



LOWER GWYNEDD TOWNSHIP
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

LOWER GWYNEDD TOWNSHIP

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

June 14, 2018

Board of Supervisors
Lower Gwynedd Township
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 Lower Gwynedd Township ("the Township"), Spring House, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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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.

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 Lower Gwynedd Township, Spring House, Pennsylvania, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Traffic Impact Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lower Gwynedd Township's December 31, 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated June 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16; the trend data on infrastructure condition; the pension funds schedules of changes in the Township's net pension liability (asset), related ratios, and investment returns; the pension funds schedules of employer contributions, and the post-employment healthcare benefits schedule of funding progress on pages 59 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Supervisors
Lower Gwynedd Township

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2018, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
DECEMBER 31, 2017**

Our discussion and analysis of Lower Gwynedd Township's ("the Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the Township's financial statements, which begin with the Statement of Net Position.

FINANCIAL HIGHLIGHTS

- The net position of the Township increased by \$1,401,415 to end the year at \$45,329,516. Of this amount, \$9,162,873 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. The Township's unrestricted net position increased by \$703,866 from 2016.
- As of December 31, 2017, the fund balance for the General Fund was \$3,604,950, compared to \$3,667,780 at December 31, 2016. The Township has a fund balance policy target range of 25 percent - 35 percent of budgeted expenditures. Any excess balances are transferred to one of the Township's capital projects funds.
- The Township's combined net pension liability and asset for the Police and Non-Uniformed defined benefit pensions, respectively, decreased by \$2,262,599 from the previous year.
- The other post-employment healthcare benefits ("OPEB") liability amounted to \$666,921 at December 31, 2017.
- At the end of 2017, the principal portion of the Township's outstanding debt decreased by \$623,224, ending the year at \$954,680.
- The Township's current debt rating remains at Aaa by Moody's Investors Service.
- The Township's 2017 total real estate tax rate of 1.223 mills has remained the same since 2012.

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

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

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

The basic financial statements include the Statement of Net Position, Statement of Activities, Fund Financial Statements, and the Notes to the Basic Financial Statements. The 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 Township's assets and deferred outflows of resources, its liabilities and deferred inflows of resources, and the net difference.
- The *Statement of Activities* focuses on gross and net costs of the Township's 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.
- The Fund Financial Statements focus separately on Governmental Funds, Proprietary Funds, and Fiduciary Funds. The 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 Funds represent the Township's Enterprise Operating Fund, Sewer Reserve Fund, and Municipal Authority, 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 trend data on infrastructure condition; the schedules of changes in the Township's net pension liability, related ratios, and investment returns; the schedules of employer pension contributions; and the schedule of funding progress for the post-employment healthcare benefits plan.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

- Other Supplementary Information consists of the following:
 - Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances for Non-major Governmental Funds.
 - Combining Statement of Net Position and Combining Statement of Changes in Net Position for Fiduciary Funds.

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. Readers 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, the Township is divided 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 taxes, 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 following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's governmental and business-type activities. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$45,329,516 at the close of 2017. This is an increase of \$1,401,415 from the previous year. This increase is due primarily to increases in the amounts collected for charges for services and contributions.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

**Table 1
STATEMENT OF NET POSITION**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets						
Cash and cash equivalents	\$ 9,333,035	\$ 9,266,759	\$ 4,386,242	\$ 3,589,649	\$13,719,277	\$12,856,408
Other assets	675,374	836,597	120,635	97,414	796,009	934,011
Internal balances	136,351	428	(136,351)	(428)	-	-
Capital assets	33,337,806	33,114,323	2,673,569	2,702,255	36,011,375	35,816,578
Net pension asset	288,042	-	-	-	288,042	-
Total Assets	<u>43,770,608</u>	<u>42,218,107</u>	<u>7,044,095</u>	<u>6,388,890</u>	<u>50,814,703</u>	<u>49,606,997</u>
Deferred Outflows of Resources						
	<u>33,999</u>	<u>746,580</u>	<u>-</u>	<u>-</u>	<u>33,999</u>	<u>746,580</u>
Liabilities:						
Current liabilities	1,299,953	940,248	671,144	365,762	1,971,097	1,306,010
Long-term debt, net	319,895	964,033	-	-	319,895	964,033
Other liabilities	2,138,838	4,148,452	-	-	2,138,838	4,148,452
Total Liabilities	<u>3,758,686</u>	<u>6,052,733</u>	<u>671,144</u>	<u>365,762</u>	<u>4,429,830</u>	<u>6,418,495</u>
Deferred Inflows of Resources						
	<u>1,089,356</u>	<u>6,981</u>	<u>-</u>	<u>-</u>	<u>1,089,356</u>	<u>6,981</u>
Net Position:						
Net investment in capital assets	32,375,553	31,524,700	2,673,569	2,702,255	35,049,122	34,226,955
Restricted	1,117,521	1,242,139	-	-	1,117,521	1,242,139
Unrestricted	5,463,491	5,138,134	3,699,382	3,320,873	9,162,873	8,459,007
TOTAL NET POSITION	<u>\$38,956,565</u>	<u>\$37,904,973</u>	<u>\$ 6,372,951</u>	<u>\$ 6,023,128</u>	<u>\$45,329,516</u>	<u>\$43,928,101</u>

The largest portion of the Township's net position, \$35,049,122 or 77.3 percent, 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 cash equivalents represent 27.0 percent of the Township's total assets.

Total long-term debt (the long-term portion of bonds payable and note payable) fell to \$319,895 at December 31, 2017, a decrease of \$644,138 from the previous year. Long-term debt consists of \$273,444 (including unamortized premium) for a 2011 bond issue and \$46,451 for a loan from Montgomery County. Proceeds of the bond issue were used to finance two major projects; the expansion of the municipal complex including the installation of an emergency generator and 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 which were originally budgeted for the Fire/Ambulance Sub-Station, were reallocated for the installation of an emergency generator at

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

the Township Building. Due to unexpected difficulties in acquiring land, the construction of the Fire/Ambulance Sub-Station has been postponed.

Assets in the business-type activities column reflect the Township's investment in its sewer system. Cash and cash equivalents represent 62.3 percent of the 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 25.6 percent of total capital assets for governmental activities and 87.1 percent 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 as described in the Statement of Changes in Net Position. Total revenue, excluding interfund transfers, for governmental activities for fiscal 2017 was \$10,264,207, which is down \$28,746 from 2016.

The Township's governmental activities recognized a net increase of \$1,051,592, and the business-type activities recognized a net increase of \$349,823. The total increase of net position for the Township was \$1,401,415.

Table 2 shows the changes in net position for the years ended December 31, 2017 and 2016.

**Table 2
STATEMENT OF CHANGES IN NET POSITION**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
REVENUES						
Program revenues:						
Charges for services	\$ 1,116,327	\$ 1,161,899	\$ 2,803,195	\$ 2,989,002	\$ 3,919,522	\$ 4,150,901
Operating grants and contributions	782,721	1,061,011	-	-	782,721	1,061,011
Capital grants and contributions	-	330,751	-	-	-	330,751
General revenues:						
Real estate taxes	1,667,367	1,665,699	-	-	1,667,367	1,665,699
Transfer taxes	589,458	496,825	-	-	589,458	496,825
Earned income tax	4,569,507	4,287,721	-	-	4,569,507	4,287,721
Local service tax	363,501	353,684	-	-	363,501	353,684
Business privilege tax	283,395	301,597	-	-	283,395	301,597
Mercantile tax	171,261	200,117	-	-	171,261	200,117
Cable TV franchise fees	309,002	310,147	-	-	309,002	310,147
Investment income	143,534	89,183	29,117	26,996	172,651	116,179
Gain on sale or disposal of assets	255,957	8,199	-	-	255,957	8,199
Miscellaneous	12,177	26,120	-	29,675	12,177	55,795
TOTAL REVENUES	<u>10,264,207</u>	<u>10,292,953</u>	<u>2,832,312</u>	<u>3,045,673</u>	<u>13,096,519</u>	<u>13,338,626</u>

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

**Table 2
STATEMENT OF CHANGES IN NET POSITION**

<i>(cont'd)</i>	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
EXPENSES						
General government	1,478,438	1,357,553	-	-	1,478,438	1,357,553
Public safety	4,260,445	4,239,382	-	-	4,260,445	4,239,382
Public works - highways and streets	1,621,104	1,893,633	-	-	1,621,104	1,893,633
Culture and recreation	716,855	647,042	-	-	716,855	647,042
Insurance	92,709	55,310	-	-	92,709	55,310
Workmen's compensation	129,946	106,021	-	-	129,946	106,021
Payments to fire companies	251,693	245,533	-	-	251,693	245,533
Interest on long-term debt	16,614	30,079	-	-	16,614	30,079
Depreciation, unallocated	753,979	731,978	-	-	753,979	731,978
Sewer	-	-	2,373,321	2,182,730	2,373,321	2,182,730
TOTAL EXPENSES	9,321,783	9,306,531	2,373,321	2,182,730	11,695,104	11,489,261
Change in net position before interfund transfers	942,424	986,422	458,991	862,943	1,401,415	1,849,365
Interfund transfers, net	109,168	123,482	(109,168)	(123,482)	-	-
CHANGE IN NET POSITION	1,051,592	1,109,904	349,823	739,461	1,401,415	1,849,365
NET POSITION, BEGINNING OF YEAR	37,904,973	36,795,069	6,023,128	5,283,667	43,928,101	42,078,736
NET POSITION, END OF YEAR	\$38,956,565	\$37,904,973	\$ 6,372,951	\$ 6,023,128	\$45,329,516	\$43,928,101

The cost of all governmental activities this year was \$9,321,783. The amount that our taxpayers ultimately financed for these activities through Township taxes was \$7,644,489.

As indicated by the governmental program expenses, public safety programs account for approximately 45.7 percent of the total expenditures of the Township's governmental activities. General administration and public works - highways and streets services account for approximately 15.9 percent and 17.4 percent, respectively, of the total expenditures for 2017.

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 16.2 percent and 5.7 percent of total governmental activities revenues, respectively. Earned income taxes provide 44.5 percent of the governmental revenues. Local service tax provided 3.5 percent of the total governmental revenues. Below are the charts showing the current and prior years of real estate tax, transfer tax, and earned income tax receipts.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

Real Estate Tax

Year	Assessment	Rate of Change	Change in Assessment	Millage	Assessed Change	Increase in Tax Billed	Tax Billed	Tax Collected at Face
2017	\$1,370,575,620	99.91%	\$(1,218,610)	1.223	\$ (1,490)	\$ (1,490)	\$1,693,309	\$1,677,274
2016	1,371,794,230	100.08%	1,090,770	1.223	1,334	1,325	1,694,799	1,680,444
2015	1,370,703,460	100.59%	8,072,250	1.223	9,872	9,871	1,693,474	1,672,764
2014	1,362,631,210	100.29%	3,975,040	1.223	4,861	4,883	1,683,603	1,667,774
2013	1,358,656,170	100.02%	298,810	1.223	365	368	1,678,720	1,664,184
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

Transfer Tax

2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
\$ 589,458	\$ 496,825	\$ 957,264	\$ 385,405	\$ 441,549	\$ 341,354	\$ 296,300	\$ 318,563	\$ 335,550	\$ 666,429

Earned Income Tax

2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
\$4,569,507	\$4,287,721	\$4,293,239	\$4,194,837	\$4,233,540	\$3,463,874	\$2,865,290	\$3,053,273	\$2,956,517	\$3,350,100

In 2015, the Township implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions." The purpose of this statement is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments.

