3,305</u>	<u>11,662</u>	<u>14,967</u>
NET POSITION			
Held in trust for pension benefits	<u>\$ 2,733,954</u>	<u>\$ 6,760,414</u>	<u>\$ 9,494,368</u>

TOWNSHIP OF LOWER GWYNEDD**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS***Year Ended December 31, 2012*

	<u>Pension Trust Funds</u>		
	<u>Non-Uniformed Employees Pension Fund</u>	<u>Police Pension Fund</u>	<u>Totals</u>
ADDITIONS			
Member contributions	\$ -	\$ 75,869	\$ 75,869
Employer contribution	157,190	455,367	612,557
State contribution	82,251	114,435	196,686
Gain on investments	258,691	650,965	909,656
Interest	67,990	164,413	232,403
TOTAL ADDITIONS	<u>566,122</u>	<u>1,461,049</u>	<u>2,027,171</u>
DEDUCTIONS			
Employee benefit payments	60,108	391,030	451,138
Other expenses	19,883	42,957	62,840
TOTAL DEDUCTIONS	<u>79,991</u>	<u>433,987</u>	<u>513,978</u>
CHANGE IN NET POSITION	486,131	1,027,062	1,513,193
NET POSITION AT BEGINNING OF YEAR	<u>2,247,823</u>	<u>5,733,352</u>	<u>7,981,175</u>
NET POSITION AT END OF YEAR	<u>\$ 2,733,954</u>	<u>\$ 6,760,414</u>	<u>\$ 9,494,368</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, 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, the 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 and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Township of Lower Gwynedd's basic financial statements, and have issued our report thereon dated April 9, 2013.

Internal Control Over Financial Reporting

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

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

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

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 from 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*.

Purpose of this Report

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

Maule Falconier & Company, LLP

Oaks, Pennsylvania
April 9, 2013