



LOWER GWYNEDD TOWNSHIP
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

LOWER GWYNEDD TOWNSHIP

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 17
Basic Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Balance Sheet - Governmental Funds	20
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	23
Budgetary Comparison Statement – General Fund	24
Statement of Net Position - Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27
Statement of Net Position - Fiduciary Funds	28
Statement of Changes in Net Position - Fiduciary Funds	29
Notes to Financial Statements	30 - 57

LOWER GWYNEDD TOWNSHIP

TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Trend Data on Infrastructure Condition	58
Schedule of Changes in the Township's Net Pension Liability, Related Ratios, and Investment Returns - Police Pension Plan	59
Schedule of Changes in the Township's Net Pension Liability, Related Ratios, and Investment Returns - Non-Uniformed Pension Plan	60
Schedule of Employer Contributions - Police Pension Plan	61
Schedule of Employer Contributions - Non-Uniformed Pension Plan	62
Schedule of Funding Progress - Post-Employment Healthcare Benefits	63
SUPPLEMENTARY INFORMATION	
Combining Fund Statements:	
Combining Balance Sheet - Nonmajor Governmental Funds	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	65
Combining Statement of Net Position - Fiduciary Funds	66
Combining Statement of Changes in Net Position - Fiduciary Funds	67
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 <i>Government Auditing Standards</i>	68 - 69

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

June 20, 2016

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, Spring House, Pennsylvania, as of and for the year ended December 31, 2015, 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. The financial statements of the blended component unit were not audited in accordance with *Government Auditing Standards*. 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 Township'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 Township's internal control. Accordingly, we express no such opinion. An audit

Board of Supervisors
Lower Gwynedd Township

also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lower Gwynedd Township, Spring House, Pennsylvania, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 13 to the financial statements, the Township has adopted the requirements of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." These statements modify the accounting for the Township's pensions. Our opinion is not modified with respect to this matter.

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 17; the trend data on infrastructure condition; the pension funds schedules of changes in the Township's net pension liability, related ratios, and investment returns; the pension funds schedules of employer contributions, and the post-employment healthcare benefits schedule of funding progress on pages 58 through 63 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 20, 2016 on our consideration of Lower Gwynedd 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 Lower Gwynedd 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, 2015**

Our discussion and analysis of Lower Gwynedd Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2015. 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 is \$42,078,736. Of this amount, \$7,207,033 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net position increased by \$921,353.
- Net pension liability for the Police Pension and Non-Uniformed Pension total \$3,797,362.
- As of December 31, 2015, the fund balance for the General Fund was \$2,693,865.
- Outstanding debt at year ended 2015 was \$2,075,000.
- The Township's debt rating remained at Aaa by Moody's Investors Service.
- The Township's total Real Estate Taxes rate in mills is 1.223.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Township. The components of the report include the Independent 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.

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.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

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

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

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

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 Township also includes a separate legal entity in its report – the Lower Gwynedd Township Municipal Authority. The Municipal Authority is a public authority, which exists to provide facilities for use in the sewer operation of the Township Sewer Fund. The Municipal Authority is considered a blended component unit and is included with the business-type activities. The Municipal Authority defeased the remaining portion of the Guaranteed Sewer Revenue Bonds in December 2015 and was dissolved in April 2016.

The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Township's governmental and business-type activities. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$42,078,736 at the close of 2015. This is an increase of \$921,353 from the previous year. This increase is due largely to a large increase in real estate transfer taxes related to the sale of a development during 2015.

STATEMENT OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets						
Cash and investments	\$ 8,800,817	\$ 9,095,539	\$ 2,635,417	\$ 3,402,355	\$11,436,234	\$12,497,894
Other assets	733,266	429,568	34,868	104,381	768,134	533,949
Capital assets	<u>33,197,476</u>	<u>33,216,803</u>	<u>2,677,026</u>	<u>2,618,953</u>	<u>35,874,502</u>	<u>35,835,756</u>
Total Assets	<u>42,731,559</u>	<u>42,741,910</u>	<u>5,347,311</u>	<u>6,125,689</u>	<u>48,078,870</u>	<u>48,867,599</u>
Deferred Outflows of Resources						
	<u>840,896</u>	<u>7,075</u>	<u>-</u>	<u>-</u>	<u>840,896</u>	<u>7,075</u>

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

STATEMENT OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<i>(cont'd)</i>						
Liabilities:						
Current liabilities	874,938	899,402	63,644	282,552	938,582	1,181,954
Long-term debt	1,500,249	2,102,056	-	700,000	1,500,249	2,802,056
Other liabilities	4,391,424	3,733,281	-	-	4,391,424	3,733,281
Total Liabilities	<u>6,766,611</u>	<u>6,734,739</u>	<u>63,644</u>	<u>982,552</u>	<u>6,830,255</u>	<u>7,717,291</u>
Deferred Inflows of Resources	<u>10,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,775</u>	<u>-</u>
Net Position:						
Net investment in capital assets	31,106,631	30,546,822	2,677,026	1,793,953	33,783,657	32,340,775
Restricted	1,088,046	370,174	-	-	1,088,046	370,174
Unrestricted	4,600,392	5,097,250	2,606,641	3,349,184	7,207,033	8,446,434
TOTAL NET POSITION	<u>\$36,795,069</u>	<u>\$36,014,246</u>	<u>\$ 5,283,667</u>	<u>\$ 5,143,137</u>	<u>\$42,078,736</u>	<u>\$41,157,383</u>

The largest portion of the Township's net position, \$33,783,657 or 80.3 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 investments represent 23.8 percent of Lower Gwynedd Township's total assets.

Long-term debt total is \$1,500,249 (net). The proceeds were used to finance two major projects; the expansion of the municipal complex including the installation of an emergency generator and the construction of Pen-Ambler Park. The expansion of the municipal complex and the construction of Pen-Ambler Park have been completed. Funds from the Bond proceeds, originally budgeted for the Fire/Ambulance Sub-Station, were reallocated for the installation of an emergency generator at the Township Building. Due to 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 investments represent 49.3 percent of Lower Gwynedd Township's total business-type assets which will allow for future investment in the sewer system. The Township operates and maintains three pumping stations, five metering stations, and 147 miles of sewer lines.

Accumulated depreciation reflects 23.3 percent of total capital assets for governmental activities and 86.8 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.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

Governmental Activities

The Township generates governmental revenues from a variety of sources. Total revenue for governmental activities for fiscal 2015 was \$9,770,717.

The Township's governmental activities recognized a net increase of \$780,823, and the business-type activities recognized a net increase of \$140,530. The total increase of net position for the Township was \$921,353, which largely relates to an increase in real estate transfer taxes from the prior year due to the sale of three large commercial properties in 2015.

Table 2 shows the changes in net position for the years ended December 31, 2015 and 2014.

STATEMENT OF CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
REVENUES						
Program revenues:						
Charges for services	\$ 825,146	\$ 885,157	\$ 2,607,638	\$ 2,737,305	\$ 3,432,784	\$19,244,261
Operating grants and contributions	696,532	478,699	-	-	696,532	478,699
Capital grants and contributions	102,791	-	-	-	102,791	-
General revenues:						
Real estate taxes	1,652,982	1,665,056	-	-	1,652,982	1,665,056
Transfer taxes	957,264	385,405	-	-	957,264	385,405
Earned income tax	4,293,239	4,194,837	-	-	4,293,239	4,194,837
Local service tax	338,370	331,660	-	-	338,370	331,660
Business privilege tax	286,941	224,176	-	-	286,941	224,176
Mercantile tax	171,926	167,172	-	-	171,926	167,172
Cable TV franchise fees	298,818	289,958	-	-	298,818	289,958
Investment income	110,995	113,931	20,486	14,332	131,481	128,263
Gain on sale or disposal of assets	20,251	7,841	-	17,147	20,251	24,988
Miscellaneous	15,462	46,570	26,701	-	42,163	46,570
TOTAL REVENUES	<u>9,770,717</u>	<u>8,790,462</u>	<u>2,654,825</u>	<u>2,768,784</u>	<u>12,425,542</u>	<u>11,559,246</u>
EXPENSES						
General government	1,445,625	1,278,268	-	-	1,445,625	1,278,268
Public safety	4,139,406	3,916,551	-	-	4,139,406	3,916,551
Public works - highways and streets	1,856,625	1,613,646	-	-	1,856,625	1,613,646
Culture and recreation	585,481	491,863	-	-	585,481	491,863
Insurance	58,480	63,918	-	-	58,480	63,918
Workmen's compensation	91,771	54,222	-	-	91,771	54,222
Payments to fire companies	171,349	166,903	-	-	171,349	166,903
Interest on long-term debt	41,842	63,670	-	-	41,842	63,670
Depreciation, unallocated	731,336	734,564	-	-	731,336	734,564
Sewer	-	-	2,382,274	2,422,956	2,382,274	2,422,956
TOTAL EXPENSES	<u>9,121,915</u>	<u>8,383,605</u>	<u>2,382,274</u>	<u>2,422,956</u>	<u>11,504,189</u>	<u>10,806,561</u>