The adoption of GASB Statement No. 68 has had, and will continue to have, a profound effect on the financial statements and net position of governments not only in Pennsylvania, but across the nation. By recognizing the impact of any unfunded liability faced by defined benefit pension plans, plan administrators (at the direction of elected officials) and participants will be required to evaluate the cost of providing these benefits as compared to the benefit to be derived through providing for certain retirement benefits to the work force.

The standard has shifted pension reporting from a funding-based approach, in which the Township reported only its contributions to the plan, to an accounting-based approach. Under this new approach, the Township will report the net pension liability and net pension assets on the statement of net position of the government-wide financial statements. Reporting in the governmental fund statements is not affected by the implementation of these statements. The combined net pension liability and (asset) for the Police Pension and Non-Uniformed Pension total \$1,183,875, a decrease of \$2,262,599 from the previous year.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

The net pension liability is the difference between the market value of pension fund assets and the actuarial present value of projected benefit payments at the measurement date. Included in the calculation are projected employer and employee contributions as well as the expectation that the assets will grow at the long-term assumed rate of return of 7.5 percent on plan investments.

Business-type Activities

The Township sewer system was constructed by the Lower Gwynedd Township Municipal Authority at the request of the Township's Board of Supervisors. On December 16, 2015, the Authority's 2003 Bonds were redeemed with the intention to dissolve the Municipal Authority, which occurred on April 7, 2016. The Township is now directly responsible for the operation, maintenance, and repair of the sewer system. Fiscal 2017 was the first full year of Township control of the sewer system after the Authority was dissolved. All expenses associated with the sewer system are accounted for in the Sewer Fund. Total revenue from sewer fund operations was \$2,803,195, a decrease of \$185,807 from the previous year. The decrease is attributed to one time tap-in fees which were higher than normal in 2016. In 2017, sewer fund revenues exceed expenditures and transfers out by \$349,823. Total expenses were \$2,373,321. Sewer rates for 2017 were based on metered water consumption at \$88.00 for 12,000 gallons and \$5.80 per additional 1,000 gallons per quarter, a 10 percent increase from the previous year. Prior to the 2017 rate increase, rates remained unchanged since July 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments fall into two categories, transfers or supplemental appropriations. Unencumbered transfers can only be made after April 1 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 2017:

- Real estate transfer tax exceeded the original amount budgeted by \$159,458. Real estate transfer taxes are hard to predict and, thus, the Township has taken a conservative approach to budgeting this line item.
- An additional amount of approximately \$419,507 in earned income taxes were received above the amount originally budgeted of \$4,150,000. The Township also takes a conservative approach to budgeting this line item, as these types of income taxes may drop quickly when there is an economic downturn.
- Building permit fees related to large scale commercial developments in the amount of \$119,647 were received above the amount originally budgeted. The related expenses, which primarily consist of inspection fees, may occur several months after the building permit has been paid for.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

- Volunteer fire relief aid of \$124,210 received from the Commonwealth of Pennsylvania and a corresponding payment to the volunteer fire companies in the same amount was not included in the original Township budget.
- General Fund capital purchases exceeded the amount originally budgeted by \$92,919 for new emergency services radios which were received in early 2017 but were anticipated to be received in 2016.
- A transfer of \$250,000 was made from the General Fund to the Park and Recreation Fund and included in the year end budget amendment. The transfer resulted from a contribution the Township received in the same amount in 2016.

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2017 totals \$33,337,806 and \$2,673,569, respectively (net of accumulated depreciation). The Township's investment in capital assets includes land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements, and infrastructure (see following table). Infrastructure includes roads, bridges, storm sewers, and traffic signals. The business-type activities are the sanitary sewer lines, pumping stations, and equipment.

**CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$11,242,736	\$10,980,237	\$ -	\$ -	\$11,242,736	\$10,980,237
Construction-in-progress	327,869	27,094	-	-	327,869	27,094
Buildings and improvements	3,949,403	4,171,865	-	-	3,949,403	4,171,865
Furniture and equipment	1,036,443	935,494	-	-	1,036,443	935,494
Infrastructure	16,781,355	16,999,633	-	-	16,781,355	16,999,633
Sewer system and equipment	-	-	2,673,569	2,702,255	2,673,569	2,702,255
	<u>\$33,337,806</u>	<u>\$33,114,323</u>	<u>\$ 2,673,569</u>	<u>\$ 2,702,255</u>	<u>\$36,011,375</u>	<u>\$35,816,578</u>

Significant capital asset events within the governmental and business-type activities included the following purchases and project expenditures:

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

Governmental Activities:

Purchase of real estate for future park	\$ 865,942
International truck - public works vehicle	76,348
Building improvements – windows	83,801
Chevrolet Tahoe - police vehicle	48,664
Emergency radios	101,255
Spring House Intersection improvements	300,775

Business-type Activities:

Sewer system improvement and equipment	\$ 238,568
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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 the Township to record the current costs of preserving eligible infrastructure in lieu of depreciation. The streets are maintained at an acceptable level, and these maintenance costs are expensed. Only expenditures that increase capacity or efficiency of the infrastructure are capitalized.

A summary of changes in capital assets is presented in Note 3 of the financial statements.

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 exceed the national median for similarly-rated credits, wealth and income levels that are at least two times national medians, modest debt burden, 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 \$964,027 (including the unamortized bond premium) compared to \$1,593,164 the previous year. The portion that is due within one year for governmental activities is \$644,132. There is no debt for the business-type activities.

OUTSTANDING DEBT

	Bonds and Notes Payable	
	2017	2016
Governmental activities	\$ 964,027	\$ 1,593,164
TOTAL	\$ 964,027	\$ 1,593,164

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

The Township is located in the southeastern section of Montgomery County and is 15 miles from Philadelphia. The Township 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.

The Township is home to Gwynedd Mercy University; Wissahickon High, 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.

Strong local industries and 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 Janssen Pharmaceutical Companies, a subsidiary of Johnson & Johnson. 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. (Pharmaceutical) has a manufacturing and research facility located in West Point, PA, approximately five miles west of Lower Gwynedd Township, where in excess of 9,000 people are employed on a 400-acre campus. Merck & Co. also owns a 130-acre site located on Sumneytown Pike within Lower Gwynedd Township, which is mostly undeveloped. In addition, the former Dow Chemical site on Norristown Road is currently vacant and a prime development site. This parcel is also 130 acres and is located adjacent to the 309 Expressway which bisects the Township.

Ambler Yards has recently (2013) acquired a 25-acre site in Lower Gwynedd Township located on our border with Ambler Borough. Ambler Yards is in the process of rehabbing the site and the 14 buildings of the former BASF chemical plant into shared workspaces. Their innovative designs and added amenities have attracted 25 companies, employing 350 people to the campus. They are expecting an additional 80 employees in 2018, and when fully leased, which is expected to happen sometime in 2019, there will be approximately 30 employers who will bring upwards of 600 people to the shared work environment they provide.

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. In 2015, the estimated population was 11,548 people. The Montgomery County Planning Commission is also projecting that the Township's population will grow an additional 9.6 percent over the next 30 years.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

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 the Township for 2015 was \$380,500 compared to the median sale price of \$278,500 in Montgomery County. This is consistent with income levels, as nearly 50 percent of all households in the Township have incomes in excess of \$100,000. According to the Delaware Valley Regional Planning Commission ("DVRPC"), 9,429 people work in the Township as of 2015. These statistics all bode well for the Township's tax base and revenue stream.

Next Year's Budget

The Township uses a conservative approach to budgeting which entails budgeting at the lower end of an acceptable range for revenues. If revenues exceed projection, the excess is transferred to the capital budgets per the Township's fund balance policy. This approach has helped establish cash reserves in the General Fund and Capital Reserve Fund, which will help the Township weather economic uncertainties and also pay for future anticipated capital expenditures.

Receipts are monitored closely in order to proactively adjust to economic conditions. The Township had a modest real estate tax increase in 2012 from 1.117 mills to 1.223 mills and no increase since then.

The 2018 Budget and Fiscal Plan was approved by the Board of Supervisors on December 12, 2017 with no real estate tax increase. The General Fund Budget will total \$8,321,087, representing a decrease of 6.3 percent, compared to the 2017 General Fund Budget. A property assessed at \$350,000 will pay \$428.05 in Township real estate taxes in 2018.

The 2018 fiscal plan includes the following:

- No tax increase.
- A three percent wage increase for non-uniformed personnel.
- Fifty percent of General Fund revenues will be derived from the earned income tax ("EIT") in 2018. All Pennsylvania municipalities have limited taxing options for taxing sources which are established by the Commonwealth in the various municipal codes. These limited options result in a strong reliance on EIT, which could result in unanticipated shortfalls should there be an economic recession similar to the one experienced nationally in 2008. To lessen the impact of any unforeseen economic downturn, the Township has accumulated an unassigned fund balance in the General Fund which is projected to be approximately \$3,000,000 at year end 2018.
- A contribution of \$741,647 to the Police Pension Fund from the General Fund is included in the 2018 budget.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2017**

- The 2018 General Fund budget also includes a contribution of \$163,365 to the Non-Uniformed Pension Fund.
- The 2018 General Fund budget includes a transfer of \$550,420 from the General Fund to the Capital Reserve Fund where the funds will be used to maintain and enhance the Township's road and public infrastructure.
- The 2018 General Fund Budget includes a \$25,000 contribution to the OPEB plan.

In conclusion, the Township's financial position continues to be strong. The 2018 Budget and Fiscal Plan includes the resources to continue to improve services while maintaining a strong balance sheet to meet future needs. The Township continues to adhere to its Fund Balance Policy and has been able to maintain its General Fund balance in the prescribed range of 25 percent - 35 percent of anticipated expenditures. We view this level of fund balance as necessary to better withstand a future economic slowdown, such as was experienced in 2008. We are cognizant that the current economic expansion the country is experiencing is long in comparison with past expansions and will inevitably end at some time.

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, P.O. Box 625, Spring House, PA 19477-0625.

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

LOWER GWYNEDD TOWNSHIP
STATEMENT OF NET POSITION
DECEMBER 31, 2017
(With Summarized Comparative Data for December 31, 2016)

	Governmental Activities	Business-type Activities	Total	
			2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 9,333,035	\$ 4,264,543	\$ 13,597,578	\$ 12,707,117
Accounts receivable	76,661	-	76,661	37,788
Taxes receivable	595,283	-	595,283	490,073
Grants receivable	-	-	-	300,003
Interest receivable	3,430	1,460	4,890	4,395
Sewer fees receivable	-	40,833	40,833	30,923
Assessments receivable, current	-	13,396	13,396	16,840
Internal balances	136,351	(136,351)	-	-
Prepaid expenses	-	40,500	40,500	12,419
Total Current Assets	<u>10,144,760</u>	<u>4,224,381</u>	<u>14,369,141</u>	<u>13,599,558</u>
Noncurrent Assets:				
Restricted cash	-	121,699	121,699	149,291
Assessments receivable	-	24,446	24,446	41,570
Capital assets:				
Land	11,242,736	-	11,242,736	10,980,237
Construction-in-progress	327,869	-	327,869	27,094
Buildings and building improvements	9,762,686	-	9,762,686	9,666,440
Furniture and equipment	2,789,856	-	2,789,856	2,501,933
Infrastructure	20,706,857	-	20,706,857	20,706,857
Sewer system and equipment	-	20,772,213	20,772,213	20,533,645
Accumulated depreciation	(11,492,198)	(18,098,644)	(29,590,842)	(28,599,628)
Net pension asset	288,042	-	288,042	-
Total Noncurrent Assets	<u>33,625,848</u>	<u>2,819,714</u>	<u>36,445,562</u>	<u>36,007,439</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on bond refunding	1,774	-	1,774	3,541
Deferred equipment purchase	-	-	-	116,142
Deferred outflows of resources - pensions	32,225	-	32,225	626,897
Total Deferred Outflows of Resources	<u>33,999</u>	<u>-</u>	<u>33,999</u>	<u>746,580</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 43,804,607</u>	<u>\$ 7,044,095</u>	<u>\$ 50,848,702</u>	<u>\$ 50,353,577</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 648,981	\$ 549,445	\$ 1,198,426	\$ 515,208
Accrued interest	6,840	-	6,840	11,340
Unearned revenues	-	-	-	1,040
Escrow deposits	-	121,699	121,699	149,291
Current portion of bonds and notes payable, net	644,132	-	644,132	629,131
Total Current Liabilities	<u>1,299,953</u>	<u>671,144</u>	<u>1,971,097</u>	<u>1,306,010</u>
Noncurrent Liabilities:				
Bonds and notes payable, net	319,895	-	319,895	964,033
Other post employment benefits obligation	666,921	-	666,921	701,978
Net pension liability	1,471,917	-	1,471,917	3,446,474
Total Noncurrent Liabilities	<u>2,458,733</u>	<u>-</u>	<u>2,458,733</u>	<u>5,112,485</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pensions	1,089,356	-	1,089,356	6,981
Total Deferred Inflows of Resources	<u>1,089,356</u>	<u>-</u>	<u>1,089,356</u>	<u>6,981</u>
NET POSITION				
Net investment in capital assets	32,375,553	2,673,569	35,049,122	34,226,955
Restricted	1,117,521	-	1,117,521	1,242,139
Unrestricted	5,463,491	3,699,382	9,162,873	8,459,007
Total Net Position	<u>38,956,565</u>	<u>6,372,951</u>	<u>45,329,516</u>	<u>43,928,101</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 43,804,607</u>	<u>\$ 7,044,095</u>	<u>\$ 50,848,702</u>	<u>\$ 50,353,577</u>

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Data for the Year Ended December 31, 2016)

	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
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES:						
General government	\$ 1,478,438	\$ 344,152	\$ -	\$ (989,598)	\$ -	\$ (754,055)
Public safety	4,260,445	701,489	-	(3,551,143)	-	(3,410,002)
Public works - highways and streets	1,621,104	4,040	-	(1,111,054)	-	(1,434,977)
Culture and recreation	716,855	66,646	-	(650,209)	-	(121,568)
Insurance	92,709	-	-	(92,709)	-	(55,310)
Workmen's compensation	129,946	-	-	(129,946)	-	(106,021)
Payments to fire companies	251,693	-	-	(127,483)	-	(108,880)
Interest on long-term debt	16,614	-	-	(16,614)	-	(30,079)
Depreciation, unallocated	753,979	-	-	(753,979)	-	(731,978)
TOTAL GOVERNMENTAL ACTIVITIES	9,321,783	1,116,327	-	(7,422,735)	-	(6,752,870)
BUSINESS-TYPE ACTIVITIES:						
Sewer	2,373,321	2,803,195	-	-	429,874	806,272
TOTAL BUSINESS-TYPE ACTIVITIES	2,373,321	2,803,195	-	-	429,874	806,272
TOTAL PRIMARY GOVERNMENT	\$ 11,695,104	\$ 3,919,522	\$ 782,721	(7,422,735)	(6,992,861)	(5,946,598)
GENERAL REVENUES						
Taxes:						
Property taxes				1,667,367	-	1,667,367
Transfer taxes				589,458	-	589,458
Earned income taxes				4,569,507	-	4,569,507
Local service tax				363,501	-	363,501
Business privilege and mercantile taxes				454,656	-	454,656
Cable TV franchise fees				309,002	-	309,002
Investment income				143,534	29,117	172,651
Interfund transfers				109,168	(109,168)	-
Gain on sale/disposition of assets				255,957	-	255,957
Miscellaneous				12,177	-	12,177
TOTAL GENERAL REVENUES				8,474,327	(80,051)	7,795,963
CHANGE IN NET POSITION				1,051,592	349,823	1,401,415
NET POSITION, BEGINNING OF YEAR				37,904,973	6,023,128	42,078,736
NET POSITION, END OF YEAR				\$ 38,956,565	\$ 6,372,951	\$ 43,928,101

The accompanying notes are an integral part of these financial statements.

**LOWER GWYNEDD TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(With Summarized Comparative Data for December 31, 2016)**

	General Fund	Open Space Fund	Capital Reserve Fund	Traffic Impact Fund	Other Governmental Funds	Totals
	2017	2017	2017	2017	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Cash and cash equivalents	\$ 3,449,907	\$ 1,111,336	\$ 3,337,193	\$ 805,799	\$ 628,800	\$ 9,266,759
Accounts receivable	76,661	-	-	-	-	37,788
Taxes receivable, net	590,643	-	-	-	4,640	490,073
Grants receivable	-	-	-	-	-	300,003
Interest receivable	261	1,586	1,464	119	-	3,044
Prepaid expenditures	-	-	-	-	-	5,689
Due from other funds	137,565	28,844	352,275	-	518,684	2,865
TOTAL ASSETS	<u>4,255,037</u>	<u>1,141,766</u>	<u>3,690,932</u>	<u>805,918</u>	<u>633,440</u>	<u>10,106,221</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred equipment purchase	-	-	-	-	-	116,142
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	<u>116,142</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,255,037</u>	<u>\$ 1,141,766</u>	<u>\$ 3,690,932</u>	<u>\$ 805,918</u>	<u>\$ 633,440</u>	<u>\$ 10,222,363</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Accounts payable and accrued expenses	\$ 297,812	\$ 5,762	\$ 24,784	\$ 295,217	\$ 25,406	\$ 298,737
Unearned revenue	352,275	-	28,844	-	1,214	1,040
Due to other funds	650,087	5,762	53,628	295,217	26,620	2,437
TOTAL LIABILITIES						<u>302,214</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred note proceeds	-	-	-	-	-	92,914
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	<u>92,914</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>650,087</u>	<u>5,762</u>	<u>53,628</u>	<u>295,217</u>	<u>26,620</u>	<u>395,128</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	5,689
Restricted:						
Streets and highways	-	-	-	-	237,791	234,402
Street lighting	-	-	-	-	27,954	27,022
Fire protection	-	-	-	-	5,362	5,147
Fire hydrant	-	-	-	-	68,640	68,434
Recreation	-	-	-	-	254,345	35,023
Traffic impact fees	-	-	-	510,701	-	859,179
Debt service	-	-	-	-	12,728	7,684
Industrial compact	-	-	-	-	-	5,248
Assigned:						
Capital projects	-	1,136,004	3,637,304	-	-	4,917,316
Recreation	-	-	-	-	-	250,000
Unassigned	3,604,950	-	-	-	-	3,412,091
TOTAL FUND BALANCES	<u>3,604,950</u>	<u>1,136,004</u>	<u>3,637,304</u>	<u>510,701</u>	<u>606,820</u>	<u>9,827,235</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,255,037</u>	<u>\$ 1,141,766</u>	<u>\$ 3,690,932</u>	<u>\$ 805,918</u>	<u>\$ 633,440</u>	<u>\$ 10,222,363</u>

The accompanying notes are an integral part of these financial statements.

**LOWER GWYNEDD TOWNSHIP
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
DECEMBER 31, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 9,495,779

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net position. 33,337,806

The net pension asset related to the governmental activities is not a financial resource and, therefore, not reported in the funds. The net pension liability is not due and payable in the current period and, accordingly, is not reported as a fund liability.

Net pension asset	288,042
Net pension liability	(1,471,917)

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Accrued interest	(6,840)
Bonds and notes payable, net	(964,027)
Other post-employment benefits	(666,921)

Deferred inflows and outflows of resources related to the Township's net pension liability are based on the differences between actuarially determined actual and expected investment returns, differences between expected and actual experience, and changes in assumptions. Except for the differences between actual and expected investment returns, these amounts will be amortized over the estimated remaining average service life of the employees. Differences between actual and expected investment returns are amortized over a five-year period.

Deferred outflows of resources - pensions	32,225
Deferred inflows of resources - pensions	(1,089,356)

Governmental funds report deferred amounts on bond refundings as other financing sources. However, these amounts are reported on the statement of net position as deferred outflows of resources and amortized over the life of the refunding debt. 1,774

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 38,956,565

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Data for the Year Ended December 31, 2016)

	General Fund	Open Space Fund	Capital Reserve Fund	Traffic Impact Fund	Other Governmental Funds	2017	2016
REVENUES							
Taxes	\$ 6,783,426	\$ -	\$ -	\$ -	\$ 861,063	\$ 7,644,489	\$ 7,305,643
Licenses and permits	356,881	-	-	-	-	356,881	350,782
Fines, forfeits, and costs	21,853	-	-	-	-	21,853	19,890
Interest and rents	315,529	6,302	39,474	8,532	9,459	379,296	374,119
Intergovernmental revenues	412,126	-	10,518	-	360,077	782,721	1,008,223
Charges for services/fees	740,737	-	-	-	70,096	810,833	816,438
Contributions	5,000	-	-	-	654	5,654	404,756
Miscellaneous revenue	5,298	-	-	-	1,225	6,523	4,073
TOTAL REVENUES	8,640,850	6,302	49,992	8,532	1,302,574	10,008,250	10,283,924
EXPENDITURES							
Current:							
General government	1,469,587	-	180,845	455	-	1,650,887	1,450,016
Public safety	4,872,379	-	18,356	-	-	4,890,735	4,478,777
Public works - highways and streets	704,152	-	1,513,777	356,555	423,827	2,998,311	2,051,061
Culture and recreation	-	7,536	83,552	-	628,225	719,313	848,744
Insurance	86,260	-	-	-	6,449	92,709	55,310
Workmen's compensation	94,440	-	-	-	35,506	129,946	106,021
Payments to fire companies	-	-	-	-	266,580	266,580	245,533
Debt service	20,251	-	-	-	628,233	648,484	651,868
TOTAL EXPENDITURES	7,247,069	7,536	1,796,530	357,010	1,988,820	11,396,965	9,887,330
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,393,781	(1,234)	(1,746,538)	(348,478)	(686,246)	(1,388,715)	396,594
OTHER FINANCING SOURCES (USES)							
Refunds of prior year expenditures	-	-	-	-	-	-	2,087
Interfund transfers in	631,509	-	745,964	-	1,485,584	2,863,057	2,262,193
Interfund transfers out	(2,169,124)	-	-	-	(584,765)	(2,753,889)	(2,138,711)
Proceeds from sale of assets	-	-	857,800	-	1,600	859,400	11,030
Proceeds from promissory note	81,004	-	-	-	11,910	92,914	23,228
Distribution to close out fund	-	-	-	-	(4,223)	(4,223)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,456,611)	-	1,603,764	-	910,106	1,057,259	159,827
NET CHANGE IN FUND BALANCES	(62,830)	(1,234)	(142,774)	(348,478)	223,860	(331,456)	556,421
FUND BALANCES, BEGINNING OF YEAR	3,667,780	1,137,238	3,780,078	859,179	382,960	9,827,235	9,270,814
FUND BALANCES, END OF YEAR	\$ 3,604,950	\$ 1,136,004	\$ 3,637,304	\$ 510,701	\$ 606,820	\$ 9,495,779	\$ 9,827,235

The accompanying notes are an integral part of these financial statements.