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

STATEMENT OF CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
<i>(cont'd)</i>						
Change in net position before interfund transfers	648,802	406,857	272,551	345,828	921,353	752,685
Interfund transfers, net	132,021	83,030	(132,021)	(83,030)	-	-
CHANGE IN NET POSITION	780,823	489,887	140,530	262,798	921,353	752,685
NET POSITION, BEGINNING OF YEAR, RESTATED	36,014,246	35,524,359	5,143,137	4,880,339	41,157,383	40,404,698
NET POSITION, END OF YEAR	<u>\$36,795,069</u>	<u>\$36,014,246</u>	<u>\$ 5,283,667</u>	<u>\$ 5,143,137</u>	<u>\$42,078,736</u>	<u>\$41,157,383</u>

The cost of all governmental activities this year was \$9,121,915. The amount that our taxpayers ultimately financed for these activities through Township taxes was \$7,497,446.

As indicated by the governmental program expenses, public safety programs account for approximately 45.4 percent of the total expenditures of the Township's governmental activities. General administration and public works - highways and streets services account for approximately 15.8 percent and 20.4 percent, respectively, of the total expenditures for 2015.

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 16.9 percent and 9.8 percent of total governmental revenues, respectively. Earned income taxes provide 43.9 percent of the governmental revenues. Local service tax provided 3.5 percent of the total governmental revenues. Below are the charts showing the prior years of Real Estate Tax, Transfer Tax and Earned Income Tax receipts.

Real Estate Tax

Year	Assessment	Rate of Change	Change in Assessment	Millage	Assessed Change	Increase in Tax Billed	Tax Billed	Tax Collected at Face
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
2007	1,310,606,620	100.97%	12,571,660	1.117	14,043	14,730	1,479,888	1,470,706
2006	1,298,034,960	100.83%	10,744,390	1.117	12,001	11,849	1,465,158	1,449,951

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

Transfer Tax

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
\$ 957,264	\$ 385,405	\$ 441,549	\$ 341,354	\$ 296,300	\$ 318,563	\$ 335,550	\$ 666,429	\$ 653,528	\$ 487,323

Earned Income Tax

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
\$4,293,239	\$4,194,837	\$4,233,540	\$3,463,874	\$2,865,290	\$3,053,273	\$2,956,517	\$3,350,100	\$3,248,253	\$3,421,140

During the year, 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 Statements 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 new 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 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 net pension liability for the Police Pension and Non-Uniformed Pension total \$3,797,362.

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 Lower Gwynedd 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 continues to be responsible for its operation, maintenance, and repair of

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

the sewer system. Total operating revenue from sewer fund operations was \$2,607,638, which exceeded operating expenses by 11.2 percent. Total operating expenses were \$2,344,714. The last sewer rate increase was July 2010, which charged sewer usage for metered water as \$80.00 for 12,000 gallons and \$5.25 per additional 1,000 gallons per quarter.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments fall into two categories, transfers or supplemental appropriations, and 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 2015:

- \$576,284 increase of Real Estate Transfer Tax due to sale of three large commercial properties.
- \$56,941 increase of Business Privilege Tax due to strong remittances.
- \$44,044 decrease of Building Permit due to delay in land development agreement.
- \$29,234 increase of Plumbing Permits due to commercial activity.
- \$7,750 increase of Fire Safety Inspection due to commercial activity.
- \$584,017 increase of Transfer from Sinking Fund due to bond payment paid in February before tax monies were received in April.
- \$5,495 increase of Administrative Repairs and Maintenance due to network upgrade to e-mails.
- \$11,006 increase of Professional Services, Non-Uniformed Pension due to actuarial services for personnel.
- \$17,325 increase of Legal Services due to personnel issues.
- \$8,418 increase of Overtime Patrolman due to covering shifts for three injuries.
- \$20,737 increase of Professional Services, Police Pension, and OPEB due to actuarial, custodian, and money management services.
- \$18,471 decrease of Police Fuel due to reduced gas prices.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

- \$6,388 increase of Police Contracted Services due to network upgrade to e-mails.
- \$30,252 decrease of Architectural Services due to attrition.
- \$9,292 increase of Legal Services due to zoning issues.
- \$48,456 increase of Other Legal Services due to litigation related to zoning issues.
- \$46,791 decrease of Highway Crew Salary due to restructuring the department.
- \$22,790 decrease of Highway Health Insurance due to restructuring the department.
- \$11,010 decrease of Highway Supplies due to overestimate of budget.
- \$13,384 decrease of Highway Fuel due to reduced fuel prices.
- \$23,260 increase of Refund Prior Year Revenues due to establishing an escrow for real estate taxes paid in protest.
- \$577,512 increase of Transfer to Sinking Fund due to bond payment due in February, revenues received in April, and a shortfall of Debt Service Tax revenues to meet obligations.
- \$702,398 increase of Transfer to Capital Reserve Fund due to complying with the Fund Balance Policy.
- \$50,000 increase of Transfer to OPEB Pension Fund due to additional employer contribution.
- \$50,000 increase of Transfer to Non-Uniformed Pension Fund due to additional employer contribution.

Capital Assets and Debt Administration

Capital Assets

Lower Gwynedd Township's investment in capital assets for its governmental and business-type activities as of December 31, 2015, totals \$33,197,476 and \$2,677,026, 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 Table 3). Infrastructure includes roads, bridges, storm sewers and traffic signals. The business-type activities are the sanitary sewer lines, pumping stations, and equipment.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

**CAPITAL ASSETS
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$10,876,562	\$10,853,367	\$ -	\$ -	\$10,876,562	\$10,853,367
Construction-in-progress	184,501	46,228	-	-	184,501	46,228
Buildings and improvements	4,450,300	4,558,439	-	-	4,450,300	4,558,439
Furniture and equipment	987,945	837,472	-	-	987,945	837,472
Infrastructure	16,698,168	16,921,297	-	-	16,698,168	16,921,297
Sewer system and equipment	-	-	2,677,026	2,618,953	2,677,026	2,618,953
	<u>\$33,197,476</u>	<u>\$33,216,803</u>	<u>\$ 2,677,026</u>	<u>\$ 2,618,953</u>	<u>\$35,874,502</u>	<u>\$35,835,756</u>

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

Governmental Activities:

HVAC system at municipal complex	\$ 199,539
Green Ribbon Trail/Bridge project	114,212
International 10-wheel dump truck	87,919
Ford F550 bucket truck	53,206
Ford F350 truck	50,179
Chevrolet Tahoe	48,932
Wood chipper	39,995
Asphalt roller	34,925

Business-type Activities:

Sewer system improvement and equipment	\$ 280,001
--	------------

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

A summary of changes in capital assets is presented in Note 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 with limited future debt plans, moderately-sized and growing tax base outside of Philadelphia, and conservative spending policies.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

At year-end for the Governmental Activities, the Township's debt was \$2,075,000 compared to \$2,650,000 the previous year. The debt that is due within one year for Governmental Activities is \$590,000. For the Business-Type Activities, the bonds were defeased on December 16, 2015, in preparation for the dissolution of the Municipal Authority which occurred on April 7, 2016.

OUTSTANDING DEBT

	Bonds Payable	
	2015	2014
Governmental activities	\$ 2,075,000	\$ 2,650,000
Business-type activities	-	825,000
TOTAL	\$ 2,075,000	\$ 3,475,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

Lower Gwynedd Township is located in the southeastern section of Montgomery County and is 15 miles from Philadelphia. Lower Gwynedd Township is bounded by the Townships of Montgomery, Horsham, Upper Dublin, Whitpain, 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 School, Middle, and Elementary Schools; as well as the prestigious Gwynedd Mercy Academy Elementary and High Schools. These schools provide convenient and close access to both public and private educational institutions.