**LOWER GWYNEDD TOWNSHIP
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (331,456)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlays	\$ 1,580,905	
Depreciation expense	<u>(753,979)</u>	826,926

In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of the capital assets sold and the fair market value of capital assets traded in. (603,443)

The prior year deferred equipment purchase was recognized in the funds this year but was accounted for in the entity-wide financial statements in the previous year. (92,914)

Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of net position treats such repayments as a reduction in long-term liabilities. 623,234

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Decrease in deferred charges on refunding	(1,767)	
Decrease in accrued interest payable	4,500	
Decrease in bond premium	5,903	
Decrease in other post-employment benefits	<u>35,057</u>	43,693

Pension expense in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the Township's actuarial determined contribution, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 585,552

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,051,592

The accompanying notes are an integral part of these financial statements.

**LOWER GWYNEDD TOWNSHIP
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 6,211,811	\$ 6,795,538	\$ 6,783,426	\$ (12,112)
Licenses and permits	329,050	339,039	356,881	17,842
Fines, forfeits, and costs	19,500	19,500	21,853	2,353
Interest and rents	299,764	312,465	315,529	3,064
Intergovernmental revenues	262,407	409,690	412,126	2,436
Charges for services/fees	518,982	739,775	740,737	962
Contributions	-	5,000	5,000	-
Miscellaneous revenue	1,500	5,298	5,298	-
TOTAL REVENUES	<u>7,643,014</u>	<u>8,626,305</u>	<u>8,640,850</u>	<u>14,545</u>
EXPENDITURES				
General government	1,439,338	1,472,671	1,469,587	3,084
Public safety	4,505,444	4,888,795	4,872,379	16,416
Public works - highways and streets	850,829	716,976	704,152	12,824
Insurance	77,733	86,260	86,260	-
Workmen's compensation	101,920	101,920	94,440	7,480
Debt service	-	-	20,251	(20,251)
TOTAL EXPENDITURES	<u>6,975,264</u>	<u>7,266,621</u>	<u>7,247,069</u>	<u>19,552</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>667,750</u>	<u>1,359,684</u>	<u>1,393,781</u>	<u>34,097</u>
OTHER FINANCING SOURCES (USES)				
Unencumbered reserve	610,921	610,921	-	(610,921)
Interfund transfers in	630,453	630,453	631,509	(1,056)
Interfund transfers out	(1,909,124)	(2,169,124)	(2,169,124)	-
Proceeds from promissory note	-	81,004	81,004	-
TOTAL OTHER FINANCING USES	<u>(667,750)</u>	<u>(846,746)</u>	<u>(1,456,611)</u>	<u>(611,977)</u>
NET CHANGE IN FUND BALANCE	-	512,938	(62,830)	(577,880)
FUND BALANCE, BEGINNING OF YEAR	<u>3,667,780</u>	<u>3,667,780</u>	<u>3,667,780</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,667,780</u>	<u>\$ 4,180,718</u>	<u>\$ 3,604,950</u>	<u>\$ (577,880)</u>

The accompanying notes are an integral part of these financial statements.

**LOWER GWYNEDD TOWNSHIP
BUDGETARY COMPARISON STATEMENT - TRAFFIC IMPACT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Interest and rents	\$ 6,500	\$ 6,500	\$ 8,532	\$ 2,032
Intergovernmental revenues	482,000	-	-	-
Charges for services/fees	55,000	-	-	-
TOTAL REVENUES	<u>543,500</u>	<u>6,500</u>	<u>8,532</u>	<u>2,032</u>
EXPENDITURES				
General government	600	600	455	145
Public works - highways and streets	668,833	356,556	356,555	1
TOTAL EXPENDITURES	<u>669,433</u>	<u>357,156</u>	<u>357,010</u>	<u>146</u>
NET CHANGE IN FUND BALANCE	<u>(125,933)</u>	<u>(350,656)</u>	<u>(348,478)</u>	<u>2,178</u>
FUND BALANCE, BEGINNING OF YEAR	<u>859,179</u>	<u>859,179</u>	<u>859,179</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 733,246</u>	<u>\$ 508,523</u>	<u>\$ 510,701</u>	<u>\$ 2,178</u>

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2017
(With Summarized Comparative Data for December 31, 2016)

	Sewer Enterprise Fund	Sewer Reserve Fund	Totals	
			2017	2016
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,278,701	\$ 1,985,842	\$ 4,264,543	\$ 3,440,358
Sewer fees receivable	40,833	-	40,833	30,923
Interest receivable	312	1,148	1,460	1,351
Assessments receivable, current portion	13,396	-	13,396	16,840
Due from other funds	-	-	-	49
Prepaid expenses	40,500	-	40,500	6,730
Total Current Assets	<u>2,373,742</u>	<u>1,986,990</u>	<u>4,360,732</u>	<u>3,496,251</u>
Restricted Assets:				
Cash	121,699	-	121,699	149,291
Total Restricted Assets	<u>121,699</u>	<u>-</u>	<u>121,699</u>	<u>149,291</u>
Noncurrent Assets:				
Assessments receivable	24,446	-	24,446	41,570
Sewer infrastructure and equipment	20,772,213	-	20,772,213	20,533,645
Less: Accumulated depreciation	(18,098,644)	-	(18,098,644)	(17,831,390)
Total Noncurrent Assets	<u>2,698,015</u>	<u>-</u>	<u>2,698,015</u>	<u>2,743,825</u>
TOTAL ASSETS	<u>\$ 5,193,456</u>	<u>\$ 1,986,990</u>	<u>\$ 7,180,446</u>	<u>\$ 6,389,367</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 398,605	\$ 150,840	\$ 549,445	\$ 216,471
Escrow deposits	121,699	-	121,699	149,291
Due to other funds	136,351	-	136,351	477
Total Current Liabilities	<u>656,655</u>	<u>150,840</u>	<u>807,495</u>	<u>366,239</u>
NET POSITION				
Net investment in capital assets	2,673,569	-	2,673,569	2,702,255
Unrestricted	1,863,232	1,836,150	3,699,382	3,320,873
Total Net Position	<u>4,536,801</u>	<u>1,836,150</u>	<u>6,372,951</u>	<u>6,023,128</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,193,456</u>	<u>\$ 1,986,990</u>	<u>\$ 7,180,446</u>	<u>\$ 6,389,367</u>

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Data for the Year Ended December 31, 2016)

	Sewer Enterprise Fund	Sewer Reserve Fund	Total	Eliminations	Totals	
					2017	2016
OPERATING REVENUES						
Charges for services	\$ 2,788,495	\$ -	\$ 2,788,495	\$ -	\$ 2,788,495	\$ 2,788,495
Fees and assessments	-	-	-	-	-	218
Other operating revenues	14,700	-	14,700	-	14,700	14,700
TOTAL OPERATING REVENUES	<u>2,803,195</u>	<u>-</u>	<u>2,803,195</u>	<u>-</u>	<u>2,803,195</u>	<u>2,803,413</u>
OPERATING EXPENSES						
Professional fees	23,455	-	23,455	-	23,455	49,567
Engineering fees	37,456	-	37,456	-	37,456	23,234
Rent	111,848	-	111,848	-	111,848	109,655
General operating expenses	512,809	-	512,809	-	512,809	496,395
Insurance	119,597	-	119,597	-	119,597	109,352
Workmen's compensation	8,118	-	8,118	-	8,118	8,907
Depreciation	267,254	-	267,254	-	267,254	247,480
Maintenance expense	297,992	66,614	364,606	-	364,606	302,773
Treatment expenses	927,929	-	927,929	-	927,929	834,620
Road repairs and maintenance	-	249	249	-	249	747
TOTAL OPERATING EXPENSES	<u>2,306,458</u>	<u>66,863</u>	<u>2,373,321</u>	<u>-</u>	<u>2,373,321</u>	<u>2,182,730</u>
OPERATING INCOME (LOSS)	<u>496,737</u>	<u>(66,863)</u>	<u>429,874</u>	<u>-</u>	<u>429,874</u>	<u>620,683</u>
NONOPERATING REVENUES						
Interest and investment income	14,700	14,417	29,117	-	29,117	26,996
Miscellaneous revenue	-	-	-	-	-	29,675
TOTAL NONOPERATING REVENUES	<u>14,700</u>	<u>14,417</u>	<u>29,117</u>	<u>-</u>	<u>29,117</u>	<u>56,671</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>511,437</u>	<u>(52,446)</u>	<u>458,991</u>	<u>-</u>	<u>458,991</u>	<u>677,354</u>
Transfers in	238,568	650,075	888,643	(888,643)	-	-
Transfers out	(759,243)	(238,568)	(997,811)	888,643	(109,168)	(123,482)
CHANGE IN NET POSITION	<u>(9,238)</u>	<u>359,061</u>	<u>349,823</u>	<u>-</u>	<u>349,823</u>	<u>553,872</u>
NET POSITION, BEGINNING OF YEAR	<u>4,546,039</u>	<u>1,477,089</u>	<u>6,023,128</u>	<u>-</u>	<u>6,023,128</u>	<u>5,283,667</u>
NET POSITION, END OF YEAR	<u>\$ 4,536,801</u>	<u>\$ 1,836,150</u>	<u>\$ 6,372,951</u>	<u>\$ -</u>	<u>\$ 6,372,951</u>	<u>\$ 5,837,539</u>

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Data for the Year Ended December 31, 2016)

	Sewer Enterprise Fund	Sewer Reserve Fund	Total	Eliminations	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from users	\$ 2,813,902	\$ -	\$ 2,813,902	\$ -	\$ 2,813,902	\$ 3,028,210
Payments to and on behalf of employees	(442,899)	-	(442,899)	-	(442,899)	(409,946)
Payments to vendors and others	(1,174,141)	(53,949)	(1,228,090)	-	(1,228,090)	(1,460,534)
(Return) Receipts of escrow deposits (net)	(27,592)	-	(27,592)	-	(27,592)	131,354
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,169,270</u>	<u>(53,949)</u>	<u>1,115,321</u>	<u>-</u>	<u>1,115,321</u>	<u>1,289,084</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating transfers to other funds	(759,243)	-	(759,243)	650,075	(109,168)	(123,482)
Operating transfers from other funds	-	650,075	650,075	(650,075)	-	-
Collections on behalf of the Municipal Authority	-	-	-	-	-	4,651
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(759,243)</u>	<u>650,075</u>	<u>(109,168)</u>	<u>-</u>	<u>(109,168)</u>	<u>(118,831)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Purchase of capital assets	-	(238,568)	(238,568)	-	(238,568)	(272,709)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(238,568)</u>	<u>(238,568)</u>	<u>-</u>	<u>(238,568)</u>	<u>(272,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Other receipts	-	-	-	-	-	29,675
Proceeds from sale of investments	-	-	-	-	-	6,659
Investment income	15,023	13,985	29,008	-	29,008	27,013
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,023</u>	<u>13,985</u>	<u>29,008</u>	<u>-</u>	<u>29,008</u>	<u>63,347</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	425,050	371,543	796,593	-	796,593	960,891
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,975,350	1,614,299	3,589,649	-	3,589,649	2,628,758
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,400,400</u>	<u>\$ 1,985,842</u>	<u>\$ 4,386,242</u>	<u>\$ -</u>	<u>\$ 4,386,242</u>	<u>\$ 3,589,649</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:						
Operating (loss) income	\$ 496,737	\$ (66,863)	\$ 429,874	\$ -	\$ 429,874	\$ 806,272
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:						
Depreciation expense	267,254	-	267,254	-	267,254	247,480
(Increase) Decrease in assets:						
Sewer fees receivable	(9,910)	-	(9,910)	-	(9,910)	18,592
Assessments receivable	20,568	-	20,568	-	20,568	24,399
Due from other funds	49	-	49	-	49	(4,653)
Prepaid expenses	(33,770)	-	(33,770)	-	(33,770)	1,385
Increase (Decrease) in liabilities:						
Accounts payable and accrued expenses	320,060	12,914	332,974	-	332,974	170,764
Due to other funds	135,874	-	135,874	-	135,874	(106,509)
Escrow deposits	(27,592)	-	(27,592)	-	(27,592)	131,354
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,169,270</u>	<u>\$ (53,949)</u>	<u>\$ 1,115,321</u>	<u>\$ -</u>	<u>\$ 1,115,321</u>	<u>\$ 1,289,084</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	\$ 2,278,701	\$ 1,985,842	\$ 4,264,543	\$ -	\$ 4,264,543	\$ 3,440,358
Cash - restricted	121,699	-	121,699	-	121,699	149,291
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 2,400,400</u>	<u>\$ 1,985,842</u>	<u>\$ 4,386,242</u>	<u>\$ -</u>	<u>\$ 4,386,242</u>	<u>\$ 3,589,649</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITY:						
Capital assets purchased by Sewer Reserve Fund and transferred to Sewer Enterprise Fund	\$ 238,568	\$ (238,568)	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2017
(With Summarized Comparative Data for December 31, 2016)

	Agency Fund	Trust Funds	Totals	
			2017	2016
ASSETS				
Cash and cash equivalents	\$ 961,209	\$ 522,732	\$ 1,483,941	\$ 1,708,891
Investments	-	17,681,348	17,681,348	14,602,131
TOTAL ASSETS	\$ 961,209	\$18,204,080	\$19,165,289	\$16,311,022
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	\$ -	\$ 869	\$ 869	\$ 412
Due to others	961,209	-	961,209	1,432,905
TOTAL LIABILITIES	961,209	869	962,078	1,433,317
NET POSITION				
Held in trust for pension benefits	-	17,705,957	17,705,957	14,618,214
Held in trust for other post-employment benefits	-	497,254	497,254	259,491
TOTAL NET POSITION	-	18,203,211	18,203,211	14,877,705
TOTAL LIABILITIES AND NET POSITION	\$ 961,209	\$18,204,080	\$19,165,289	\$16,311,022

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Trust Funds	
	2017	2016
ADDITIONS		
Contributions:		
State aid	\$ 253,840	\$ 249,355
Employer contribution	929,803	747,924
Employee contribution	104,613	99,622
Total Contributions	1,288,256	1,096,901
Investment Income:		
Net realized/unrealized gain on investments	2,451,495	732,265
Interest and dividends, net of expenses	310,488	310,550
Net Investment Income	2,761,983	1,042,815
TOTAL ADDITIONS	4,050,239	2,139,716
DEDUCTIONS		
Benefits paid	724,733	695,367
TOTAL DEDUCTIONS	724,733	695,367
CHANGE IN FIDUCIARY NET POSITION	3,325,506	1,444,349
NET POSITION, BEGINNING OF YEAR	14,877,705	13,433,356
NET POSITION, END OF YEAR	\$ 18,203,211	\$ 14,877,705

The accompanying notes are an integral part of these financial statements.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lower Gwynedd Township ("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 evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Township is considered to be an independent reporting entity and has no component units.

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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 three 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 of open space.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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).

Traffic Impact Fund (Special Revenue Fund) – The Traffic Impact Fund accounts for revenues received from transportation impact fees and similar revenues. Expenditures consist of improvements to the Township's roadways either by major capital installations or minor repairs.

The Township reports the following major proprietary funds:

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.

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 nonmajor Special Revenue Funds include the Highway Aid Fund, Street Lighting Fund, Fire Protection Fund, Fire Hydrant Fund, Recreation Fund, and Industrial Compact Fund.

Debt Service Fund (Sinking 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 proprietary fund debt.

The Township reports the following major 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, Non-Uniformed Employees' Pension Funds, and Other Postemployment Benefits.

Agency Fund – the Agency Fund accounts for deposits received and held in escrow from developers and other entities to be used for legal, administrative, and other fees.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Budgets and Budgetary Accounting

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

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

Cash and Cash Equivalents

Bank accounts, certificates of deposit, and investments 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

Investments consist of mutual funds (pensions) and are recorded at fair value.

In establishing the fair value of investments, the Township uses the following hierarchy. The lowest level of valuation available is used for all investments.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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, 2017, 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 for property taxes and sewer user fees.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 (amount not rounded) or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Buildings and building improvements	5 - 30 years
Furniture and equipment	5 - 30 years
Sewer system and equipment	5 - 25 years
Infrastructure	5 - 40 years

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Infrastructure

The Township has adopted the modified approach for valuing its infrastructure. The Township completes an annual assessment of conditions and maintains all infrastructure at an overall good or better condition level. As a result, costs have been estimated for the entire infrastructure system. If the yearly assessment maintains this overall condition level, no depreciation will be recorded. Annual maintenance costs for the roads will be expensed.

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 two percent discount March 1 through April 30; face amount May 1 through June 30; and a 10 percent 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 1¼ 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.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports 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 currently has two items that qualify for reporting in this category. The first 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. The second are certain changes to the net pension liability (asset) which could include differences between actual and expected experience of pension activities, differences between projected and actual investment returns, and changes in assumptions are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows of resources on the statement of net position.

In addition to liabilities, the statement of net position reports 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. In the statement of net position, certain changes to the net pension liability (asset) which could include differences between actual and expected experience of pension activities, differences between projected and actual investment returns, and changes in assumptions are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources on the statement of net position.

Fund Balance

Fund balances of the governmental funds are classified, as applicable, as follows:

- ***Nonspendable Fund Balance*** – amounts that are not in spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- **Restricted Fund Balance** – amounts constrained to specific purposes by their providers (such as granters, 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.
- **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. The Board has delegated the authority to assign fund balance to the Township Manager.
- **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 has a fund balance policy target range of 25 percent – 35 percent of budgeted expenditures. Any excess balances are transferred to one of the Township's capital projects funds.

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.

Net Position

Net position is classified as follows:

- **Net Investment in Capital Assets** – the Township's investment in capital assets plus any unspent funding from debt borrowings, reduced by accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets.
- **Restricted** – amounts limited by external parties or legislation.
- **Unrestricted** – amounts available for consumption or not restricted in any manner.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Township's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Township's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

NOTE 2 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 is required by statute to deposit funds in depositories that are either banks, banking institutions, or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States of America, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit excluding the pension funds. As of December 31, 2017, \$3,341,211 was insured by the Federal Depository Insurance Corporation. The remaining \$12,147,818 of the Township's bank balance of \$15,489,029 was exposed to custodial credit risk as follows:

Governmental funds	\$ 6,976,738
Proprietary funds	3,937,139
Fiduciary funds	<u>1,233,941</u>
	<u>\$ 12,147,818</u>

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

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.

The fair value of assets measured on a recurring basis at December 31, 2017 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>
Equity mutual funds	\$ 13,308,840	\$ 13,308,840
Fixed income mutual funds	3,935,936	3,935,936
Joint venture mutual funds	<u>436,572</u>	<u>436,572</u>
Total Investments	<u>\$ 17,681,348</u>	<u>\$ 17,681,348</u>

At December 31, 2017, there were no investments in any one organization that represented five percent or more of total investments other than mutual funds, which do not require disclosure of concentration.

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/17</u>
<u>Governmental Activities</u>				
General capital assets not being depreciated:				
Land	\$ 10,980,237	\$ 865,942	\$ (603,443)	\$ 11,242,736
Infrastructure	13,287,675	-	-	13,287,675
Construction-in-progress	<u>27,094</u>	<u>300,775</u>	-	<u>327,869</u>
Total general capital assets not being depreciated	<u>24,295,006</u>	<u>1,166,717</u>	<u>(603,443)</u>	<u>24,858,280</u>

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

	Balance 01/01/17	Additions	Deletions	Balance 12/31/17
General capital assets being depreciated:				
Infrastructure	7,419,182	-	-	7,419,182
Buildings and building improvements	9,666,440	96,246	-	9,762,686
Furniture and equipment	<u>2,501,933</u>	<u>317,942</u>	<u>(30,019)</u>	<u>2,789,856</u>
Total general capital assets being depreciated	<u>19,587,555</u>	<u>414,188</u>	<u>(30,019)</u>	<u>19,971,724</u>
Accumulated depreciation:				
Infrastructure	(3,707,224)	(218,278)	-	(3,925,502)
Buildings and building improvements	(5,494,575)	(318,708)	-	(5,813,283)
Furniture and equipment	<u>(1,566,439)</u>	<u>(216,993)</u>	<u>(30,019)</u>	<u>(1,753,413)</u>
Total accumulated depreciation	<u>(10,768,238)</u>	<u>(753,979)</u>	<u>(30,019)</u>	<u>(11,492,198)</u>
Total general capital assets being depreciated, net	<u>8,819,317</u>	<u>(339,791)</u>	<u>-</u>	<u>8,479,526</u>
Governmental Activities, Net	<u>\$ 33,114,323</u>	<u>\$ 826,926</u>	<u>\$ (603,443)</u>	<u>\$ 33,337,806</u>
<u>Business-type Activities</u>				
Sewer system and equipment	\$ 20,533,645	\$ 238,568	\$ -	\$ 20,772,213
Accumulated depreciation	<u>(17,831,390)</u>	<u>(267,254)</u>	<u>-</u>	<u>(18,098,644)</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,702,255</u>	<u>\$ 28,686</u>	<u>\$ -</u>	<u>\$ 2,673,569</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Unallocated depreciation	<u>\$ 753,979</u>
Business-type Activities:	
Sewer	<u>\$ 267,254</u>

NOTE 4 DEBT

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.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 4 DEBT (cont'd)

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. The bonds bear interest at 2.0 percent per annum and matures on February 15, 2019.