Local industry, close proximity to major employment centers and educational institutions, play an important role in the Township's economy. The largest employer in the Township is Janssen, a subsidiary of Johnson & Johnson. Siemens Energy also provides the Township with a strong industrial base. Other noted employers in the Township are Wissahickon School District, Acts Retirement Life Community, Foulkeways at Gwynedd, and Country Inn Associates (a.k.a. The William Penn Inn). Merck & Co. has their world headquarters in West Point, Pennsylvania, approximately five miles west of the Township. Merck & Co. owns a 130-acre site on Sumneytown Pike which is mostly undeveloped. The former Dow Chemical site on Norristown Road is currently on the market. The 130-acre parcel adjacent to the 309 Expressway is under agreement of sale with early indications for a mixed use site consisting of retail, office, and residential uses. BASF (Cognis) has leased their 25-acre site on Pen Ambler Road to Ambler Yards, which will be rehabbing the existing industrial buildings on the site, creating a mixed-use campus consisting of industrial office, personal service, and residential uses in this area. The potential of 400 new jobs are anticipated with the proposed plan.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

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 2014, the estimated population was 11,553 people. 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 \$450,000 compared to the median sale price of \$270,350 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. The Township's use of conservative revenue estimates has created a significant cash reserves in the General Fund and Capital Reserve Fund. This has reduced the impact of recent revenue shortfalls. Receipts are monitored closely in order to proactively adjust to economic conditions. The Township had a modest tax increase in 2012 from 1.117 mills to 1.223 mills.

Next Year's Budget

The 2016 Budget and Fiscal Plan was approved by the Board of Supervisors on December 8, 2015 with no real estate tax increase. The General Fund Budget will total \$7,874,249, representing an increase of nine percent, compared to the 2015 General Fund Budget. A property assessed at \$350,000 will pay \$428.05 in Township Real Estate Taxes in 2016.

The 2016 budget reflects a number of changes that have occurred in 2015, including the anticipated termination of the Municipal Authority, reorganization of the Codes Office and the Public Works Department, the acquisition and improvement of Township lands, and the change in Township Manager and Administrative personnel that will occur in 2016.

The plan includes the following:

- There is no tax increase proposed.
- A 3.75 percent wage increase for members of the police bargaining unit.
- A three percent wage increase for non-uniformed personnel.
- The first of five payments to Montgomery County for new radios for the police department and Wissahickon Fire Company.
- Fifty-one percent of General Fund revenues will be derived from the EIT in 2016. This "over-reliance" on this one revenue source could lead to the need for severe cutbacks or the need for a large real estate tax increase when there is an economic downturn.
- To balance the Recreation Fund, a transfer from the General Fund of \$471,761 will be required. In 2015, the transfer amount was \$382,000. Increases in the Recreation Tax should be considered in the future to maintain programming and facilities.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

- A transfer of \$764,786 to the Police Pension Fund from the General Fund. This represents approximately ten percent of all General Fund expenditures.
- A transfer of \$207,493 to the Non-Uniformed Pension Fund.
- A transfer of \$58,776 from the General Fund to the Capital Reserve Fund.
- The Township will spend \$1,336,440 for health insurance in 2016. This reflects a 3.88 percent increase in rates. The increase will be reduced with the application of Rate Stabilization Funds ("RSF") credits from our carrier.
- Additional contributions are included in the General Fund for the fire companies (\$80,000) and the Community Ambulance Association of Ambler (\$15,000).
- Additional appropriations from the Sewer Operating Fund for engineering (\$28,500) and legal fees (\$17,000) in recognition of the dissolution of the Municipal Authority.
- Additional revenues for the Sewer Operating Fund totaling \$117,780 from tap-in fees. This amount would have normally gone to the Municipal Authority.
- The amount of the transfer from the Sewer Operating Fund (\$776,523) to the Sewer Capital Reserve Fund reflects the anticipated collection of tap-in fees from developers, including the Spring House Village Shopping Center, and the continuing collection of assessments from those recently connected to the sanitary sewer system.

The Township has achieved a balanced budget in 2016 with no increase in taxes. What must be mentioned is what is not in the 2016 Plan. The notification of the grant award for the Multi-Modal Transportation Grant is not expected until June 2016. If the Township's application is approved, the Township will be required to provide matching funds for the state grant. This will require either a significant drawdown of Capital Reserve and Traffic Impact funds or a borrowing. The amount of the required match, if any, will be dependent on the amount awarded for the grant.

The Township has also recognized the need to do some major improvements to its sewer collection system and one pump station. The Township has contracted with the Bucks County Sewer and Water Authority to do extensive televising of sewer lines. The results of the televising will determine the extent of the long-range repair program that should be undertaken.

In conclusion, the Township's financial position continues to be very strong. The 2016 Budget and Fiscal Plan that was adopted by the Board of Supervisors did not require a tax increase. The Township continues to adhere to its Fund Balance Policy, providing a fiscal cushion in the event of a future economic slowdown. The 2016 Budget and Fiscal Plan includes the resources to continue to improve services while maintaining a very strong balance sheet to meet future needs.

**LOWER GWYNEDD TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2015**

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, 2015**

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets:			
Cash and cash equivalents	\$ 8,800,817	\$ 2,610,821	\$ 11,411,638
Accounts receivable	29,406	-	29,406
Taxes receivable	482,679	-	482,679
Grants receivable	102,791	-	102,791
Interest receivable	5,894	1,368	7,262
Sewer fees receivable	-	49,515	49,515
Assessments receivable, current	-	15,930	15,930
Internal balances	106,939	(106,939)	-
Prepaid expenses	5,557	8,115	13,672
Total Current Assets	9,534,083	2,578,810	12,112,893
Noncurrent Assets:			
Restricted cash	-	17,937	17,937
Restricted investments	-	6,659	6,659
Assessments receivable	-	66,879	66,879
Capital assets:			
Land	10,876,562	-	10,876,562
Construction-in-progress	184,501	-	184,501
Buildings and building improvements	9,628,470	-	9,628,470
Furniture and equipment	2,414,540	-	2,414,540
Infrastructure	20,192,554	-	20,192,554
Sewer system and equipment	-	20,344,448	20,344,448
Accumulated depreciation	(10,099,151)	(17,667,422)	(27,766,573)
Total Noncurrent Assets	33,197,476	2,768,501	35,965,977
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on bond refunding	5,308	-	5,308
Deferred outflows of resources - pensions	835,588	-	835,588
Total Deferred Outflows of Resources	840,896	-	840,896
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 43,572,455	\$ 5,347,311	\$ 48,919,766
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable and other current liabilities	\$ 263,269	\$ 45,707	\$ 308,976
Accrued interest	15,765	-	15,765
Escrow deposits	-	17,937	17,937
Current portion of bonds payable, net	595,904	-	595,904
Total Current Liabilities	874,938	63,644	938,582
Noncurrent Liabilities:			
Bonds payable, net	1,500,249	-	1,500,249
Other post employment benefits obligation	594,062	-	594,062
Net pension liability	3,797,362	-	3,797,362
Total Noncurrent Liabilities	5,891,673	-	5,891,673
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	10,775	-	10,775
Total Deferred Inflows of Resources	10,775	-	10,775
NET POSITION			
Net investment in capital assets	31,106,631	2,677,026	33,783,657
Restricted	1,088,046	-	1,088,046
Unrestricted	4,600,392	2,606,641	7,207,033
Total Net Position	36,795,069	5,283,667	42,078,736
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 43,572,455	\$ 5,347,311	\$ 48,919,766

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

**LOWER GWYNEDD TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES:						
General government	\$ 1,445,625	\$ 54,394	\$ -	\$ (1,071,875)	-	\$ (1,071,875)
Public safety	4,139,406	131,236	-	(3,561,982)	-	(3,561,982)
Public works - highways and streets	1,856,625	4,817	-	(1,478,231)	-	(1,478,231)
Culture and recreation	585,481	54,785	102,791	(427,905)	-	(427,905)
Insurance	58,480	-	-	(58,480)	-	(58,480)
Workmen's compensation	91,771	-	-	(91,771)	-	(91,771)
Payments to fire companies	171,349	-	-	(34,024)	-	(34,024)
Interest on long-term debt	41,842	-	-	(41,842)	-	(41,842)
Depreciation, unallocated	731,336	-	-	(731,336)	-	(731,336)
TOTAL GOVERNMENTAL ACTIVITIES	9,121,915	825,146	102,791	(7,497,446)	-	(7,497,446)
BUSINESS-TYPE ACTIVITIES:						
Sewer	2,382,274	-	-	-	225,364	225,364
TOTAL BUSINESS-TYPE ACTIVITIES	2,382,274	2,607,638	-	-	225,364	225,364
TOTAL PRIMARY GOVERNMENT	\$ 11,504,189	\$ 3,432,784	\$ 102,791	(7,497,446)	225,364	(7,272,082)
GENERAL REVENUES						
Taxes:						
Property taxes				1,652,982	-	1,652,982
Transfer taxes				957,264	-	957,264
Earned income taxes				4,293,239	-	4,293,239
Local service tax				338,370	-	338,370
Business privilege and mercantile taxes				458,867	-	458,867
Cable TV franchise fees				298,818	-	298,818
Investment income				110,995	20,486	131,481
Interfund transfers				132,021	(132,021)	-
Gain on sale/disposition of assets				20,251	-	20,251
Miscellaneous				15,462	26,701	42,163
TOTAL GENERAL REVENUES				8,278,269	(84,834)	8,193,435
CHANGE IN NET POSITION				780,823	140,530	921,353
NET POSITION, BEGINNING OF YEAR, RESTATED				36,014,246	5,143,137	41,157,383
NET POSITION, END OF YEAR				\$ 36,795,069	\$ 5,283,667	\$ 42,078,736

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

**LOWER GWYNEDD TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Open Space Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,276,682	\$ 1,017,621	\$ 4,401,534	\$ 1,104,980	\$ 8,800,817
Accounts receivable	25,924	-	-	3,482	29,406
Taxes receivable, net	477,614	-	-	5,065	482,679
Grants receivable	-	102,791	-	-	102,791
Interest receivable	2,433	906	1,837	718	5,894
Prepaid expenditures	5,557	-	-	-	5,557
Due from other funds	126,054	-	25	-	126,079
TOTAL ASSETS	\$ 2,914,264	\$ 1,121,318	\$ 4,403,396	\$ 1,114,245	\$ 9,553,223
LIABILITIES AND FUND BALANCES					
Accounts payable and accrued expenses	\$ 220,327	\$ 1,867	\$ 27,343	\$ 13,732	\$ 263,269
Due to other funds	72	-	6,601	12,467	19,140
TOTAL LIABILITIES	220,399	1,867	33,944	26,199	282,409
FUND BALANCES					
Nonspendable	5,557	-	-	-	5,557
Restricted:					
Streets and highways	-	-	-	135,606	135,606
Street lighting	-	-	-	22,829	22,829
Fire protection	-	-	-	2,099	2,099
Fire hydrant	-	-	-	68,466	68,466
Recreation	-	-	-	8,593	8,593
Traffic impact fees	-	-	-	838,076	838,076
Debt service	-	-	-	7,144	7,144
Industrial compact	-	-	-	5,233	5,233
Assigned:					
Capital projects	-	1,119,451	4,369,452	-	5,488,903
Unassigned	2,688,308	-	-	-	2,688,308
TOTAL FUND BALANCES	2,693,865	1,119,451	4,369,452	1,088,046	9,270,814
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,914,264	\$ 1,121,318	\$ 4,403,396	\$ 1,114,245	\$ 9,553,223

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, 2015**

TOTAL GOVERNMENTAL FUND BALANCES \$ 9,270,814

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. 33,197,476

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	(15,765)
Bonds payable, net	(2,096,153)
Other post-employment benefits	(594,062)
Net pension liability	(3,797,362)

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	835,588
Deferred inflows of resources - pensions	(10,775)

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. 5,308

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 36,795,069

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, 2015**

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES					
Taxes	\$ 6,846,182	-	-	\$ 859,135	\$ 7,705,317
Licenses and permits	335,883	-	-	-	335,883
Fines, forfeits, and costs	22,001	-	-	-	22,001
Interest, dividends, and rents	282,077	5,082	38,935	8,164	334,258
Intergovernmental revenues	401,791	102,791	-	294,741	799,323
Charges for services/fees	469,552	-	-	73,265	542,817
Contributions	-	-	-	95	95
Miscellaneous revenue	1,823	-	-	-	1,823
TOTAL REVENUES	<u>8,359,309</u>	<u>107,873</u>	<u>38,935</u>	<u>1,235,400</u>	<u>9,741,517</u>
EXPENDITURES					
Current:					
General government	1,377,888	-	258,343	447	1,636,678
Public safety	4,251,153	-	137,105	665	4,388,923
Public works - highways and streets	695,574	-	932,556	503,517	2,131,647
Culture and recreation	-	124,541	83,238	535,430	743,209
Insurance	53,177	-	-	5,303	58,480
Workmen's compensation	62,521	-	-	29,250	91,771
Payments to fire companies	-	-	-	171,349	171,349
Debt service	-	-	-	625,290	625,290
TOTAL EXPENDITURES	<u>6,440,313</u>	<u>124,541</u>	<u>1,411,242</u>	<u>1,871,251</u>	<u>9,847,347</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,918,996</u>	<u>(16,668)</u>	<u>(1,372,307)</u>	<u>(635,851)</u>	<u>(105,830)</u>
OTHER FINANCING SOURCES (USES)					
Refunds of prior year revenues	(23,258)	-	-	-	(23,258)
Interfund transfers in	667,759	200,000	999,000	1,046,049	2,912,808
Interfund transfers out	(2,182,770)	(2,000)	(2,000)	(594,017)	(2,780,787)
Proceeds from sale of assets	-	-	39,523	12,171	51,694
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,538,269)</u>	<u>198,000</u>	<u>1,036,523</u>	<u>464,203</u>	<u>160,457</u>
NET CHANGE IN FUND BALANCES	380,727	181,332	(335,784)	(171,648)	54,627
FUND BALANCES, BEGINNING OF YEAR	<u>2,313,138</u>	<u>938,119</u>	<u>4,705,236</u>	<u>1,259,694</u>	<u>9,216,187</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,693,865</u>	<u>\$ 1,119,451</u>	<u>\$ 4,369,452</u>	<u>\$ 1,088,046</u>	<u>\$ 9,270,814</u>

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

LOWER GWYNEDD TOWNSHIP
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 54,627

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	\$ 729,908	
Depreciation expense	<u>(731,336)</u>	(1,428)

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. (17,899)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (4,595)

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. 575,000

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	4,312	
Decrease in bond premium	5,903	
Increase in other post-employment benefits	<u>(79,779)</u>	(71,331)

Pension expenses 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. 246,449

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 780,823

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, 2015

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 5,788,684	\$ 6,417,119	\$ 6,846,182	\$ 429,063
Licenses and permits	327,600	327,815	335,883	8,068
Fines, forfeits, and costs	24,500	21,118	22,001	883
Interest, dividends, and rents	283,458	283,458	282,077	(1,381)
Intergovernmental revenues	250,675	259,191	401,791	142,600
Charges for services/fees	463,728	461,454	469,552	8,098
Contributions	250	-	-	-
Miscellaneous revenue	300	1,822	1,823	1
TOTAL REVENUES	<u>7,139,195</u>	<u>7,771,977</u>	<u>8,359,309</u>	<u>587,332</u>
EXPENDITURES				
General government	1,366,520	1,442,500	1,377,888	64,612
Public safety	4,049,634	4,121,795	4,251,153	(129,358)
Public works - highways and streets	783,458	703,346	695,574	7,772
Insurance	53,177	53,177	53,177	-
Workmen's compensation	67,288	67,288	62,521	4,767
TOTAL EXPENDITURES	<u>6,320,077</u>	<u>6,388,106</u>	<u>6,440,313</u>	<u>(52,207)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>819,118</u>	<u>1,383,871</u>	<u>1,918,996</u>	<u>535,125</u>
OTHER FINANCING SOURCES (USES)				
Unencumbered reserve	-	154,400	-	(154,400)
Refunds of prior year revenues	-	(23,260)	(23,258)	2
Interfund transfers in	83,742	667,759	667,759	-
Interfund transfers out	(902,860)	(2,182,770)	(2,182,770)	-
TOTAL OTHER FINANCING (USES)	<u>(819,118)</u>	<u>(1,383,871)</u>	<u>(1,538,269)</u>	<u>(154,398)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>380,727</u>	<u>380,727</u>
FUND BALANCE, BEGINNING OF YEAR	<u>2,313,138</u>	<u>2,313,138</u>	<u>2,313,138</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,313,138</u>	<u>\$ 2,313,138</u>	<u>\$ 2,693,865</u>	<u>\$ 380,727</u>