Promissory Note

A Promissory Note with Montgomery County, Pennsylvania commenced during 2016. The amount authorized was \$116,142 and is to be paid by the Township over a period of five years. In return, the Township will receive a county-wide police radio system. The note is interest free with annual payments from January 2016 through January 2020.

The following is a summary of transactions affecting long-term obligations for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and notes payable	\$ 1,577,914	\$ -	\$ 623,234	\$ 954,680	\$ 638,229
Bond premium	15,250	-	5,903	9,347	5,903
TOTAL	\$ 1,593,164	\$ -	\$ 629,137	\$ 964,027	\$ 644,132

An analysis of debt service requirements to maturity on the bond and note is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2018	\$ 638,229	\$ 12,090	\$ 650,319
2019	293,228	2,970	296,198
2020	23,223	-	23,223
Total	\$ 954,680	\$ 15,060	\$ 969,740

For the year ended December 31, 2017, interest expense was \$16,614.

NOTE 5 LEASED PROPERTY

In February 1989, the Township entered into a five-year, noncancelable agreement for the lease of office space, with an option to renew. The renewal option has been exercised every five years, with the lease now terminating in April 2019. For the year ended December 31, 2017, lease payments received by the Township were \$123,916.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LEASED PROPERTY (cont'd)

A schedule of future lease payments in accordance with the agreement are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 127,322
2019	<u>42,857</u>
Total	<u>\$ 170,179</u>

NOTE 6 INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 137,565	\$ 352,275
Open Space Fund	28,844	-
Capital Reserve Fund	352,275	28,844
Nonmajor Governmental Funds	-	1,214
Proprietary Funds:		
Sewer Enterprise Fund	<u>-</u>	<u>136,351</u>
	<u>\$ 518,684</u>	<u>\$ 518,684</u>

Interfund transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 631,509	\$2,169,124
Capital Reserve Fund	745,964	-
Nonmajor Governmental Funds	1,485,584	584,765
Proprietary Funds:		
Sewer Enterprise Fund	238,568	759,243
Sewer Reserve Fund	<u>650,075</u>	<u>238,568</u>
	<u>\$3,751,700</u>	<u>\$3,751,700</u>

Interfund receivables/payables represent temporary borrowings between funds to support various fund activities. The most significant interfund transfers represent funds moved from the Sewer Enterprise Fund to the Sewer Reserve Fund for future capital projects and funds moved from the General Fund to other funds for future debt service and capital projects.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 7 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 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)

Summary of Significant Accounting Policies

Police Pension Plan investments are carried at fair value as reported by the investment managers. Financial information of the Township's Police Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due as required by Act 205. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description

Plan Administration – The Township administers the Police Pension Plan as a single employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund. The plan does not issue separate, stand-alone financial statements.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

Management of the plan is vested in the Investment Advisory Committee, which consists of up to eleven members – four Township residents appointed by the Township, two members of the Board of Supervisors, the Township Manager, the Assistant Township Manager, the Finance Director, one non-uniformed employee, and one sworn police officer. The Investment Advisory Committee is responsible for advising, reviewing, monitoring, and making recommendations to the Board of Supervisors of the Township as to the administrative, operation, and investment of the plan.

Plan Membership – At December 31, 2017, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	13
Inactive plan members entitled to but not receiving benefits	-
Active plan members	<u>18</u>
Total covered employees	<u>31</u>

Benefits Provided – The plan provides retirement benefits as well as death and disability benefits. The normal retirement benefit is 50 percent of the member's monthly average compensation, plus \$400 per year for each full year of complete service after 25 years, limited to a total increment of three years or \$1,200 per year. Average monthly salary is computed over the last 36 months of member's continuous employment including base salary plus longevity pay, overtime, night differential, and disability insurance benefits paid from the Township. If a member dies (not in the line of duty) prior to eligibility for pension benefits, then his designated beneficiary shall be entitled to a refund of his accumulated member contributions with interest. If the member dies and is survived by a spouse or dependent children, after having become eligible to receive a pension benefit, then a monthly pension benefit equal to 50 percent of the normal retirement benefit the member was receiving or would have been receiving is payable to the surviving spouse for life.

If there is no surviving spouse or the spouse dies, then it is payable to dependent children until age 18 or if in college, until age 23. The surviving family of a police officer who is killed in the line of duty shall receive the benefits provided for by the Commonwealth of Pennsylvania, subject to the terms of Act 51 of 2009.

A member who suffers a total disability arising from a line of duty service-connected illness or injury that precludes him from performing his duties as a police officer shall receive a benefit equal to 50 percent of his salary at the time of disability less Social Security disability benefits.

Each member will be eligible for retirement on the day after the member completes 25 years of service and attains age 50 (age 55 for any employee hired on or after January 1, 2013). Each member shall be eligible for early retirement upon the completion of 20 years

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

of service. This benefit will be reduced for early commencement. If a member leaves the employ of the Township or ceases to be a member by reason of transfer, resignation, discharge, or by reason of disability, he shall be vested in his benefit after 12 years of full-time service. His vested benefit payable at his normal retirement date is equal to 50 percent of his monthly average compensation multiplied by his service at termination divided by the service he would have had if he worked until his normal retirement date. In lieu of this benefit, he may elect to receive a refund of his contributions plus interest credited at the rate of five percent per annum, if any. Upon the termination of a member not entitled to vested benefits, he shall receive a refund of his contributions plus interest credited at the rate of five percent per annum, if any.

The benefit and contribution provisions of the Township's Police Pension Plan are established by Township ordinances.

Contributions – Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (“MMO”), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses, and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds to the Township, which the Township must use for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to five percent of the participant's pay.

The MMO obligation for the Police Pension Plan was \$787,378 for 2017. Contributions of \$806,378 were made to the Police Pension Plan for the year ended December 31, 2017, comprised of \$648,891 in Township contributions and \$157,487 in Commonwealth contributions.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the General Fund to increase plan earnings.

Investments

Investment Policy – The plan's policy in regard to the allocation of invested assets is established and may be amended by a motion of the Board of Supervisors. It is the policy of the Investment Advisory Committee to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Committee's adopted asset allocation policy as of December 31, 2017:

	Target Allocation
Domestic equity	49%
International equity	26%
Fixed income	23%
Cash	2%
	100%

Rate of Return – For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 18.31 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 are summarized in the following table:

	Long-term Expected Rate of Return
Domestic equity	5.2%
International equity	5.2%
Fixed income	3.7%
Cash	0.8%

Discount Rate – The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the plan assets are expected to be invested using a strategy to achieve that return. The

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100 percent funded status.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2017 were as follows:

Total pension liability	\$ 14,035,376
Fiduciary net position	<u>(12,563,459)</u>
Net pension liability	<u>\$ 1,471,917</u>
Plan fiduciary net position as a percentage of the total pension liability	89.51%

The Township's total pension liability used to calculate the net pension liability is determined by the actuarial valuation. The changes in the net pension liability are as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2016	<u>\$ 13,353,826</u>	<u>\$ 10,249,000</u>	<u>\$ 3,104,826</u>
Changes for the year:			
Service cost	392,563	-	392,563
Interest	969,430	-	969,430
Changes in assumptions	(171,384)	-	(171,384)
Contributions - employer	-	806,378	(806,378)
Contributions - employee	-	104,613	(104,613)
Net investment income	-	1,912,527	(1,912,527)
Benefit payments	<u>(509,059)</u>	<u>(509,059)</u>	-
Net Changes	<u>681,550</u>	<u>2,314,459</u>	<u>(1,632,909)</u>
Balance at December 31, 2017	<u>\$ 14,035,376</u>	<u>\$ 12,563,459</u>	<u>\$ 1,471,917</u>

The beginning fiduciary net position, benefit payment, and net investment income amounts above do not include investments held or benefits paid for deferred retirement option plans.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Township, calculated using the discount rate of 7.5 percent, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Rate Discount Rate 7.50%	1% Increase 8.50%
Net pension liability	\$ 3,233,013	\$ 1,471,917	\$ 5,387

Pension Expense and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2017, the Township recognized pension expense of \$336,253. As of year end, the Township reported deferred inflows related to the plan as follows:

Differences between actual and expected experience	\$ 130,513
Difference between actual and projected investment returns	631,634
Total Deferred Inflows of Resources	\$ 762,147

The deferred amounts related to pension will be recognized in pension expense as follows:

Year Ended December 31,	
2018	\$ (137,112)
2019	(133,926)
2020	(265,286)
2021	(225,823)
	\$ (762,147)

Actuarial Assumptions – The total pension liability as of December 31, 2017 was projected from the actuarial valuation as of January 1, 2017, using the following actuarial assumptions applied to all periods included in the measurement:

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 8 DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (cont'd)

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	7 years
Asset valuation method	Adjusted market value
Actuarial assumptions:	
Investment rate of return	7.50%
Discount rate	7.50%
Projected salary increases	5.50%
Inflation	3.00%
Cost of living adjustments	3.00%
Mortality	UP-1994 Table with projection scale AA for males and females

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

Deferred Retirement Option Program

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option Program ("DROP") for a period of not more than 48 months. The member's monthly pension shall be calculated as of their date of participation in the program and shall be distributed in a lump sum at retirement. As of December 31, 2017, there were no members participating in the DROP.

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN)

Summary of Significant Accounting Policies

Non-Uniformed Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Township's Non-Uniformed Employees' Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due as required by Act 205. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN) (cont'd)

Plan Description

Plan Administration – The Township administers the Non-Uniformed Employees' Pension Plan as a single employer defined benefit pension plan that provides pensions for all regular, full-time non-uniformed employees. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund. The plan does not issue separate, stand-alone financial statements.

Management of the plan is vested in the Investment Advisory Committee, which consists of up to eleven members - four Township residents appointed by the Township, two members of the Board of Supervisors, the Township Manager, the Assistant Township Manager, the Finance Director, one non-uniformed employee, and one sworn police officer. The Investment Advisory Committee is responsible for advising, reviewing, monitoring, and making recommendations to the Board of Supervisors of the Township as to the administrative, operation, and investment of the plan.

Plan Membership – At December 31, 2017, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	12
Inactive plan members entitled to but not receiving benefits	8
Active plan members	<u>14</u>
 Total covered employees	 <u>34</u>

Benefits Provided – The plan provides retirement benefits. The normal retirement benefit is 50 percent of the member's monthly average compensation, reduced for service less than 25 years. For members retiring early, the accrued benefit is reduced by half of one percent for each month the member's early retirement benefit precedes his normal retirement date. Monthly average salary is computed over the last 36 months of the member's continuous employment. Average monthly salary shall include all earnings reported to the IRS on Form W-2. If a vested member dies prior to age 60, then the plan will pay a survivor benefit equal to the present value of 50 percent of the actuarially reduced retirement benefit that would have been payable to the member under the Qualified Joint & Survivor Annuity. This survivor benefit is payable to the surviving spouse, and if no surviving spouse, then the benefit is divided equally among the surviving children. If a vested member dies on or after age 60 and is survived by a spouse or dependent children, then the amount of the monthly benefit shall be equal to 50 percent of the retirement benefit the member would have been receiving under the Qualified Joint & Survivor Annuity had he been retired when he died. This survivor benefit is payable to the surviving spouse and if no surviving spouse, then the benefit is payable to the dependent children until age 18.

The benefit provisions of the plan are established by Township ordinances.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN) (cont'd)

Contributions – Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (“MMO”), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses, and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds to the Township, which the Township must use for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. Contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. Member contributions were not required during 2017.

The MMO obligation for the Non-Uniformed Pension Plan was \$173,265 for 2017. Contributions of \$177,765 were made to the Non-Uniformed Pension Plan for the year ended December 31, 2017, comprised of \$81,412 in Township contributions and \$96,353 in Commonwealth contributions.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the General Fund to increase plan earnings.

Investments

Investment Policy – The plan's policy in regard to the allocation of invested assets is established and may be amended by a motion of the Board of Supervisors. It is the policy of the Investment Advisory Committee to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Committee's adopted asset allocation policy as of December 31, 2017:

	Target Allocation
Domestic equity	49%
International equity	26%
Fixed income	23%
Cash	2%
	100%

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN) (cont'd)

Rate of Return – For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 18.27 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy) are summarized in the following table:

	<u>Long-term Expected Rate of Return</u>
Domestic equity	5.2%
International equity	5.2%
Fixed income	3.7%
Cash	0.8%

Discount Rate – The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100 percent funded status.

Net Pension Asset of the Township

The components of the net pension asset of the Township at December 31, 2017 were as follows:

Total pension liability	\$ 4,854,456
Fiduciary net position	<u>(5,142,498)</u>
Net pension asset	<u>\$ (288,042)</u>
Plan fiduciary net position as a percentage of the total pension asset	105.93%

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN) (cont'd)

The Township's total pension liability used to calculate the net pension asset is determined by the actuarial valuation. The changes in the net pension liability (asset) are as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at December 31, 2016	\$ 4,710,862	\$ 4,369,214	\$ 341,648
Changes for the year:			
Service cost	96,435	-	96,435
Interest	338,964	-	338,964
Changes in assumptions	(89,588)	-	(89,588)
Contributions - employer	-	177,765	(177,765)
Net investment income	-	797,736	(797,736)
Benefit payments	(202,217)	(202,217)	-
Net Changes	<u>143,594</u>	<u>773,284</u>	<u>(629,690)</u>
Balance at December 31, 2017	<u>\$ 4,854,456</u>	<u>\$ 5,142,498</u>	<u>\$ (288,042)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the net pension liability of the Township, calculated using the discount rate of 7.5 percent, as well as what the Township's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Rate Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Net pension liability (asset)	\$ 309,282	\$ (288,042)	\$ (795,222)

Pension Expense, Deferred Inflows and Outflows of Resources Related to Pensions – For the year ended December 31, 2017, the Township recognized pension expense of \$62,338. As of year end, the Township reported deferred inflows and outflows related to the plan as follows:

	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>
Differences between actual and expected experience	\$ 67,302	\$ 32,225
Difference between actual and projected investment returns	<u>259,907</u>	<u>-</u>
Total Deferred Inflows and Outflows	<u>\$ 327,209</u>	<u>\$ 32,225</u>

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION PLAN) (cont'd)

The deferred amounts related to pension will be recognized in pension expense as follows:

Year Ended December 31,		
2018	\$	(46,383)
2019		(46,385)
2020		(107,562)
2021		(94,654)
		(294,984)
	\$	(294,984)

Actuarial Assumptions – The total pension liability as of December 31, 2017 was projected from the actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	4 years
Asset valuation method	Adjusted market value
Actuarial assumptions:	
Investment rate of return	7.50%
Discount rate	7.50%
Projected salary increases	5.00%
Inflation	3.00%
Cost of living adjustments	3.00%
Mortality	UP-1994 Table with projection scale AA for males and females

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

NOTE 10 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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (cont'd)

by the Township Supervisors and can be amended by a motion of the Board of Supervisors. The plan is accounted for as a trust fund, as an irrevocable trust was established on August 4, 2014. The plan does not issue a stand-alone financial report.

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. Administrative costs, which may include, but are not limited to, investment management fees and actuarial services are charged to the General Fund to increase Trust earnings.

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 accounting principles generally accepted in the United States of America. 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:

Annual required contribution	\$ 165,169
Interest on OPEB obligation	28,079
Adjustment to annual required contribution	<u>(63,136)</u>
Annual OPEB cost (expense)	130,112
Contributions made	<u>(165,169)</u>
Increase in net OPEB obligation	(35,057)
Net OPEB obligation, beginning of year	<u>701,978</u>
Net OPEB obligation, end of year	<u>\$ 666,921</u>

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (cont'd)

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 130,112	127%	\$ 666,921
2016	\$ 132,916	19%	\$ 701,978
2015	\$ 144,116	45%	\$ 594,062

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,319,059, and the actuarial value of assets was \$229,862. The unfunded portion was \$1,089,197 for a funded ratio of 17.4 percent. The covered payroll (annual payroll of active employees covered by the plan) was \$2,008,538, and the ratio of the UAAL to the covered payroll was 54.2 percent.

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 64, 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, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (cont'd)

returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements of 0.5 percent to an ultimate rate of 5.0 percent after seven years. The unfunded AAL is being amortized over a 15-year period.

NOTE 11 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund incurred expenditures in excess of appropriations in the following amounts for the year ended December 31, 2017:

Debt service	\$ 20,251
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The excess expenditures were funded by savings in other budgeted expenditure line items and greater than anticipated revenues.

NOTE 12 SUBSEQUENT EVENTS

The Township has evaluated all subsequent events through June 14, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER GWYNEDD TOWNSHIP
 REQUIRED SUPPLEMENTARY INFORMATION

TREND DATA ON INFRASTRUCTURE CONDITION

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 one through ten, where a rating of ten represents a new or revitalized condition, and a rating of one 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 required level of service. The Township's policy is to maintain the street condition at a level of five or better. The following reports the average condition as of December 31, 2017 and for the two preceding periods:

<u>Year</u>	<u>Average Condition</u>
2015	6.256
2016	6.265
2017	6.438

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

<u>Year</u>	<u>Budget</u>	<u>Actual</u>
2013	\$ 641,258	\$ 440,905
2014	781,660	642,165
2015	858,500	825,164
2016	781,890	755,616
2017	700,000	696,306

**LOWER GWYNEDD TOWNSHIP
SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY,
RELATED RATIOS, AND INVESTMENT RETURNS - POLICE PENSION PLAN**

REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service cost	\$ 392,563	\$ 350,814	\$ 331,689	\$ 314,398
Interest on total pension liability	969,430	924,958	874,124	826,356
Differences between expected and actual experience	(171,384)	-	(14,569)	-
Benefit payments, excluding DROP benefits	(509,059)	(510,965)	(514,424)	(493,278)
Net change in total pension liability	<u>681,550</u>	<u>764,807</u>	<u>676,820</u>	<u>647,476</u>
Total pension liability, beginning	13,353,826	12,589,019	11,912,199	11,264,723
Total pension liability, ending (a)	<u>\$ 14,035,376</u>	<u>\$ 13,353,826</u>	<u>\$ 12,589,019</u>	<u>\$ 11,912,199</u>
FIDUCIARY NET POSITION				
Employer contributions	\$ 806,378	\$ 764,786	\$ 761,497	\$ 786,937
Member contributions	104,613	99,622	92,219	83,418
Investment income of pension investments, net of investment expenses	1,912,527	716,596	4,056	462,698
Benefit payments, excluding DROP benefits	(509,059)	(510,965)	(514,424)	(705,817)
Net change in fiduciary net position	<u>2,314,459</u>	<u>1,070,039</u>	<u>343,348</u>	<u>627,236</u>
Fiduciary net position, beginning	10,249,000	9,178,961	8,835,613	8,208,377
Fiduciary net position, ending (b)	<u>\$ 12,563,459</u>	<u>\$ 10,249,000</u>	<u>\$ 9,178,961</u>	<u>\$ 8,835,613</u>
Net pension liability [(a) - (b)]	<u>\$ 1,471,917</u>	<u>\$ 3,104,826</u>	<u>\$ 3,410,058</u>	<u>\$ 3,076,586</u>
Plan fiduciary net position as a percentage of the total pension liability	89.51%	76.75%	72.91%	74.17%
Covered payroll	\$ 2,089,024	\$ 2,008,538	\$ 1,844,364	\$ 1,668,327
Net pension liability as a percentage of covered payroll	70.46%	154.58%	184.89%	184.41%
Annual money-weighted return, net of investment expenses	18.31%	7.55%	0.04%	5.58%

Note on Pension Investments

The beginning fiduciary net position, benefit payment, and net investment income amounts above do not include investments held or benefits paid for deferred retirement option plans.

Note on Cumulative Information

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LOWER GWYNEDD TOWNSHIP
SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY (ASSET),
RELATED RATIOS, AND INVESTMENT RETURNS - NON-UNIFORMED PENSION PLAN**

REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service cost	\$ 96,435	\$ 145,646	\$ 145,184	\$ 138,271
Interest on total pension liability	338,964	324,467	296,908	273,329
Differences between expected and actual experience	(89,588)	-	66,752	-
Benefit payments	(202,217)	(171,621)	(110,499)	(83,931)
Net change in total pension liability	143,594	298,492	398,345	327,669
Total pension liability, beginning	4,710,862	4,412,370	4,014,025	3,686,356
Total pension liability, ending (a)	<u>\$ 4,854,456</u>	<u>\$ 4,710,862</u>	<u>\$ 4,412,370</u>	<u>\$ 4,014,025</u>
FIDUCIARY NET POSITION				
Employer contributions	\$ 177,765	\$ 207,493	\$ 260,654	\$ 307,060
Investment income net of investment expenses	797,736	308,276	3,298	198,111
Benefit payments, excluding DROP benefits	(202,217)	(171,621)	(110,499)	(83,931)
Net change in fiduciary net position	773,284	344,148	153,453	421,240
Fiduciary net position, beginning	4,369,214	4,025,066	3,871,613	3,450,373
Fiduciary net position, ending (b)	<u>\$ 5,142,498</u>	<u>\$ 4,369,214</u>	<u>\$ 4,025,066</u>	<u>\$ 3,871,613</u>
Net pension liability (asset) [(a) - (b)]	<u>\$ (288,042)</u>	<u>\$ 341,648</u>	<u>\$ 387,304</u>	<u>\$ 142,412</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	105.93%	92.75%	91.22%	96.45%
Covered payroll	\$ 958,383	\$ 1,004,002	\$ 1,395,263	\$ 1,389,910
Net pension liability (asset) as a percentage of covered payroll	-30.05%	34.03%	27.76%	10.25%
Annual money-weighted return, net of investment expenses	18.27%	7.54%	0.08%	5.58%