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

LOWER GWYNEDD TOWNSHIP
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2015

	Enterprise Funds			Totals
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 76,574	\$ 1,305,744	\$ 1,228,503	\$ 2,610,821
Sewer fees receivable	-	49,515	-	49,515
Interest receivable	-	883	485	1,368
Assessments receivable, current portion	15,930	-	-	15,930
Due from other funds	-	47	-	47
Prepaid expenses	-	8,115	-	8,115
Total Current Assets	92,504	1,364,304	1,228,988	2,685,796
Restricted Assets:				
Cash	17,937	-	-	17,937
Investments	6,659	-	-	6,659
Total Restricted Assets	24,596	-	-	24,596
Noncurrent Assets:				
Assessments receivable	66,879	-	-	66,879
Sewer infrastructure and equipment	-	20,344,448	-	20,344,448
Less: Accumulated depreciation	-	(17,667,422)	-	(17,667,422)
Total Noncurrent Assets	66,879	2,677,026	-	2,743,905
TOTAL ASSETS	\$ 183,979	\$ 4,041,330	\$ 1,228,988	\$ 5,454,297
LIABILITIES AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 6,881	\$ 34,972	\$ 3,854	\$ 45,707
Escrow deposits	17,937	-	-	17,937
Due to other funds	-	82,874	24,112	106,986
Total Current Liabilities	24,818	117,846	27,966	170,630
NET POSITION				
Net investment in capital assets	-	2,677,026	-	2,677,026
Unrestricted	159,161	1,246,458	1,201,022	2,606,641
Total Net Position	159,161	3,923,484	1,201,022	5,283,667
TOTAL LIABILITIES AND NET POSITION	\$ 183,979	\$ 4,041,330	\$ 1,228,988	\$ 5,454,297

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, 2015**

	Enterprise Funds			Total	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Sewer Reserve Fund			
OPERATING REVENUES						
Charges for services	\$ -	\$ 2,555,947	\$ -	\$ 2,555,947	\$ -	\$ 2,555,947
Fees and assessments	34,641	-	-	34,641	-	34,641
Other operating revenues	-	17,050	-	17,050	-	17,050
TOTAL OPERATING REVENUES	<u>34,641</u>	<u>2,572,997</u>	<u>-</u>	<u>2,607,638</u>	<u>-</u>	<u>2,607,638</u>
OPERATING EXPENSES						
Professional fees	54,059	13,318	-	67,377	-	67,377
Engineering fees	73,889	-	-	73,889	-	73,889
Rent	-	106,461	-	106,461	-	106,461
General operating expenses	-	706,432	-	706,432	-	706,432
Insurance	-	157,536	-	157,536	-	157,536
Workmen's compensation	-	12,833	-	12,833	-	12,833
Depreciation	-	221,928	-	221,928	-	221,928
Maintenance expense	-	134,196	3,366	137,562	-	137,562
Treatment expenses	-	774,293	-	774,293	-	774,293
Road repairs and maintenance	-	-	86,403	86,403	-	86,403
TOTAL OPERATING EXPENSES	<u>127,948</u>	<u>2,126,997</u>	<u>89,769</u>	<u>2,344,714</u>	<u>-</u>	<u>2,344,714</u>
OPERATING INCOME (LOSS)	<u>(93,307)</u>	<u>446,000</u>	<u>(89,769)</u>	<u>262,924</u>	<u>-</u>	<u>262,924</u>
NONOPERATING REVENUES (EXPENSES)						
Interest on capital lease financing	37,560	-	-	37,560	(37,560)	-
Interest expense	(37,560)	(37,560)	-	(75,120)	37,560	(37,560)
Interest and investment income	-	8,668	11,818	20,486	-	20,486
Transfers in	10,948	795,361	71,343	877,652	(877,652)	-
Transfers out	(515,359)	(212,312)	(282,002)	(1,009,673)	877,652	(132,021)
Miscellaneous revenue	-	-	26,701	26,701	-	26,701
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(504,411)</u>	<u>554,157</u>	<u>(172,140)</u>	<u>(122,394)</u>	<u>-</u>	<u>(122,394)</u>
CHANGE IN NET POSITION	<u>(597,718)</u>	<u>1,000,157</u>	<u>(261,909)</u>	<u>140,530</u>	<u>-</u>	<u>140,530</u>
NET POSITION, BEGINNING OF YEAR	<u>756,879</u>	<u>2,923,327</u>	<u>1,462,931</u>	<u>5,143,137</u>	<u>-</u>	<u>5,143,137</u>
NET POSITION, END OF YEAR	<u>\$ 159,161</u>	<u>\$ 3,923,484</u>	<u>\$ 1,201,022</u>	<u>\$ 5,283,667</u>	<u>\$ -</u>	<u>\$ 5,283,667</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, 2015**

	Enterprise Funds			Sewer Reserve Fund	Total	Eliminations	Total Proprietary Funds
	Municipal Authority Fund	Sewer Enterprise Fund	Reserve Fund	Fund	Total	Eliminations	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash received from users	\$ 72,866	\$ 2,564,834	\$ -	-	\$ 2,637,700	-	\$ 2,637,700
Payments to and on behalf of employees	-	(558,282)	-	-	(558,282)	-	(558,282)
Payments to vendors and others	(121,067)	(1,277,306)	(150,243)	-	(1,548,616)	-	(1,548,616)
Return of escrow deposits (net)	(64,958)	-	-	-	(64,958)	-	(64,958)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(113,159)</u>	<u>729,246</u>	<u>(150,243)</u>	<u>-</u>	<u>465,844</u>	<u>-</u>	<u>465,844</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Operating transfers to other funds	-	(212,312)	(282,001)	-	(494,313)	-	(494,313)
Operating transfers from other funds	202,242	795,361	71,343	-	1,068,946	(825,000)	243,946
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>202,242</u>	<u>583,049</u>	<u>(210,658)</u>	<u>-</u>	<u>574,633</u>	<u>(825,000)</u>	<u>(250,367)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Principal payments	(825,000)	(825,000)	-	-	(1,650,000)	825,000	(825,000)
Interest payments	(44,213)	(43,861)	-	-	(88,074)	37,560	(50,514)
Lease rental revenue	162,560	-	-	-	162,560	(37,560)	125,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(706,653)</u>	<u>(868,861)</u>	<u>-</u>	<u>-</u>	<u>(1,575,514)</u>	<u>825,000</u>	<u>(750,514)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of equipment	-	(280,002)	-	-	(280,002)	-	(280,002)
Other receipts	-	-	26,701	-	26,701	-	26,701
Proceeds from sale of investments	531,122	-	-	-	531,122	-	531,122
Investment income	-	8,610	12,790	-	21,400	-	21,400
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>531,122</u>	<u>(271,392)</u>	<u>39,491</u>	<u>-</u>	<u>299,221</u>	<u>-</u>	<u>299,221</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(86,448)</u>	<u>172,042</u>	<u>(321,410)</u>	<u>(321,410)</u>	<u>(235,816)</u>	<u>-</u>	<u>(235,816)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>180,959</u>	<u>1,133,702</u>	<u>1,549,913</u>	<u>1,549,913</u>	<u>2,864,574</u>	<u>-</u>	<u>2,864,574</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 94,511</u>	<u>\$ 1,305,744</u>	<u>\$ 1,228,503</u>	<u>\$ 1,228,503</u>	<u>\$ 2,628,758</u>	<u>\$ -</u>	<u>\$ 2,628,758</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating income (loss)	\$ (93,307)	\$ 446,000	\$ (89,769)	-	\$ 262,924	-	\$ 262,924
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation expense	-	221,928	-	-	221,928	-	221,928
(Increase) Decrease in assets:							
Sewer fees receivable	-	(8,163)	-	-	(8,163)	-	(8,163)
Assessments receivable	38,225	-	-	-	38,225	-	38,225
Due from other funds	-	(47)	-	-	(47)	-	(47)
Prepaid expenses	-	(1,860)	-	-	(1,860)	-	(1,860)
Increase (Decrease) in liabilities:							
Accounts payable	6,881	3,427	(29,869)	-	(19,561)	-	(19,561)
Due to other funds	(64,958)	67,961	(30,605)	-	37,356	-	37,356
Escrow deposits	-	-	-	-	(64,958)	-	(64,958)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (113,159)</u>	<u>\$ 729,246</u>	<u>\$ (150,243)</u>	<u>\$ (150,243)</u>	<u>\$ 465,844</u>	<u>\$ -</u>	<u>\$ 465,844</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION							
Cash and cash equivalents	\$ 76,574	\$ 1,305,744	\$ 1,228,503	-	\$ 2,610,821	-	\$ 2,610,821
Cash - restricted	17,937	-	-	-	17,937	-	17,937
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 94,511</u>	<u>\$ 1,305,744</u>	<u>\$ 1,228,503</u>	<u>\$ 1,228,503</u>	<u>\$ 2,628,758</u>	<u>\$ -</u>	<u>\$ 2,628,758</u>

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

**LOWER GWYNEDD TOWNSHIP
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2015**

	Agency Fund	Trust Funds
ASSETS		
Cash	\$ 353,641	\$ 282,759
Investments	-	13,151,130
TOTAL ASSETS	\$ 353,641	\$ 13,433,889
 LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ -	\$ 533
Due to others	353,641	-
TOTAL LIABILITIES	353,641	533
 NET POSITION		
Held in trust for pension benefits	-	13,204,027
Held in trust for other post-employment benefits	-	229,329
TOTAL NET POSITION	-	13,433,356
TOTAL LIABILITIES AND NET POSITION	\$ 353,641	\$ 13,433,889

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

**LOWER GWYNEDD TOWNSHIP
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Trust Funds
ADDITIONS	
Contributions:	
State aid	\$ 215,646
Employer contribution	881,505
Employee contribution	92,219
Total Contributions	1,189,370
Investment Income:	
Net realized/unrealized loss on investments	(283,655)
Interest and dividends	291,258
Net Investment Income	7,603
TOTAL ADDITIONS	1,196,973
DEDUCTIONS	
Employee benefit payments	803,013
TOTAL DEDUCTIONS	803,013
CHANGE IN FIDUCIARY NET POSITION	393,960
NET POSITION, BEGINNING OF YEAR	13,039,396
NET POSITION, END OF YEAR	\$ 13,433,356

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

Basis of Presentation and Accounting

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

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

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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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 or construction of major capital assets (other than those financed by the Industrial Compact Fund, Capital Reserve Fund, and Proprietary Funds).

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

The Township reports the following major Proprietary Funds:

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

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

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

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

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 Special Revenue Funds include the Highway Aid Fund, Street Lighting Fund, Fire Protection Fund, Recreation Fund, Traffic Impact Fund, and Fire Hydrant Fund.

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

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

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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on the modified accrual basis of accounting. All appropriations lapse at year end.

Cash and Cash Equivalents

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

Taxes Receivable

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

Investments

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

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, 2015, 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, equipment, and infrastructure (e.g., roads, bridges, curbs, sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 (amount not rounded) or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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:

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

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

Use of Estimates

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

Real Estate Property Tax

Real estate property taxes attach as an enforceable lien on property on January 1. Taxes are billed March 1 and payable under the following terms: a 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.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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. In addition, certain changes made to the net pension liability, including differences between actual and expected experience of pension activities and differences between projected and actual investment returns, 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, deferred inflows of resources include differences between actual and expected experience of pension activities.

Net Position Flow Assumption

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

Fund Equity

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

- ***Nonspendable Fund Balance*** – Amounts that are not in spendable form (such as inventory or 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.
- ***Unassigned Fund Balance*** – Amounts available for any purpose. Positive amounts are reported only in the General Fund.

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

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

Implementation of GASB Statements

During the year ended December 31, 2015, the Township implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, with the objective of improving the accounting and financial reporting of state and local governments for pensions. It requires that state and local governments recognize and record the actuarially determined net pension liability in the entity's financial statements.

GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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, 2015, \$8,457,246 was insured by the Federal Depository Insurance Corporation. The remaining \$3,674,080 of the Township's bank balance of \$12,131,326 was exposed to custodial credit risk as follows:

Governmental funds	\$ 2,706,937
Proprietary funds	653,246
Fiduciary funds	<u>313,897</u>
	<u>\$ 3,674,080</u>

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, 2015 are as follows:

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

	Fair Value
Equity mutual funds	\$ 10,168,545
Fixed income mutual funds	2,982,585
Total Investments	\$ 13,151,130

At December 31, 2015, 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 per GASB Statement No. 40.

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
<u>Governmental Activities:</u>				
General capital assets not being depreciated:				
Land	\$10,853,367	\$ 23,195	\$ -	\$10,876,562
Infrastructure	13,154,136	-	-	13,154,136
Construction-in-progress	46,228	138,273	-	184,501
Total general capital assets not being depreciated	24,053,731	161,468	-	24,215,199
General capital assets being depreciated:				
Infrastructure	7,038,418	-	-	7,038,418
Buildings and building improvements	9,428,931	199,539	-	9,628,470
Furniture and equipment	2,302,328	368,901	(256,689)	2,414,540
Total general capital assets being depreciated	18,769,677	568,440	(256,689)	19,081,428
Accumulated depreciation:				
Infrastructure	(3,271,257)	(223,128)	-	(3,494,385)
Buildings and building improvements	(4,870,492)	(307,678)	-	(5,178,170)
Furniture and equipment	(1,464,856)	(200,530)	238,790	(1,426,596)
Total accumulated depreciation	(9,606,605)	(731,336)	238,790	(10,099,151)
Total general capital assets being depreciated, net	9,163,072	(162,896)	(17,899)	8,982,277
Governmental Activities, Net	\$33,216,803	\$ (1,428)	\$ (17,899)	\$33,197,476

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

	<u>Balance 01/01/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/15</u>
<u>Business-type Activities:</u>				
Sewer system and equipment	\$20,064,447	\$ 280,001	\$ -	\$20,344,448
Accumulated depreciation	<u>(17,445,494)</u>	<u>(221,928)</u>	-	<u>(17,677,422)</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,618,953</u>	<u>\$ 58,073</u>	<u>\$ -</u>	<u>\$ 2,677,026</u>

Depreciation expense was charged to the following activities:

<u>Governmental Activities:</u>	
General government	\$ 134,483
Public safety	360,631
Public works – streets and highways	175,154
Culture and recreation	<u>61,068</u>
	<u>\$ 731,336</u>
 <u>Business-type Activities:</u>	
Sewer infrastructure and equipment	<u>\$ 221,928</u>

NOTE 4 DEBT

Bonded Debt, Municipal Authority

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

In December 2015, the Series of 2003 Revenue Bonds and the related lease agreement were both paid off through a joint effort of the Township and the Municipal Authority.

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 4 DEBT (cont'd)

General Obligation Bonds

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

On July 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 bond bears interest at 2.0 percent per annum and matures on February 15, 2019.

The following is a summary of transactions affecting long-term obligations for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bond payable	\$ 2,650,000	\$ -	\$ 575,000	\$ 2,075,000	\$ 590,000
Bond premium	27,056	-	5,903	21,153	5,904
TOTAL	\$ 2,677,056	\$ -	\$ 580,903	\$ 2,096,153	\$ 595,904
Business-type Activities:					
Revenue bond payable	\$ 825,000	\$ -	\$ 825,000	\$ -	\$ -
Bond discount	(3,089)	-	3,089	-	-
TOTAL	\$ 821,911	\$ -	\$ 828,089	\$ -	\$ -

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2016	\$ 590,000	\$ 36,140	\$ 626,140
2017	600,000	24,240	624,240
2018	615,000	12,090	627,090
2019	270,000	2,970	272,970
Total	\$ 2,075,000	\$ 75,440	\$ 2,150,440

For the year ended December 31, 2015, interest expense was \$79,402, of which \$37,560 was recorded as a direct expense of the sewer function.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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, 2015, lease payments received by the Township were \$116,803.

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

<u>Year Ending December 31,</u>	
2016	\$ 120,013
2017	123,613
2018	127,322
2019	<u>42,857</u>
Total	<u>\$ 413,805</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	\$ 126,054	\$ 72
Capital Reserve Fund	25	6,601
Nonmajor Governmental Funds	-	12,467
Proprietary Funds:		
Sewer Enterprise Fund	47	82,874
Sewer Reserve Fund	-	<u>24,112</u>
	<u>\$ 126,126</u>	<u>\$ 126,126</u>

Interfund transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 667,759	\$2,182,770
Open Space Fund	200,000	2,000
Capital Reserve Fund	999,000	2,000
Nonmajor Governmental Funds	1,046,049	594,017

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS (cont'd)

	<u>Transfers In</u>	<u>Transfers Out</u>
Proprietary Funds		
Sewer Enterprise Fund	795,361	212,312
Sewer Reserve Fund	71,343	282,002
Municipal Authority	10,948	515,359
	<u>\$3,790,460</u>	<u>\$3,790,460</u>

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

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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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.

Management of the plan is vested in the Investment Advisory Committee, which consists of up to 11 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, 2015, plan membership consisted of the following:

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

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

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

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 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.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The benefit 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 \$711,497 for 2015. Contributions of \$636,030 and \$125,467 were made by the Township and the Commonwealth, respectively.

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.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

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, 2015:

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

Rate of Return – For the year ended December 31, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 0.04 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, 2015, are summarized in the following table:

	Long-term Expected Rate of Return
Domestic equity	5.2%
International equity	5.4%
Fixed income	3.7%
Cash	0.8%

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

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

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 Liability of the Township

The components of the net pension liability of the Township at December 31, 2015, were as follows:

Total pension liability	\$12,589,019
Fiduciary net position	<u>(9,178,961)</u>
Net pension liability	<u>\$ 3,410,058</u>
Plan fiduciary net position as a percentage of the total pension liability	72.91%

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, 2014	\$ 11,912,199	\$ 8,835,613	\$ 3,076,586
Changes for the year:			
Service cost	331,689	-	331,689
Interest	874,124	-	874,124
Differences between actual and expected experience	(14,569)	-	(14,569)
Contributions - employer	-	761,497	(761,497)
Contributions - employee	-	92,219	(92,219)
Net investment income	-	4,056	(4,056)
Benefit payments	<u>(514,424)</u>	<u>(514,424)</u>	<u>-</u>
Net Changes	<u>676,820</u>	<u>343,348</u>	<u>334,472</u>
Balance at December 31, 2015	<u>\$ 12,589,019</u>	<u>\$ 9,178,961</u>	<u>\$ 3,410,058</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	\$ 5,024,261	\$ 3,410,058	\$ 2,068,268

Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions – For the year ended December 31, 2015, the Township recognized pension expense of \$200,592. As of year end, the Township reported deferred outflows and inflows related to the plan as follows:

	Deferred Outflows	Deferred Inflows
Differences between actual and expected experience	\$ -	\$ 10,775
Difference between actual and projected investment returns	544,839	-
Total Deferred Outflows and Inflows	\$ 544,839	\$ 10,775

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

Year Ended December 31,	
2016	\$ 132,416
2017	132,416
2018	133,023
2019	136,209
	\$ 534,064

LOWER GWYNEDD TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

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

Actuarial Assumptions – The total pension liability as of December 31, 2015 was projected from the actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	8 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, 2015, 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 11 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, 2015, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	10
Inactive plan members entitled to but not receiving benefits	9
Active plan members	16
Total covered employees	<u>35</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.

The MMO obligation for the plan was \$210,654 for 2015. Contributions of \$170,475 and \$90,179 were made by the Township and the Commonwealth, respectively.

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, 2015:

	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, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 0.08 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, 2015 (see the plan's investment policy), are summarized in the following table:

	Long-term Expected Rate of Return
Domestic equity	5.2%
International equity	5.4%
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 Liability of the Township

The components of the net pension liability of the Township at December 31, 2015, were as follows:

Total pension liability	\$ 4,412,370
Fiduciary net position	(4,025,066)
Net pension liability	\$ 387,304
Plan fiduciary net position as a percentage of the total pension liability	91.22%

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 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, 2014	\$ 4,014,025	\$ 3,871,613	\$ 142,412
Changes for the year:			
Service cost	145,184	-	145,184
Interest	296,908	-	296,908
Differences between actual and expected experience	66,752	-	66,752
Contributions - employer	-	260,654	(260,654)
Net investment income	-	3,298	(3,298)
Benefit payments	(110,499)	(110,499)	-
Net Changes	<u>398,345</u>	<u>153,453</u>	<u>244,892</u>
Balance at December 31, 2015	<u>\$ 4,412,370</u>	<u>\$ 4,025,066</u>	<u>\$ 387,304</u>

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:

	<u>1% Decrease 6.50%</u>	<u>Current Rate Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Net pension liability	\$ 947,901	\$ 387,304	\$ (88,529)

Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions – For the year ended December 31, 2015, the Township recognized pension expense of \$45,857. As of year end, the Township reported deferred outflows and inflows related to the plan as follows:

	<u>Deferred Outflows</u>
Differences between actual and expected experience	\$ 55,243
Difference between actual and projected investment returns	<u>235,506</u>
Total Deferred Outflows	<u>\$ 290,749</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,	
2016	\$ 70,385
2017	70,385
2018	70,385
2019	70,385
2020	9,209
	\$ 290,749

Actuarial Assumptions - The total pension liability as of December 31, 2015 was projected from the actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Methods and Significant Assumptions	
Valuation date	January 1, 2015
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	5.00%
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

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

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

administered 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 GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Annual required contribution	\$ 177,693
Interest on OPEB obligation	20,571
Adjustment to annual required contribution	<u>(54,148)</u>
Annual OPEB cost (expense)	144,116
Contributions made	<u>(64,337)</u>
Increase in net OPEB obligation	79,779
Net OPEB obligation, beginning of year	<u>514,283</u>
Net OPEB obligation, end of year	<u>\$ 594,062</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>
2015	\$ 144,116	45%	\$ 594,062
2014	\$ 143,462	115%	\$ 514,283
2013	\$ 123,202	6%	\$ 536,509

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,119,445 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,484,220, and the ratio of the UAAL to the covered payroll was 75.4 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 63, 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, 2014 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 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 six years. The unfunded AAL is being amortized over a 15-year period.

LOWER GWYNEDD TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 11 CONSTRUCTION COMMITMENTS

As of December 31, 2015, the Township had capital projects yet to be completed. The commitments and amounts completed are as follows:

	<u>Project Amount</u>	<u>Completed as of 12/31/15</u>	<u>Commitments</u>
Pedestrian bridge project	\$ 243,463	\$ 72,882	\$ 170,581

In addition, the Township has incurred costs totaling \$111,619 that were not under a formal contract.

NOTE 12 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund incurred expenditures in excess of appropriations in the following amounts for the year ended December 31, 2015:

Public safety	\$ 129,358
---------------	------------

The excess expenditures were funded by savings in other budgeted expenditure line items.

NOTE 13 PRIOR PERIOD RESTATEMENT

As described in Note 1, the Township implemented the requirements of GASB Statement No. 68 and No. 71. In accordance with the adoption of these principles, the Township has decreased its January 1, 2015 net position to record the net pension liability at December 31, 2014. This resulted in a decrease in governmental activities net position of \$3,218,998.

NOTE 14 SUBSEQUENT EVENTS

On December 2, 2015, the Lower Gwynedd Township Municipal Authority Board of Directors approved the termination of activities and dissolution of the Municipal Authority, with all remaining assets and responsibilities to be transferred to and managed by the Township. The dissolution was in progress at year end, and all remaining assets were fully transferred to the Township in early 2016.

The Township has evaluated all subsequent events through June 20, 2016, 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, 2015 and for the two preceding periods:

<u>Year</u>	<u>Average Condition</u>
2013	6.152
2014	6.205
2015	6.256

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>
2011	\$ 584,213	\$ 588,361
2012	651,005	659,353
2013	641,258	440,905
2014	781,660	642,165
2015	858,500	825,164

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

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY		
Service cost	\$ 331,689	\$ 314,398
Interest on total pension liability	874,124	826,356
Differences between expected and actual experience	(14,569)	-
Benefit payments, excluding DROP benefits	<u>(514,424)</u>	<u>(493,278)</u>
Net change in total pension liability	<u>676,820</u>	<u>647,476</u>
Total pension liability, beginning	<u>11,912,199</u>	<u>11,264,723</u>
Total pension liability, ending (a)	<u><u>\$12,589,019</u></u>	<u><u>\$11,912,199</u></u>
FIDUCIARY NET POSITION		
Employer contributions	\$ 761,497	\$ 786,937
Member contributions	92,219	83,418
Investment income of pension investments, net of investment expenses	4,056	462,698
Benefit payments, excluding DROP benefits	<u>(514,424)</u>	<u>(705,817)</u>
Net change in fiduciary net position	<u>343,348</u>	<u>627,236</u>
Fiduciary net position, beginning	<u>8,835,613</u>	<u>8,208,377</u>
Fiduciary net position, ending (b)	<u><u>\$ 9,178,961</u></u>	<u><u>\$ 8,835,613</u></u>
Net pension liability [(a) - (b)]	<u><u>\$ 3,410,058</u></u>	<u><u>\$ 3,076,586</u></u>
Plan fiduciary net position as a percentage of the total pension liability	72.91%	74.17%
Covered payroll	1,844,364	1,668,327
Net pension liability as a percentage of covered payroll	184.89%	184.41%
Annual money-weighted return, net of investment expenses	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,
RELATED RATIOS, AND INVESTMENT RETURNS - NON-UNIFORMED PENSION PLAN**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY		
Service cost	\$ 145,184	\$ 138,271
Interest on total pension liability	296,908	273,329
Differences between expected and actual experience	66,752	-
Benefit payments	<u>(110,499)</u>	<u>(83,931)</u>
Net change in total pension liability	398,345	327,669
Total pension liability, beginning	4,014,025	3,686,356
Total pension liability, ending (a)	<u><u>\$ 4,412,370</u></u>	<u><u>\$ 4,014,025</u></u>
FIDUCIARY NET POSITION		
Employer contributions	\$ 260,654	\$ 307,060
Investment income net of investment expenses	3,298	198,111
Benefit payments, excluding DROP benefits	<u>(110,499)</u>	<u>(83,931)</u>
Net change in fiduciary net position	<u>153,453</u>	<u>421,240</u>
Fiduciary net position, beginning	<u>3,871,613</u>	<u>3,450,373</u>
Fiduciary net position, ending (b)	<u><u>\$ 4,025,066</u></u>	<u><u>\$ 3,871,613</u></u>
Net pension liability [(a) - (b)]	<u><u>\$ 387,304</u></u>	<u><u>\$ 142,412</u></u>
Plan fiduciary net position as a percentage of the total pension liability	91.22%	96.45%
Covered payroll	1,395,263	1,389,910
Net pension liability as a percentage of covered payroll	27.76%	10.25%
Annual money-weighted return, net of investment expenses	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

	2015	2014
Actuarially determined contribution	\$ 711,497	\$ 563,368
Contributions in relation to the actuarially determined contribution	761,497	786,937
Contribution excess	\$ (50,000)	\$ (223,569)
Covered employee payroll	\$ 1,844,364	\$ 1,668,327
Contribution as a percentage of covered employee payroll	41.29%	47.17%

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	8 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

	2015	2014
Actuarially determined contribution	\$ 210,654	\$ 186,797
Contributions in relation to the actuarially determined contribution	260,654	307,060
Contribution excess	\$ (50,000)	\$ (120,263)
Covered employee payroll	\$ 1,395,263	\$ 1,389,910
Contribution as a percentage of covered employee payroll	18.68%	22.09%

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2015
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	5.00%
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)
01/01/2011	\$ -	\$ 847,411	\$ 847,411	0.0%	\$ 1,498,305	56.6%
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%

SUPPLEMENTARY INFORMATION

**LOWER GWYNEDD TOWNSHIP
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Special Revenue Funds							Total	
	Highway Aid Fund	Street Lighting Fund	Fire Protection Fund	Fire Hydrant Fund	Recreation Fund	Traffic Impact Fund	Debt Service Fund		Industrial Compact Fund
ASSETS									
Cash and cash equivalents	\$ 135,606	\$ 23,603	\$ 938	\$ 68,071	\$ 23,398	\$ 844,167	\$ 3,964	\$ 5,233	\$ 1,104,980
Accounts receivable	-	-	-	-	3,482	-	-	-	3,482
Taxes receivable, net	-	51	1,161	236	437	-	3,180	-	5,065
Interest receivable	-	-	-	159	-	559	-	-	718
TOTAL ASSETS	\$ 135,606	\$ 23,654	\$ 2,099	\$ 68,466	\$ 27,317	\$ 844,726	\$ 7,144	\$ 5,233	\$ 1,114,245
LIABILITIES AND FUND BALANCES									
LIABILITIES:									
Accounts payable	\$ -	\$ 737	\$ -	\$ -	\$ 12,867	\$ 128	\$ -	\$ -	\$ 13,732
Due to other funds	-	88	-	-	5,857	6,522	-	-	12,467
TOTAL LIABILITIES	-	825	-	-	18,724	6,650	-	-	26,199
FUND BALANCES:									
Restricted									
Streets and highways	135,606	-	-	-	-	-	-	-	135,606
Street lighting	-	22,829	-	-	-	-	-	-	22,829
Fire protection	-	-	2,099	-	-	-	-	-	2,099
Fire hydrant	-	-	-	68,466	-	-	-	-	68,466
Recreation	-	-	-	-	8,593	-	-	-	8,593
Traffic impact fees	-	-	-	-	-	838,076	-	-	838,076
Debt service	-	-	-	-	-	-	7,144	-	7,144
Industrial compact	-	-	-	-	-	-	-	5,233	5,233
TOTAL FUND BALANCES	135,606	22,829	2,099	68,466	8,593	838,076	7,144	5,233	1,088,046
TOTAL LIABILITIES AND FUND BALANCES	\$ 135,606	\$ 23,654	\$ 2,099	\$ 68,466	\$ 27,317	\$ 844,726	\$ 7,144	\$ 5,233	\$ 1,114,245

LOWER GWYNEDD TOWNSHIP
COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2015

	Non-Uniformed Pension Fund	Police Pension Fund	Other Post- Employment Benefits	Total
ASSETS				
Cash and cash equivalents	\$ 79,293	\$ 191,173	\$ 12,293	\$ 282,759
Investments	3,945,773	8,987,788	217,569	13,151,130
TOTAL ASSETS	\$ 4,025,066	\$ 9,178,961	\$ 229,862	\$ 13,433,889
 LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 533	\$ 533
TOTAL LIABILITIES	-	-	533	533
 NET POSITION				
Restricted for pension benefits	4,025,066	9,178,961	-	13,204,027
Restricted for other post-employment benefits	-	-	229,329	229,329
TOTAL NET POSITION	4,025,066	9,178,961	229,329	13,433,356
TOTAL LIABILITIES AND NET POSITION	\$ 4,025,066	\$ 9,178,961	\$ 229,862	\$ 13,433,889

LOWER GWYNEDD TOWNSHIP
COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Non-Uniformed Pension Fund</u>	<u>Police Pension Fund</u>	<u>Other Post- Employment Benefits</u>	<u>Total</u>
ADDITIONS				
Contributions:				
State aid	\$ 90,179	\$ 125,467	\$ -	\$ 215,646
Employer contribution	170,475	636,030	75,000	881,505
Employee contribution	-	92,219	-	92,219
Total Contributions	<u>260,654</u>	<u>853,716</u>	<u>75,000</u>	<u>1,189,370</u>
Investment Income:				
Net realized/unrealized loss on investments	(83,775)	(196,236)	(3,644)	(283,655)
Interest and dividends	87,073	200,231	3,954	291,258
Net Investment Income	<u>3,298</u>	<u>3,995</u>	<u>310</u>	<u>7,603</u>
TOTAL ADDITIONS	<u>263,952</u>	<u>857,711</u>	<u>75,310</u>	<u>1,196,973</u>
DEDUCTIONS				
Benefits paid	<u>110,499</u>	<u>681,381</u>	<u>11,133</u>	<u>803,013</u>
TOTAL DEDUCTIONS	<u>110,499</u>	<u>681,381</u>	<u>11,133</u>	<u>803,013</u>
CHANGE IN FIDUCIARY NET POSITION	153,453	176,330	64,177	393,960
NET POSITION, BEGINNING OF YEAR	<u>3,871,613</u>	<u>9,002,631</u>	<u>165,152</u>	<u>13,039,396</u>
NET POSITION, END OF YEAR	<u>\$ 4,025,066</u>	<u>\$ 9,178,961</u>	<u>\$ 229,329</u>	<u>\$ 13,433,356</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 20, 2016

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, Spring House, Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Lower Gwynedd Township's basic financial statements, and have issued our report thereon dated June 20, 2016. The financial statements of the blended component unit were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the blended component unit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lower Gwynedd 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 Lower Gwynedd Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Gwynedd 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 Township'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.

Board of Supervisors
Lower Gwynedd Township

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Gwynedd Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and 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