Note on Cumulative Information

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LOWER GWYNEDD TOWNSHIP
SCHEDULE OF EMPLOYER CONTRIBUTIONS - POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 787,378	\$ 764,786	\$ 711,497	\$ 563,368
Contributions in relation to the actuarially determined contribution	<u>806,378</u>	<u>764,786</u>	<u>761,497</u>	<u>786,937</u>
Contribution excess	<u>\$ (19,000)</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ (223,569)</u>
Covered employee payroll	\$ 2,089,024	\$ 1,844,364	\$ 1,844,364	\$ 1,668,327
Contribution as a percentage of covered employee payroll	38.60%	41.47%	41.29%	47.17%

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	7 years
Asset valuation method	Adjusted market value
Actuarial Assumptions:	
Investment rate of return	7.50%
Discount rate	7.50%
Projected salary increases	5.50%
Inflation	3.00%
Cost of living adjustments	3.00%
Mortality	UP-1994 Table with projection scale AA

**LOWER GWYNEDD TOWNSHIP
SCHEDULE OF EMPLOYER CONTRIBUTIONS - NON-UNIFORMED PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 173,265	\$ 207,493	\$ 210,654	\$ 186,797
Contributions in relation to the actuarially determined contribution	<u>177,765</u>	<u>207,493</u>	<u>260,654</u>	<u>307,060</u>
Contribution excess	<u>\$ (4,500)</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ (120,263)</u>
Covered employee payroll	\$ 958,383	\$ 1,395,263	\$ 1,395,263	\$ 1,389,910
Contribution as a percentage of covered employee payroll	18.55%	14.87%	18.68%	22.09%

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	4 years
Asset valuation method	Adjusted market value
Actuarial Assumptions:	
Investment rate of return	7.50%
Discount rate	7.50%
Projected salary increases	5.00%
Inflation	3.00%
Cost of living adjustments	3.00%
Mortality	UP-1994 Table with projection scale AA

LOWER GWYNEDD TOWNSHIP
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – POST-EMPLOYMENT HEALTHCARE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
01/01/2012	\$ -	\$ 905,360	\$ 905,360	0.0%	\$ 1,469,776	61.6%
01/01/2014	\$ -	\$ 1,119,445	\$ 1,119,445	0.0%	\$ 1,484,220	75.4%
01/01/2016	\$ 229,862	\$ 1,319,059	\$ 1,089,197	17.4%	\$ 2,008,538	54.2%

SUPPLEMENTARY INFORMATION

**LOWER GWYNEDD TOWNSHIP
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Fire Hydrant Fund	Recreation Fund	Debt Service Fund	Industrial Compact Fund	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES								
Cash and cash equivalents	\$ 238,777	\$ 32,016	\$ 4,317	\$ 68,425	\$ 275,399	\$ 9,866	\$ -	\$ 628,800
Taxes receivable, net	-	125	1,045	215	393	2,862	-	4,640
TOTAL ASSETS	<u>\$ 238,777</u>	<u>\$ 32,141</u>	<u>\$ 5,362</u>	<u>\$ 68,640</u>	<u>\$ 275,792</u>	<u>\$ 12,728</u>	<u>\$ -</u>	<u>\$ 633,440</u>
LIABILITIES AND FUND BALANCE								
LIABILITIES:								
Accounts payable	\$ 986	\$ 4,187	\$ -	\$ -	\$ 20,233	\$ -	\$ -	\$ 25,406
Due to other funds	-	-	-	-	1,214	-	-	1,214
TOTAL LIABILITIES	<u>986</u>	<u>4,187</u>	<u>-</u>	<u>-</u>	<u>21,447</u>	<u>-</u>	<u>-</u>	<u>26,620</u>
TOTAL LIABILITIES	<u>986</u>	<u>4,187</u>	<u>-</u>	<u>-</u>	<u>21,447</u>	<u>-</u>	<u>-</u>	<u>26,620</u>
FUND BALANCES:								
Restricted								
Streets and highways	237,791	-	-	-	-	-	-	237,791
Street lighting	-	27,954	-	-	-	-	-	27,954
Fire protection	-	-	5,362	-	-	-	-	5,362
Fire hydrant	-	-	-	68,640	-	-	-	68,640
Recreation	-	-	-	-	254,345	-	-	254,345
Debt service	-	-	-	-	-	12,728	-	12,728
TOTAL FUND BALANCES	<u>237,791</u>	<u>27,954</u>	<u>5,362</u>	<u>68,640</u>	<u>254,345</u>	<u>12,728</u>	<u>-</u>	<u>606,820</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 238,777</u>	<u>\$ 32,141</u>	<u>\$ 5,362</u>	<u>\$ 68,640</u>	<u>\$ 275,792</u>	<u>\$ 12,728</u>	<u>\$ -</u>	<u>\$ 633,440</u>

**LOWER GWYNEDD TOWNSHIP
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Fire Hydrant Fund	Recreation Fund	Debt Service Fund	Industrial Compact Fund	Total
REVENUES								
Taxes	\$ -	\$ 16,611	\$ 195,419	\$ 40,026	\$ 73,617	\$ 535,390	\$ -	\$ 861,063
Interest and rents	4,372	344	931	649	2,063	1,069	31	9,459
Intergovernmental revenues	360,077	-	-	-	-	-	-	360,077
Charges for services	3,450	-	-	-	66,646	-	-	70,096
Contributions	-	-	-	-	654	-	-	654
Miscellaneous revenue	1,225	-	-	-	-	-	-	1,225
TOTAL REVENUES	<u>369,124</u>	<u>16,955</u>	<u>196,350</u>	<u>40,675</u>	<u>142,980</u>	<u>536,459</u>	<u>31</u>	<u>1,302,574</u>
EXPENDITURES								
Public works - highways and streets	367,335	16,023	-	40,469	-	-	-	423,827
Culture and recreation	-	-	-	-	628,225	-	-	628,225
Insurance	-	-	1,836	-	4,613	-	-	6,449
Workmen's compensation	-	-	26,646	-	8,860	-	-	35,506
Payments to fire companies	-	-	266,580	-	-	-	-	266,580
Debt service	-	-	2,983	-	-	625,250	-	628,233
TOTAL EXPENDITURES	<u>367,335</u>	<u>16,023</u>	<u>298,045</u>	<u>40,469</u>	<u>641,698</u>	<u>625,250</u>	<u>-</u>	<u>1,988,820</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,789</u>	<u>932</u>	<u>(101,695)</u>	<u>206</u>	<u>(498,718)</u>	<u>(88,791)</u>	<u>31</u>	<u>(686,246)</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	90,000	-	718,040	677,544	-	1,485,584
Transfers out	-	-	-	-	-	(583,709)	(1,056)	(584,765)
Proceeds from sale of asset	1,600	-	-	-	-	-	-	1,600
Proceeds from promissory note	-	-	11,910	-	-	-	-	11,910
Distribution to close out fund	-	-	-	-	-	-	(4,223)	(4,223)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,600</u>	<u>-</u>	<u>101,910</u>	<u>-</u>	<u>718,040</u>	<u>93,835</u>	<u>(5,279)</u>	<u>910,106</u>
NET CHANGE IN FUND BALANCES	<u>3,389</u>	<u>932</u>	<u>215</u>	<u>206</u>	<u>219,322</u>	<u>5,044</u>	<u>(5,248)</u>	<u>223,860</u>
FUND BALANCES, BEGINNING OF YEAR	<u>234,402</u>	<u>27,022</u>	<u>5,147</u>	<u>68,434</u>	<u>35,023</u>	<u>7,684</u>	<u>5,248</u>	<u>382,960</u>
FUND BALANCES, END OF YEAR	<u>\$ 237,791</u>	<u>\$ 27,954</u>	<u>\$ 5,362</u>	<u>\$ 68,640</u>	<u>\$ 254,345</u>	<u>\$ 12,728</u>	<u>\$ -</u>	<u>\$ 606,820</u>

LOWER GWYNEDD TOWNSHIP
COMBINING STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2017

	<u>Non-Uniformed Pension Fund</u>	<u>Police Pension Fund</u>	<u>Other Post- Employment Benefits</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 101,046	\$ 257,911	\$ 163,775	\$ 522,732
Investments	<u>5,041,452</u>	<u>12,305,548</u>	<u>334,348</u>	<u>17,681,348</u>
TOTAL ASSETS	<u>\$ 5,142,498</u>	<u>\$12,563,459</u>	<u>\$ 498,123</u>	<u>\$18,204,080</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 869</u>	<u>\$ 869</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>869</u>	<u>869</u>
NET POSITION				
Restricted for pension benefits	5,142,498	12,563,459	-	17,705,957
Restricted for other post-employment benefits	<u>-</u>	<u>-</u>	<u>497,254</u>	<u>497,254</u>
TOTAL NET POSITION	<u>5,142,498</u>	<u>12,563,459</u>	<u>497,254</u>	<u>18,203,211</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,142,498</u>	<u>\$12,563,459</u>	<u>\$ 498,123</u>	<u>\$18,204,080</u>

LOWER GWYNEDD TOWNSHIP
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Non-Uniformed Pension Fund</u>	<u>Police Pension Fund</u>	<u>Other Post- Employment Benefits</u>	<u>Total</u>
ADDITIONS				
Contributions:				
State aid	\$ 96,353	\$ 157,487	\$ -	\$ 253,840
Employer contribution	81,412	648,891	199,500	929,803
Employee contribution	-	104,613	-	104,613
Total Contributions	<u>177,765</u>	<u>910,991</u>	<u>199,500</u>	<u>1,288,256</u>
Investment Income:				
Net realized/unrealized gain on investments	709,316	1,696,814	45,365	2,451,495
Interest and dividends, net of expenses	88,420	215,713	6,355	310,488
Net Investment Income	<u>797,736</u>	<u>1,912,527</u>	<u>51,720</u>	<u>2,761,983</u>
TOTAL ADDITIONS	<u>975,501</u>	<u>2,823,518</u>	<u>251,220</u>	<u>4,050,239</u>
DEDUCTIONS				
Benefits paid	<u>202,217</u>	<u>509,059</u>	<u>13,457</u>	<u>724,733</u>
TOTAL DEDUCTIONS	<u>202,217</u>	<u>509,059</u>	<u>13,457</u>	<u>724,733</u>
CHANGE IN NET POSITION	773,284	2,314,459	237,763	3,325,506
NET POSITION, BEGINNING OF YEAR	<u>4,369,214</u>	<u>10,249,000</u>	<u>259,491</u>	<u>14,877,705</u>
NET POSITION, END OF YEAR	<u>\$ 5,142,498</u>	<u>\$ 12,563,459</u>	<u>\$ 497,254</u>	<u>\$ 18,203,211</u>

OTHER REPORT

INDEPENDENT AUDITOR'S
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

June 14, 2018

Board of Supervisors
Lower Gwynedd Township
Spring House, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Lower Gwynedd Township ("the Township"), Spring House, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated June 14, 2018.

Internal Control Over Financial Reporting

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

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

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

Board of Supervisors
Lower Gwynedd Township

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township'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 Township'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 Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP