

TOWNSHIP OF LOWER MERION, PENNSYLVANIA
SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

Honorable Township Commissioners
Township of Lower Merion, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Lower Merion, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Lower Merion as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of pension and postemployment benefits funding progress and pension contributions, on pages 3-18, and 68-74, 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.

Other Reporting Required by Government Audit Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of Lower Merion 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Lower Merion Township's 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 Merion Township's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 28, 2018



Management's Discussion and Analysis

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

The following discussion and analysis of the financial statements of the Township of Lower Merion, Pennsylvania (the Township), provides an overview of the financial activities of the Township for the fiscal year ended December 31, 2017. Please read it in conjunction with the transmittal letter, located at the front of this report, the basic financial statements, and the accompanying notes to those statements, which follow this section.

Financial Highlights

- The net position (assets minus liabilities) of the Township as of December 31, 2017 was \$164.3 million. Of this amount, \$146.2 million represents the governmental net position and \$18.1 million represents the business-type net position. Of the total net position, \$34.5 million is unrestricted and is available to meet the Township's ongoing obligations in accordance with the Township's fiscal policies.
- The Township's net position decreased by nearly \$5.7 million or 3.3%. The governmental net position decreased by \$6.8 million and the business-type assets increased by nearly \$1.1 million compared to 2016.
- The total fund balance for governmental funds was \$28.3 million at December 31, 2017, with \$17.5 million in unassigned fund balance.
- The General Fund, the Township's primary operating fund, reported a total surplus of \$1.45 million in fund balance. As of December 31, 2017, the General Fund had a total fund balance of \$21.2 million, of which \$17.6 was unassigned which represented 28.9% of total general fund expenditures and transfers out, for the year ended December 31, 2017.
- The Township's total long-term debt outstanding at December 31, 2017 was \$107.5 million, an increase of \$1.7 million or 1.6% as compared to the fiscal year 2016. The Township's governmental debt was \$89.5 million, a decrease of nearly \$1.0 million or 1.1% as compared to the fiscal year 2016. The Township's business-type debt was \$18.0 million, an increase of \$2.7 million or 17.6% as compared to the fiscal year 2016. The Township issued \$9.805 million of General Obligation Bonds, Series A of 2017 to fund various capital projects in the Township's Capital Improvement Program.
- The Township maintained its AAA bond rating from Moody's and AAA from Standard and Poor's.

Overview of the Comprehensive Annual Financial Report

The Township's financial statements consist of this Management's Discussion and Analysis (MD&A) and the basic financial statements. The MD&A provides analysis and overview of the Township's financial activities. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information as listed in the table of contents, along with statistical tables.

Government-wide Financial Statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements include two statements: a statement of net position and a statement of activities. Fiduciary activities, whose resources are not available to finance Township programs, are excluded from these statements.

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

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

The Statement of Activities presents information showing how the Township's net position changed during the current fiscal year. All revenues and expenses are reported in this statement regardless of the timing of cash flows. The focus of this statement is on the net cost of providing various activities to the citizens of the Township.

Both of these government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, building and planning, public works, libraries and recreation, and community development. The business-type activities of the Township include sanitary sewer and solid waste operations.

The government-wide financial statements can be found on pages 19-20 of this report.

Fund Financial Statements are groupings of related self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. A fund is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds*. The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting; reporting all inflows, outflows, and balances affecting the Township's net position. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. This information is useful in evaluating the Township's near-term financing decisions.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Township maintains four individual governmental funds: general, highway aid, community development and capital projects funds. The general fund and capital projects fund are the Township's major funds and the highway aid fund and community development funds are the Township's nonmajor governmental funds. Information on all four funds is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

The governmental fund financial statements can be found on pages 21-23 of this report.

Proprietary funds are maintained in two manners. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for the sanitary sewer and solid waste operations. *Internal service funds* are used to accumulate and allocate costs internally among the Township's various functions. The Township uses internal service funds to account for equipment (fleet and communications), maintenance and replacement. Because these services

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer fund and solid waste fund, both of which are considered to be major funds of the Township. The Township's internal service fund is presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 24-27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the activities of the Township. The economic resources measurement focus and accrual basis of accounting are used for fiduciary funds, the same that is used for the proprietary funds.

The Township maintains fiduciary funds that cover pension benefits for members of the Township police force and other Township employees and an endowment from which the income is used to maintain the Township's Appleford property. The fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

The fiduciary fund financial statements can be found on pages 28-29 of this report.

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

The notes to the financial statements can be found on pages 30-67 of this report.

Other information, including additional required supplementary information and schedules, can be found immediately following the notes to the financial statements. These include the combining and individual fund statements for the nonmajor governmental funds and the internal service fund, schedules of budget to actual comparisons, pension plan funding schedules and statistical tables.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

Government-Wide Financial Analysis

The following table reflects the Township's comparative Net Position:

	Net Position December 31, 2017					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 75,446,093	\$ 55,333,080	\$ 14,241,745	\$ 12,032,429	\$ 89,687,838	\$ 67,365,509
Capital assets	<u>208,385,749</u>	<u>213,120,548</u>	<u>23,398,007</u>	<u>21,922,937</u>	<u>231,783,756</u>	<u>235,043,485</u>
Total assets	283,831,842	268,453,628	37,639,752	33,955,366	321,471,594	302,408,994
Total deferred outflows of resources	<u>11,780,032</u>	<u>19,084,383</u>	<u>322,546</u>	<u>250,681</u>	<u>12,102,578</u>	<u>19,335,064</u>
Total assets and deferred outflows	<u>\$ 295,611,874</u>	<u>\$ 287,538,011</u>	<u>\$ 37,962,298</u>	<u>\$ 34,206,047</u>	<u>\$ 333,574,172</u>	<u>\$ 321,744,058</u>
Liabilities						
Other liabilities	\$ 23,395,001	\$ 19,813,129	\$ 1,239,218	\$ 1,241,029	\$ 24,634,219	\$ 21,054,158
Long-term liabilities outstanding	<u>112,797,087</u>	<u>112,006,765</u>	<u>18,610,625</u>	<u>15,958,712</u>	<u>131,407,712</u>	<u>127,965,477</u>
Total liabilities	136,192,088	131,819,894	19,849,843	17,199,741	156,041,931	149,019,635
Total deferred inflow of resources	<u>13,249,101</u>	<u>2,757,340</u>	<u>-</u>	<u>-</u>	<u>13,249,101</u>	<u>2,757,340</u>
Total liabilities and deferred inflows	<u>\$ 149,441,189</u>	<u>\$ 134,577,234</u>	<u>\$ 19,849,843</u>	<u>\$ 17,199,741</u>	<u>\$ 169,291,032</u>	<u>\$ 151,776,975</u>
Net Position						
Net investment in capital assets	\$ 123,796,329	\$ 124,534,978	\$ 5,351,267	\$ 6,576,038	\$ 129,147,596	\$ 131,111,016
Restricted for:						
Roadway maintenance/improv.	200	800,054	-	-	200	800,054
Community development	647,201	624,335	-	-	647,201	624,335
Unrestricted	<u>21,726,955</u>	<u>27,001,410</u>	<u>12,761,188</u>	<u>10,430,268</u>	<u>34,488,143</u>	<u>37,431,678</u>
Total net position	<u>146,170,685</u>	<u>152,960,777</u>	<u>18,112,455</u>	<u>17,006,306</u>	<u>164,283,140</u>	<u>169,967,083</u>

The largest portion, \$129.1 million or 78.6% of the Township's total net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This portion of the net position decreased by approximately \$2.0 million or 1.5% from the prior fiscal year.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

An additional portion of the Township's net position (\$0.6 million) represents resources that are subject to external restrictions on how they may be used. The remaining portion of the net position, \$34.5 million or 21.0% of total net position reflects the unrestricted financial position of the Township that may be used to meet the Township's ongoing obligations to citizens and creditors. The following table reflects the Township's comparative Change in Net Position:

	Change in Net Position					
	December 31, 2017					
	Governmental activities		Business-type activities		Total primary government	
	2017	2016	2017	2016	2017	2016
Charges for services	\$ 13,100,260	\$ 11,342,212	\$ 15,243,078	\$ 16,015,658	\$ 28,343,338	\$ 27,357,870
Operating grants and contributions	5,377,534	5,916,680	890,870	337,504	6,268,404	6,254,184
Capital grants and contributions	467,790	1,431,139	-	-	467,790	1,431,139
Real estate taxes	35,829,905	35,237,503	-	-	35,829,905	35,237,503
Mercantile and business privilege taxes	10,411,124	11,210,666	-	-	10,411,124	11,210,666
Local services tax	1,975,287	1,985,253	-	-	1,975,287	1,985,253
Investment earnings	518,179	233,080	68,799	28,336	586,978	261,416
	<u>67,680,079</u>	<u>67,356,533</u>	<u>16,202,747</u>	<u>16,381,498</u>	<u>83,882,826</u>	<u>83,738,031</u>
Total revenues						
General government	12,949,484	12,504,266	-	-	12,949,484	12,504,266
Public safety	31,613,026	32,107,115	-	-	3,119,638	3,328,581
Building and planning	4,278,813	4,701,920	-	-	31,613,026	32,107,115
Public works	9,584,401	9,582,806	-	-	4,278,813	4,701,920
Libraries and recreation	10,317,251	9,687,343	-	-	9,584,401	9,582,806
Community development	845,494	1,102,440	-	-	10,317,251	9,687,343
Interest on long-term debt	3,119,638	3,328,581	-	-	845,494	1,102,440
Sanitary sewer	-	-	7,689,218	7,809,478	7,689,218	7,809,478
Solid waste	-	-	7,475,278	7,366,507	7,475,278	7,366,507
	<u>72,708,107</u>	<u>73,014,471</u>	<u>15,164,496</u>	<u>15,175,985</u>	<u>87,872,603</u>	<u>88,190,456</u>
Total expenses						
Increase in net position before transfers	(5,028,028)	(5,657,938)	1,038,251	1,205,513	(3,989,777)	(4,452,425)
Loss on disposal of assets	(1,679,521)	-	(14,645)	-	(1,694,166)	-
Transfers	(82,543)	237,582	82,543	(237,582)	-	-
	<u>(6,790,092)</u>	<u>(5,420,356)</u>	<u>1,106,149</u>	<u>967,931</u>	<u>(5,683,943)</u>	<u>(4,452,425)</u>
Change in net position						
Net Position – Beginning	<u>152,960,777</u>	<u>158,381,133</u>	<u>17,006,306</u>	<u>16,038,375</u>	<u>169,967,083</u>	<u>174,419,508</u>
Net Position – Ending	<u>\$ 146,170,685</u>	<u>\$ 152,960,777</u>	<u>\$ 18,112,455</u>	<u>\$ 17,006,306</u>	<u>\$ 164,283,140</u>	<u>\$ 169,967,083</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

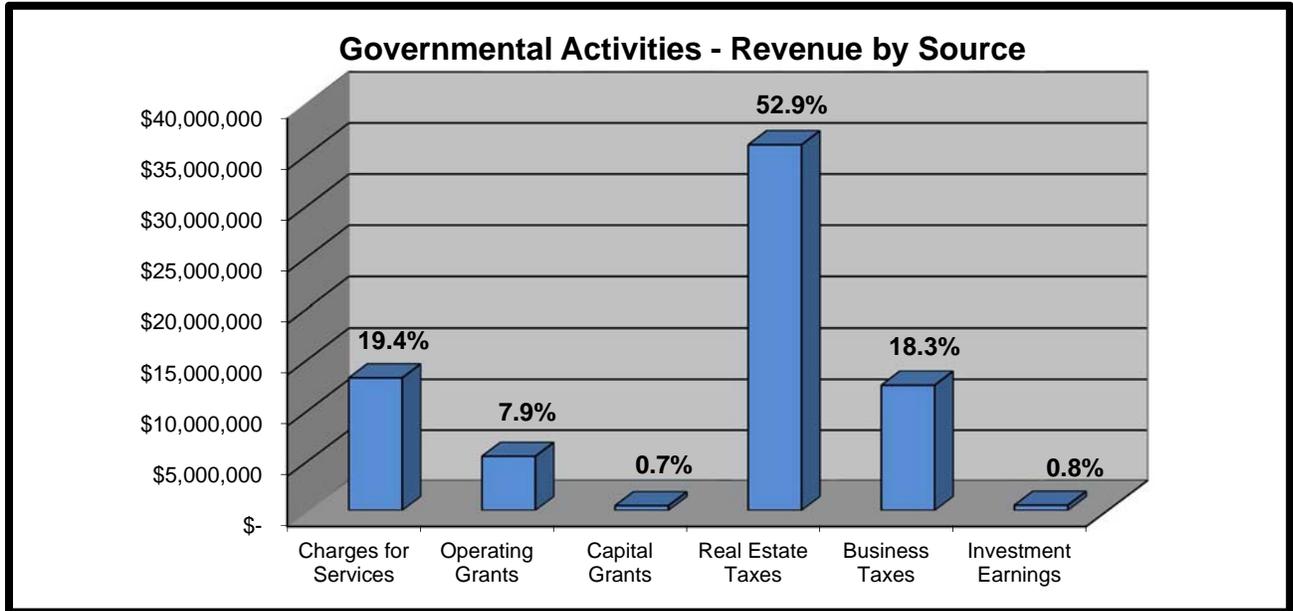
Governmental Activities

Governmental activities decreased the Township's net position by \$6.8 million. Governmental activities are represented by the following funds: General, Capital Projects, Highway Aid, Community Development, and Internal Service Fund (Equipment Fund).

For the fiscal year ended December 31, 2017, revenues from governmental activities totaled \$67.7 million, an increase of \$0.3 million or 0.5% compared to the fiscal year 2016. Tax revenues of \$48.2 million, comprised of property tax, real estate transfer taxes and business privilege taxes, mercantile taxes, and local services taxes represent 71.2% of total revenues. The Township's real estate tax is the primary revenue source with a total taxable real estate assessment base of approximately \$7.568 billion for 2017. In 2017, the Township real estate tax rate was 4.19 mills, unchanged from 2016, and the real estate assessment base increased by \$35.2 million or 0.47% as compared to the fiscal year 2016. Overall, real estate tax revenue from property taxes and real estate transfer taxes increased by 1.7% to \$35.8 million in 2017.

Mercantile and business privilege tax revenue decreased \$0.8 million or 7.1% from \$11.2 million in 2016 to \$10.4 million in 2017. The decrease is primarily attributed to a slight decrease in receipts from annual audits along with a significant one-time business tax refunds paid in 2017. The local services tax revenue generated \$2.0 million, essentially unchanged compared to the prior fiscal year.

As indicated by the following graph, the primary revenue source of the governmental activities is real estate taxes, comprised of 52.9% or \$35.8 million of the total revenues.



TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

Charges for services revenue of \$13.1 million represented 19.4% of the total governmental activities revenue, an increase of \$1.8 million or 15.5% from the fiscal year 2016. The Township's license and permit fee revenue, which has increased in recent years, was again strong. While the Township issued 4,395 building permits in 2017 compared to 4,628 building permits in 2016, the value of the permits issued in 2017 was over \$102 million more than in 2016 which equated to strong license and permit fee revenue. In addition, the Township received \$1.2 million in one-time revenue in this category in 2017.

Operating grants and contributions of \$5.4 million represented 7.9% of the total governmental activities revenue, which is an increase of \$0.5 million or 9.1% from fiscal year 2016. The Township received \$0.7 million in U.S. Department of Housing and Urban Development grant funds, as well as \$1.7 million of highway aid, and approximately \$3.0 million of grants from the Federal Government, Commonwealth of Pennsylvania, and Montgomery County (Pennsylvania) for general government, public safety, and economic and community development. Capital grants and contributions, accounted for \$0.4 million or 0.7% of the total governmental activities revenue in fiscal year 2017.

For the fiscal year ended December 31, 2017, expenses represented by governmental activities include: general government; public safety; building and planning; public works; libraries and recreation; community development; and interest on long-term debt. Expenses for governmental activities totaled \$72.7 million, a decrease of \$0.3 million or 0.4% as compared to the fiscal year 2016.

Public safety accounted for \$31.6 million or 43.5% of these governmental activities and is used to provide police services, including traffic safety and auxiliary services. This also includes fire services and operating contributions to the Township's six volunteer fire companies. These costs decreased \$0.5 million or 1.5% as compared to the prior fiscal year. The decrease is primarily attributed to employee turnover in police which led to periods where staffing was below budgeted levels.

General government accounted for \$12.9 million or 17.8% of these governmental activities and is used to support services for the general administrative operations of the Township. This area covers the Township's finance, human resources, information technology, public information and parking services. These costs increased by nearly \$0.4 million or 3.6% as compared to the prior fiscal year.

Libraries and recreation accounted for \$10.3 million or 14.2% of these governmental activities. These costs increased \$0.6 million or 6.5% as compared to the prior fiscal year driven primarily by increased personnel expenses due to all libraries being open for the majority of 2017. In 2016 one library was closed the vast majority of the year for renovations.

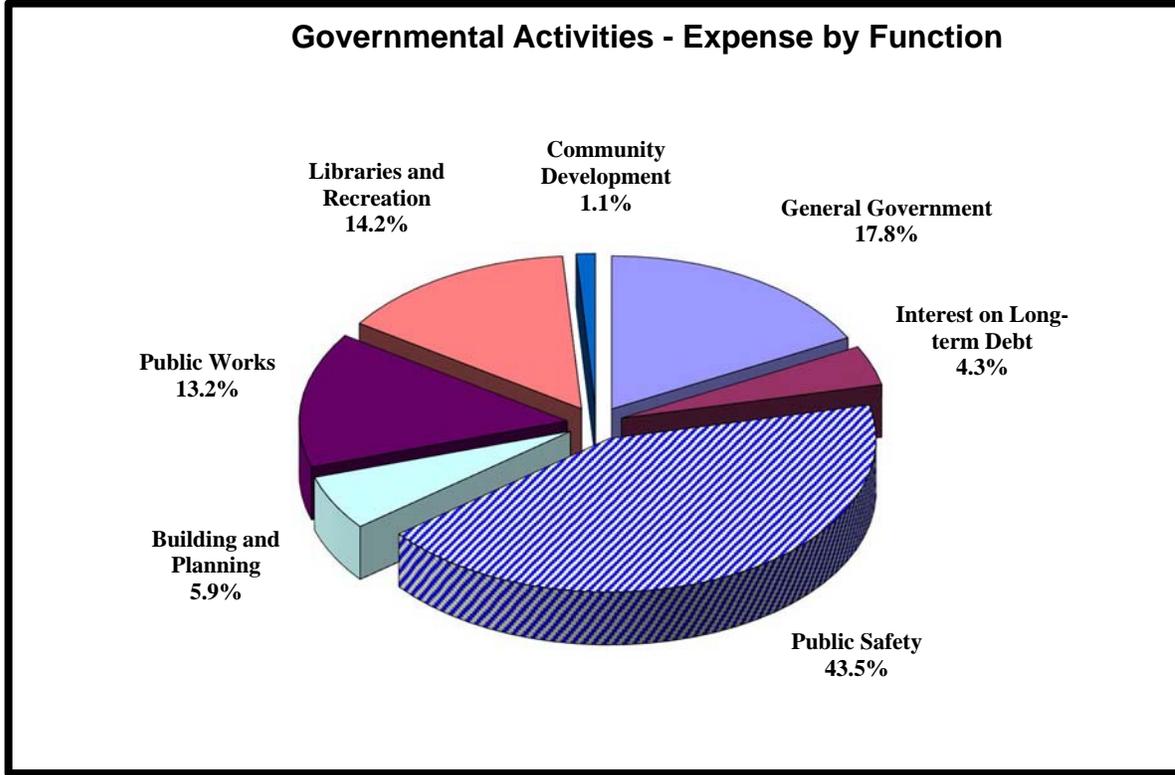
Public works accounted for \$9.6 million or 13.2% of these governmental activities and primarily covers maintenance improvement costs for the roadways, traffic and street lighting, facilities maintenance, and the Township's trees along streets and in the parks. These costs were essentially flat versus the prior fiscal year.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management’s Discussion and Analysis

December 31, 2017

The following graph shows the total expenses by function/program for the governmental activities:



The remaining expenses are comprised of building and planning of \$4.3 million or 5.9% and community development of nearly \$0.9 million or 1.1% of these governmental activities. In 2017, these total expenses decreased \$0.7 million or 11.7% as compared to the prior fiscal year. The decrease was related to less spending in community development combined with lower personnel costs due to employee turnover.

Interest on long-term debt accounted for \$3.1 million or 4.3% of these governmental activities. In 2017, these expenses decreased \$0.2 million or 6.3% as compared to the prior fiscal year due to the Township’s current debt portfolio.

Business-Type Activities

Business-type activities increased the Township’s net position by \$1.1 million, which accounts for a 6.5% increase in business-type activities net position.

For the fiscal year ended December 31, 2017, revenues from business-type activities totaled \$16.2 million, a decrease of \$0.2 million or 1.3% compared to the fiscal year 2016. The decrease was related to one-time settlement revenue in the Solid Waste Fund in 2016. Charges for services account for 94.5% or \$15.2 million of the total revenues. Overall, this revenue source is primarily earned through sanitary sewer rent fees and charges for services of \$8.3 million and solid waste collection fees and charges for services of \$6.9 million. In addition, operating grants and contributions totaled nearly \$0.9 million and there were no capital grants and contributions in 2017.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

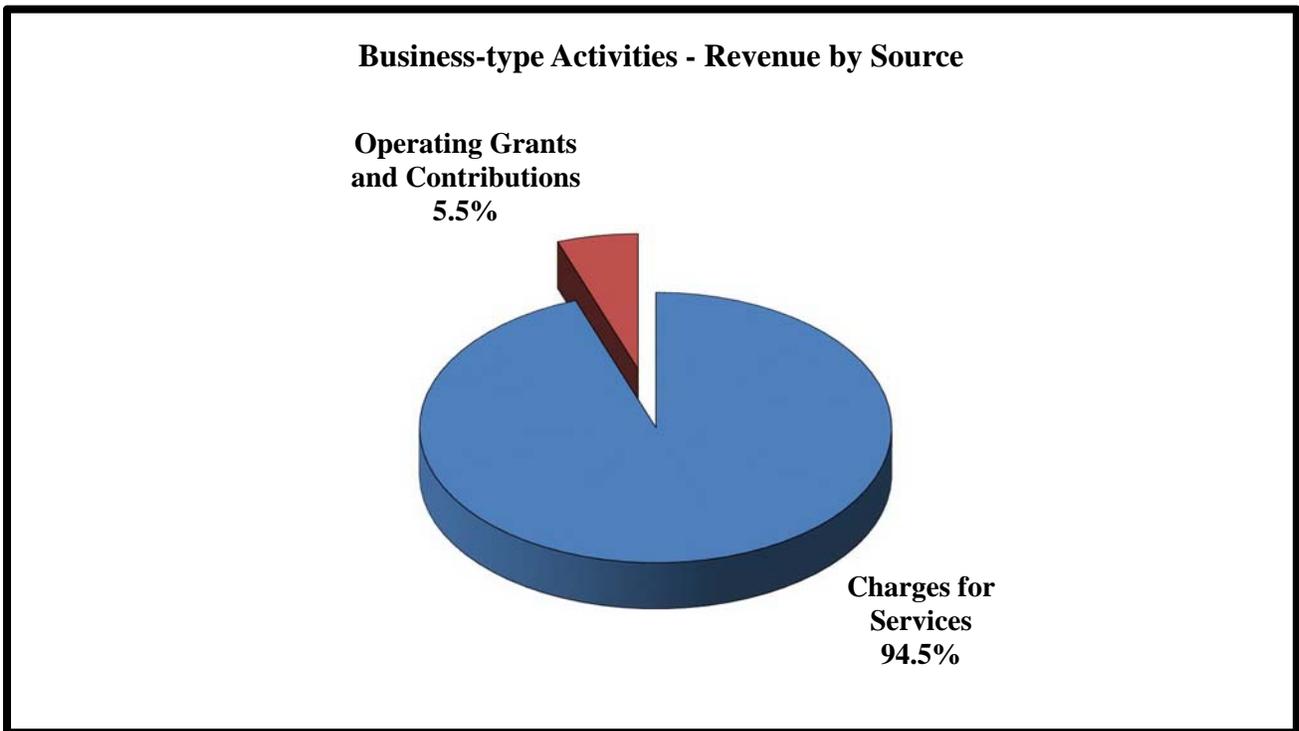
Management’s Discussion and Analysis

December 31, 2017

The Township’s sanitary sewer rent fee is based on water consumption, which fluctuates with annual water usage. In 2017, the Township’s billable water usage increased 3.1% to 1.647 billion gallons from 1.699 billion gallons in 2016. The fund balance in the sanitary sewer fund allowed the Township to keep the same sanitary sewer rental fee of \$4.51 per 1,000 gallons of water used as the previous fiscal year. The 2017 sanitary sewer fund operating revenues of \$8.3 million were nearly \$0.5 million more than the fiscal year 2016 due to a decrease in sewer connection fee payments. The Township’s solid waste fund has operated on a full cost recovery basis since 2010. However, recently the recycling materials resale market has been volatile, creating variable revenue performance of the Township’s mixed paper and increasing costs for the disposal of commingled recyclables. The combination of decreased revenue, higher recycling disposal costs, and flat customer to declining subscriptions has impacted the fund’s financial results. While solid waste fees in 2015 and 2016 remained unchanged, there was a 5% increase passed on all can level fees in 2017. The Township will continue to monitor the fund’s financial condition moving forward.

Operating grants and contributions account for \$0.9 million or 5.5% of the total business-type activities revenue. In the sanitary sewer fund the operating grants and contributions is related to a new sewer pump station that was dedicated to the Township and funds received from the federal government as part of the Township’s Build America Bonds (BABs) subsidy. The operating grant funding in 2017 for the solid waste fund is directly related to the Township’s portion of the annual recycling performance grant funding form the Commonwealth of Pennsylvania. The grant awards are based on the total tons recycled in the previous year and the municipality’s recycling rate.

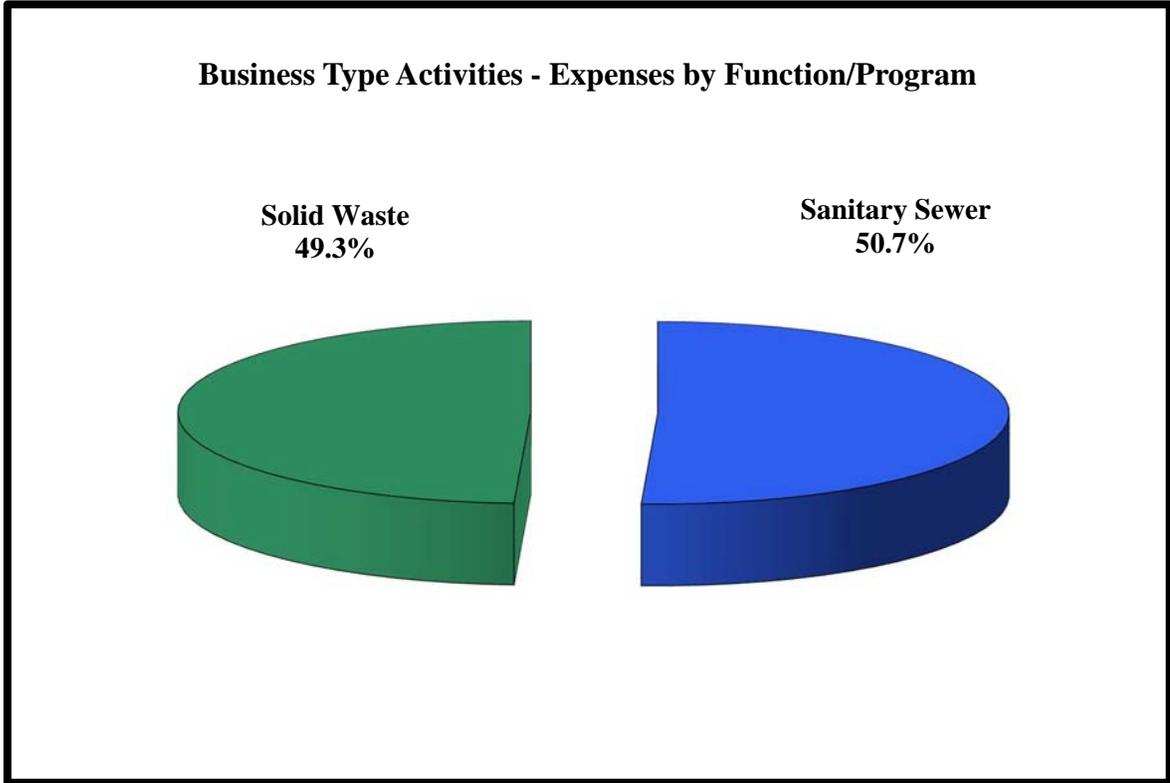
Below are graphs showing the major revenues and expenditures by source for the business-type activities:



TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017



For the fiscal year ended December 31, 2017, expenses for business-type activities totaled \$15.2 million, the same as fiscal year 2016.

The major functions represented by business-type activities are the sanitary sewer of \$7.7 million and solid waste of \$7.5 million. The expenses for sanitary sewer decreased \$0.1 million or 1.5% compared to fiscal year 2016. The Township and the City of Philadelphia have a long-term agreement for disposal and treatment of the Township's wastewater. In 2017, the Township paid approximately \$2.3 million or 30.2% of the total sanitary sewer operating expenses for disposal of wastewater, primarily to the City of Philadelphia. This expense was a minimal increase in 2017 and fluctuates annually with water consumption and weather patterns.

The expenses for solid waste increased \$0.1 million or 1.5% compared to the previous fiscal year. The Township expended approximately \$1.3 million for disposal of refuse and recycling in 2017. This cost represents 17.7% of the total solid waste operating expenditures. Lower Merion historically was a part of the Waste System Authority of Eastern Montgomery County (WSA) for disposal of refuse. However, the WSA was dissolved and terminated. As of January 1, 2015, the responsibility for disposal of solid waste returned to the control of the individual municipalities. The existing obligations of the WSA were transferred to Montgomery County, which was responsible for the winding down of the WSA. In 2016, Lower Merion and Montgomery County reached a settlement to ensure the Township was properly compensated for its past investments in the WSA, which was included in the capital grants and contributions revenue category in 2016.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

Financial Analysis of the Township's Funds

Governmental Funds

The governmental funds are comprised of the general fund, highway aid fund, community development fund, and capital projects fund. The general fund and capital projects fund are the Township's major funds and the highway aid fund and community development funds are the Township's nonmajor governmental funds. The measurement focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance serves as a useful measure of a government's net resources available for spending at the end of the year.

As of December 31, 2017, the Township's governmental funds reported a combined ending fund balance of \$28.3 million, an increase of \$2.1 million or 7.9% from fiscal year 2016. Approximately \$17.5 million or 61.9% of this total amount constitutes unassigned fund balance, which is available to meet the Township's current and future needs. The remainder of fund balance of \$10.8 million or 38.1% is allocated to nonspendable, restricted, committed and assigned fund balance to indicate that it is not available for new spending.

The general fund is a major fund that is the primary operating fund of the Township. As of December 31, 2017, unassigned fund balance of the general fund was \$17.6 million. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 28.9% of total fund expenditures, net of transfers out, for the year ended December 31, 2017.

One of the Township's principal financial policies is to maintain a minimum year-end general fund undesignated fund balance no less than 12% of that year's total general fund operating expenditures. Undesignated fund balance is defined as those financial resources available for spending and therefore not reserved for specific purposes such as encumbrances. Further, the policy includes a goal of the Township to maintain a year-end general fund undesignated fund balance within the range of 15% and 18% of that year's total general fund expenditures. Undesignated general fund balance is defined as those financial resources available for spending and, therefore, not reserved for specific purposes such as encumbrances. In 2017, the Township general fund budget planned for a drawdown of fund balance such that ending fund balance would move closer to the policy goal range. The 2017 general fund budget forecasted a fund balance draw down of \$2.9 million and an ending fund balance of approximately 26.3% of the 2017 expenditures. However, with better than expected revenue and expenditure performance, the general fund's fund balance increased by \$1.45 million to \$21.2 million or 34.8% of the total general fund expenditures, net transfers out.

The capital projects fund is a major fund that is used to account for general obligation bond proceeds, grant revenues, and other revenues. These revenues are utilized by the Township to provide funding for projects, such as equipment, facilities, and infrastructure improvements. In 2017, the Township issued \$9.805 million of General Obligation Bonds, Series A of 2017 to fund various capital projects in the Township's Capital Improvement Program in 2017 and 2018.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

Proprietary Funds

The Township's proprietary funds provide the same type of information found in the government-wide financial statements. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for the sanitary sewer and solid waste operations. *Internal service funds* are used to accumulate and allocate costs internally among the Township's various functions. The Township's equipment fund is the internal service fund to account for equipment (fleet and communications), maintenance and replacement. Please refer to the business-type activities section listed previously for discussion on the activity in the proprietary funds.

The unrestricted net position of the sanitary sewer fund at December 31, 2017 totaled \$12.2 million and \$0.6 million for the solid waste fund. Additionally, the sanitary sewer fund has \$5.4 million of net investment in capital assets.

Unrestricted net position of the Township's equipment fund for the year ended December 31, 2017 totaled \$5.0 million. Additionally, the equipment fund has \$8.8 million of net investment in capital assets. The unrestricted net position of the equipment fund is the source of funding for future replacement of vehicle and communications equipment owned by the Township, which is primarily assigned to the enterprise funds (sanitary sewer and solid waste) and the general fund. Prior to 2010, it was the Township's policy and practice to maintain an equipment replacement reserve close to the accumulated depreciation on all Township vehicles and communication equipment supported by the equipment fund. However, since 2010 the Township reduced only its general fund annual contributions for scheduled equipment replacements by 50%. The Township will continue to monitor the equipment fund closely to ensure its financial stability as the source for scheduled equipment replacements.

General Fund Budgetary Highlights

The Township's adopted 2017 general fund budget included total revenues of \$61.3 million, including transfers in of approximately \$1.0 million and total expenditures and transfers out of \$64.2 million. For the year ended December 31, 2017, the 2017 general fund budget remained unchanged from the adopted amounts.

Financial performance of the general fund in 2017 was positive when compared to budget. Actual revenue and transfers in were higher than budgetary levels by approximately 4.5% or \$2.7 million while the Township expenditures were 2.4% or \$1.5 million lower compared to the budgeted expenditures.

The general fund 2017 budget included a structural imbalance of \$2.9 million; however, positive budgetary performance resulted in operating surplus of \$1.45 million. In 2017, the Township real estate tax rate was 4.19 mills, unchanged from the previous year. Real estate related taxes are the Township's primary source of general fund revenues and represented 56.0% or \$35.9 million of the total revenues, including transfers in during the current fiscal year.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management’s Discussion and Analysis

December 31, 2017

Overall, revenue performance of the general fund in 2017 was positive when compared to budget. Actual revenues, net of transfers in, were approximately \$63.0 million for 2017. The most significant factor in the overall positive revenue performance was a one-time \$1.2 million payment pursuant to a development agreement. Increasing interest rates and higher than anticipated cash balances led to very strong growth in interest income. In addition, licenses and permits were 9.6% or \$0.6 million above budget and real estate taxes were \$0.6 million higher than budgeted due to strong growth in real estate transfer tax.

The Township realized approximately \$1.5 million of expenditure savings, net of transfers out, across all departments which were primarily achieved through reduced personnel costs. These cost reductions were due to a reduction in staffing, savings resulting from employee turnover and less overtime spending than budgeted. Other savings were a result of ongoing cost containment efforts in areas such as professional technical services, contracted services and insurance claims that combined to help the Township control expenses and prudently plan for future financial challenges.

Capital Asset and Debt Administration

Capital Assets

The Township’s investment in capital assets for its governmental and business-type activities as of December 31, 2017 amounted to \$231.8 million (net of accumulated depreciation), a decrease of \$3.3 million or 1.4% over the fiscal year 2016. This investment in capital assets includes land, land improvements, buildings, building improvements, machinery, equipment, infrastructure, and construction in progress.

Major capital asset transactions/events during the year ended December 31, 2017 included the following:

- Renovations to the Gladwyne Library
- Rotomilling and road reconstruction projects of Township roads
- Various park facilities improvements including the renovation of comfort stations, parking lots and bridges throughout the Township
- Projects to maintain the integrity of the Township’s sanitary sewer system including repairs to existing sewer lines, pump station improvements, manhole repairs and projects to limit infiltration and inflow
- Various storm water facilities management projects to continue to resolve identified recurring drainage problems in various specified locations in the Township

**Capital Assets
(Net of Depreciation)**

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 91,136,400	\$ 91,136,400	\$ -	\$ -	\$ 91,136,400	\$ 91,136,400
Land improvements	4,741,946	4,823,495	-	-	4,741,946	4,823,495
Buildings	34,064,660	33,739,803	1,230,953	765,025	35,295,613	34,504,828
Building improvements	8,103,386	8,239,641	-	-	8,103,386	8,239,641
Machinery and equipment	15,796,937	15,218,260	-	-	15,796,937	15,218,260
Infrastructure	40,026,117	43,698,972	21,187,460	20,025,675	61,213,577	63,724,647
Construction in progress	14,516,303	16,263,977	979,594	1,132,237	15,495,897	17,396,214
Total	<u>\$ 208,385,749</u>	<u>\$ 213,120,548</u>	<u>\$ 23,398,007</u>	<u>\$ 21,922,937</u>	<u>\$ 231,783,756</u>	<u>\$ 235,043,485</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management’s Discussion and Analysis

December 31, 2017

Additional information on the Township’s capital assets can be found in note 4 to the financial statements.

Long-Term Debt

As of December 31, 2017, the Township had total bonded debt outstanding of \$107.5 million. The Township’s total debt increased by \$1.7 million or 1.6% due to issuance of new debt and principal payments of existing debt in 2017.

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 89,473,260	\$ 90,453,101	\$ 18,046,740	\$ 15,346,899	\$ 107,520,000	\$ 105,800,000

In 2017, the Township maintained its “AAA” rating from Standard & Poor’s Rating Service and its “Aaa” rating from Moody’s Investors Service. These are the highest ratings attainable from both rating services and reflect the strong financial management, manageable debt levels and stable economy of the Township. The Township’s management practices have consistently been rated strong under Standard and Poor’s Financial Management Assessment (FMA). An FMA of strong indicates that the Township’s practices are strong, well embedded and likely sustainable, which includes policies governing funding, use and replenishment of reserves and conservative approaches to budget formulation. This confirms the rating agencies’ confidence in the Township’s financial management and its economic outlook. The Township is in a select group of only five Townships in the United States that have AAA ratings from the two largest national rating agencies. These ratings mean that the Township’s general obligation bonds are considered excellent investment quality, allowing the Township to borrow at the lowest possible interest rates, which translates to tangible savings.

In 2017, the Township held a competitive bond sale and issued a total \$9,805,000 million of General Obligation (GO) Bonds. Proceeds of the bonds were applied towards funding for the Township’s ongoing Capital Improvement Program.

Additional information on the Township’s long-term debt can be found in Note 6 to the financial statements.

Labor Relations

In 2012, the Township and Fraternal Order of Police (FOP) Lodge 28, which represents 128 police officers, negotiated a four-year (2017 through 2020) labor agreement to replace the previous contract that expired December 31, 2016. The new agreement includes annual wage increases of 3.75% and revises active and retired employees’ medical and prescription plans, reduces the number of plans as well as other contractual changes. 2017 annual base wage increase for uniformed nonmanagement police officers was 3.75%. Police management employees received the same percentage wage increase in 2017. In 2018 uniformed nonmanagement police officers received an annual base wage increase of 3.75%. The 2018 adopted budget contained a 3.5% increase for Police management employees.

In 2016, the Township and the Workers Association (WA), which includes 220 nonuniformed workers, negotiated a four-year (2016 through 2019) labor agreement to replace the previous contract that expired on December 31, 2015. The contract includes wage increases of 12% over the four-year term as well as revisions to active and retired employees’ medical and prescription plans, modifications to sick leave for new employees and other contractual changes. The 2017 annual base wage increase for WA employees was 2.75% beginning on January 1, 2017. The 2017 annual base wage increase for WA employees is 3.25% beginning on January 1, 2018.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management’s Discussion and Analysis

December 31, 2017

All other nonuniform noncontractual employees (including management and all other nonunion employees) were granted a 2.75% base wage increase in 2017. In addition, the 2018 adopted budget included a base wage increase of 3.25% for these employees.

Economic Factors and Fiscal Year 2018 Budget

The Township’s December 2017 unemployment rate was 2.7%, which was lower than Montgomery County, and significantly lower than the Philadelphia Metropolitan area, the state and nation. Lower Merion’s unemployment rate declined slightly from the December 2016 rate of 2.9% which again was lower than regional, state and national unemployment levels.

Year	United States	Pennsylvania	Philadelphia Metropolitan Area	Montgomery County	Township of Lower Merion
December 2016	4.7%	5.3%	4.4%	3.6%	2.9%
December 2017	4.1%	4.8%	4.2%	3.3%	2.7%

Note: All unemployment statistics are not seasonally adjusted

Highlights of the Township’s 2018 budget include:

- The Township’s real estate tax millage rate remained unchanged for 2018.
- The 2018 solid waste fee structure remained unchanged from the 2017 rates.
- In 2018, the sanitary sewer rental rate was projected to remain unchanged at \$4.51 per 1,000 gallons of water used.
- The 2018 general fund revenue budget is \$62.2 million, which is \$0.9 million or 1.6% higher as compared to the 2017 budget.
- The 2018 general fund expenditure budget is \$65.4 million, which is \$1.3 million or 2.0% higher as compared to the 2017 budget.
- The 2018 general fund budget expenditures exceed revenue by \$3.2 million, requiring a planned budgeted drawdown of fund balance.
- The 2018 general fund budget projects an ending fund balance (undesignated) of \$15.5 million or 23.7% of 2018 budgeted expenditures
- The Township’s budgeted full time equivalent (FTE) personnel levels decreased from the 2017 budget level of 473.0 to 470.3 in 2018.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Management's Discussion and Analysis

December 31, 2017

Highlights of the Township's Capital Improvement Program 2018-2023 include:

Proposed capital improvements, in the aggregate principal amount of approximately \$211.4 million for projects over the six-year period including those funded from the Township general obligation bond proceeds and Federal/State/County Grants and private development funds, are as follows:

- Reconstruction of roads and bridges throughout the Township
- Implementation of the Ardmore Transit Center project including the development of the Cricket Lot and the Ardmore Train Station
- Development of City Avenue Transportation Service Area Improvement Program
- Projects that will evaluate and improve traffic flow, complete intersection improvements and further enhance pedestrian mobility
- Reconstruction of the Belmont Hills Library
- Construction of storm water management systems
- Performance of inflow and infiltration storm water maintenance
- Extension and replacement of sanitary sewer lines
- Upgrading of the parks, trails and recreation facilities
- Replacement of fire apparatus and provide major repairs and renovations to the Township volunteer fire stations

Contacting the Township's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the financial resources it receives. Questions concerning this report or requests for additional financial information should be directed to Eric M. Traub, Chief Financial Officer, Township of Lower Merion, 75 East Lancaster Avenue, Ardmore, Pennsylvania 19003, telephone (610) 645-6139, or visit the Township's web site at www.lowermerion.org.



Basic Financial Statements



Government-Wide Financial Statements

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Net Position

December 31, 2017

Assets and Deferred Outflows of Resources:	Primary government		
	Governmental activities	Business-type activities	Total
Assets:			
Cash and cash equivalents	\$ 12,996,648	\$ 947,447	\$ 13,944,095
Investments	40,021,224	5,878,860	45,900,084
Taxes receivable, net	569,234	-	569,234
Accounts receivable, net	2,457,714	2,519,922	4,977,636
Loans receivable	1,026,968	-	1,026,968
Special assessment receivable, net	-	339,958	339,958
Grants receivable	92,628	237,204	329,832
Internal balances	20,149	(20,149)	-
Other assets	42,156	22,771	64,927
Net pension asset	18,219,372	-	18,219,372
Prepaid sewer services, net	-	4,315,732	4,315,732
Capital assets not being depreciated:			
Land	91,136,400	-	91,136,400
Construction in progress	14,516,303	979,594	15,495,897
Capital assets, net of accumulated depreciation:			
Land improvements	4,741,946	-	4,741,946
Buildings	34,064,660	1,230,953	35,295,613
Building improvements	8,103,386	-	8,103,386
Machinery and equipment	15,796,937	-	15,796,937
Infrastructure	40,026,117	21,187,460	61,213,577
Total assets	283,831,842	37,639,752	321,471,594
Deferred outflows of resources:			
Deferred outflows related to pensions	9,844,624	-	9,844,624
Deferred charges on refunding	1,935,408	322,546	2,257,954
Total deferred outflows of resources	11,780,032	322,546	12,102,578
Total assets and deferred outflows of resources	295,611,874	37,962,298	333,574,172
 Liabilities, Deferred Inflows of Resources, and Net Position:			
Liabilities:			
Accounts payable and accrued expenses	2,907,983	830,238	3,738,221
Interest payable	1,299,412	243,762	1,543,174
Escrow deposits	17,502,206	-	17,502,206
Unearned revenue	1,685,400	165,218	1,850,618
Noncurrent liabilities:			
Unfunded other post employment benefits obligation	17,763,909	-	17,763,909
Pollution remediation obligation	172,200	-	172,200
Due within one year	8,169,853	1,407,566	9,577,419
Due in more than one year	86,691,125	17,203,059	103,894,184
Total liabilities	136,192,088	19,849,843	156,041,931
 Deferred inflows of resources:			
Deferred inflows related to pensions	13,249,101	-	13,249,101
Total liabilities and deferred inflows of resources	149,441,189	19,849,843	169,291,032
 Net position:			
Net investment in capital assets	123,796,329	5,351,267	129,147,596
Restricted for:			
Roadway maintenance/improvements	200	-	200
Community development	647,201	-	647,201
Unrestricted	21,726,955	12,761,188	34,488,143
Total net position	\$ 146,170,685	\$ 18,112,455	\$ 164,283,140

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Activities

Year ended December 31, 2017

Functions/programs	Expenses	Program revenues			Net (expenses) revenues and changes in net assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 12,949,484	\$ 6,275,685	\$ 286,008	\$ -	\$ (6,387,791)	\$ -	\$ (6,387,791)
Public safety	31,613,026	699,062	1,871,942	-	(29,042,022)	-	(29,042,022)
Building and planning	4,278,813	4,186,154	162,580	-	69,921	-	69,921
Public works	9,584,401	898,178	2,025,924	417,326	(6,242,973)	-	(6,242,973)
Libraries and recreation	10,317,251	883,847	320,286	50,464	(9,062,654)	-	(9,062,654)
Community development	845,494	157,334	710,794	-	22,634	-	22,634
Interest on long-term debt	3,119,638	-	-	-	(3,119,638)	-	(3,119,638)
Total governmental activities	<u>72,708,107</u>	<u>13,100,260</u>	<u>5,377,534</u>	<u>467,790</u>	<u>(53,762,523)</u>	<u>-</u>	<u>(53,762,523)</u>
Business-type activities:							
Sanitary sewer	7,689,218	8,315,373	635,962	-	-	1,262,117	1,262,117
Solid waste	7,475,278	6,927,705	254,908	-	-	(292,665)	(292,665)
Total business-type activities	<u>15,164,496</u>	<u>15,243,078</u>	<u>890,870</u>	<u>-</u>	<u>-</u>	<u>969,452</u>	<u>969,452</u>
Total	<u>\$ 87,872,603</u>	<u>\$ 28,343,338</u>	<u>\$ 6,268,404</u>	<u>\$ 467,790</u>	<u>(53,762,523)</u>	<u>969,452</u>	<u>(52,793,071)</u>
General revenues:							
Taxes:							
Real estate taxes					35,829,905	-	35,829,905
Mercantile and business privilege taxes					10,411,124	-	10,411,124
Local services tax					1,975,287	-	1,975,287
Interest income					518,179	68,799	586,978
Loss on disposal of assets					(1,679,521)	(14,645)	(1,694,166)
Transfers					(82,543)	82,543	-
Total general revenues and transfers					<u>46,972,431</u>	<u>136,697</u>	<u>47,109,128</u>
Change in net position					(6,790,092)	1,106,149	(5,683,943)
Net position, January 1, 2017					<u>152,960,777</u>	<u>17,006,306</u>	<u>169,967,083</u>
Net position, December 31, 2017					<u>\$ 146,170,685</u>	<u>\$ 18,112,455</u>	<u>\$ 164,283,140</u>

See accompanying notes to basic financial statements.



Fund Financial Statements

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Balance Sheets

Governmental Funds

Year ended December 31, 2017

Assets	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 11,203,510	\$ 139,813	\$ 116,349	\$ 11,459,672
Investments	28,952,830	7,562,466	-	36,515,296
Taxes receivable, net	569,234	-	-	569,234
Accounts receivable, net	1,701,814	226,263	500,000	2,428,077
Loan receivable	-	-	1,026,968	1,026,968
Grants receivable	5,874	39,827	46,927	92,628
Due from other funds	115,321	-	-	115,321
Prepaid items	42,156	-	-	42,156
Total assets	\$ 42,590,739	\$ 7,968,369	\$ 1,690,244	\$ 52,249,352
Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)				
Liabilities:				
Accounts payable and accrued expenditures	2,255,435	548,490	15,875	2,819,800
Due to other funds	-	-	95,172	95,172
Escrow deposits	17,259,206	243,000	-	17,502,206
Unearned revenue	547,432	111,000	1,026,968	1,685,400
Estimated claims costs payable	784,257	-	-	784,257
Total liabilities	20,846,330	902,490	1,138,015	22,886,835
Deferred inflows of resources:				
Unavailable revenue	570,161	-	500,000	1,070,161
Total deferred inflows of resources	570,161	-	500,000	1,070,161
Fund balances (deficit):				
Nonspendable:				
Prepaid items	\$ 42,156	\$ -	\$ -	\$ 42,156
Restricted:				
Roadway maintenance/improvements	-	-	200	200
Community development	-	-	147,201	147,201
Committed:				
Capital projects	-	7,065,879	-	7,065,879
Assigned:				
Subsequent year's budget	3,215,914	-	-	3,215,914
General government	322,117	-	-	322,117
Unassigned	17,594,061	-	(95,172)	17,498,889
Total fund balances (deficit)	21,174,248	7,065,879	52,229	28,292,356
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 42,590,739	\$ 7,968,369	\$ 1,690,244	\$ 52,249,352
Total Fund Balances – All Governmental Funds, December 31, 2016				\$ 28,292,356
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.				208,385,749
Net pension asset is not a current financial resource and therefore is not included in the governmental funds.				18,219,372
Deferred outflows and deferred inflows related to the Township's net pension asset are based on the differences between actuarially determined actual and expected investment returns, changes in assumptions and differences between actuarially expected and actual experience:				
Deferred outflow related to pensions				9,844,624
Deferred inflow related to pensions				(13,249,101)
Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.				1,070,161
Excess reacquisition cost of refunded bonds is a deferred outflow of resources, which is not recognized in the current period, and therefore not reported in the fund statements.				1,935,408
Internal service funds are used by management to charge the costs of equipment and self-insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.				4,984,358
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:				
Interest payable				(1,299,412)
Long-term portion of claims payable				(1,339,939)
Unfunded other postemployment benefits obligation				(17,763,909)
Pollution remediation obligation				(172,200)
Long-term debt, net				(92,736,782)
Net position of governmental activities				\$ 146,170,685

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Governmental Funds

Year ended December 31, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Real estate taxes	\$ 35,894,268	\$ -	\$ -	\$ 35,894,268
Licenses and permits	6,680,814	-	-	6,680,814
Business and other taxes	12,386,411	-	-	12,386,411
Fines, forfeits, and costs	994,184	-	-	994,184
Interest income	421,457	33,117	19,894	474,468
Grants and gifts	180,956	467,790	5,353,909	6,002,655
Departmental earnings	2,729,021	-	-	2,729,021
Other	2,019,395	519,510	-	2,538,905
	61,306,506	1,020,417	5,373,803	67,700,726
Expenditures:				
Current:				
General government	5,606,906	139,036	-	5,745,942
Public safety	25,432,256	1,428,997	2,785,181	29,646,434
Building and planning	3,957,127	-	-	3,957,127
Public works	8,011,963	-	-	8,011,963
Libraries and recreation	7,833,172	359,529	-	8,192,701
Community development	-	-	845,494	845,494
Debt service:				
Principal	6,862,841	-	-	6,862,841
Interest	3,161,992	-	-	3,161,992
Bond issuance costs	-	75,129	-	75,129
Capital lease	-	309,366	-	309,366
Capital outlays	-	5,032,633	-	5,032,633
	60,866,257	7,344,690	3,630,675	71,841,622
Excess (deficiency) of revenues over (under) expenditures	440,249	(6,324,273)	1,743,128	(4,140,896)
Other financing sources (uses), including transfers				
Transfers in	1,095,429	1,432,695	-	2,528,124
Transfers out	(82,543)	-	(2,528,124)	(2,610,667)
Capital lease financing	-	309,366	-	309,366
Issuance of debt	-	5,883,000	-	5,883,000
Bond premium	-	114,555	-	114,555
	1,012,886	7,739,616	(2,528,124)	6,224,378
Net change in fund balances	1,453,135	1,415,343	(784,996)	2,083,482
Fund balances (deficit) – beginning of period	19,721,113	5,650,536	837,225	26,208,874
Fund balances (deficit)– end of period	\$ 21,174,248	\$ 7,065,879	\$ 52,229	\$ 28,292,356

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Reconciliation of the Statement of Revenues, Expenditures, and

Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities

Year ended December 31, 2017

Net change in fund balance – total governmental funds	\$ 2,083,482
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation of \$9,809,386 exceeded capital outlays of \$5,498,909.	(4,310,477)
This is the net amount of capital assets written off in the current year	(1,679,521)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds until they are available	(64,363)
Changes in net pension asset, net of related deferred outflows and deferred inflows are not reported in the funds	(1,629,816)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of deferred gain or loss, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Bond proceeds	(5,883,000)
Debt principal payments	6,862,841
Net change in bond premiums, discounts and deferred gain or loss	23,962
Capital lease principal payments	34,374
	1,038,177
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds:	
Decrease in accrued interest expense	42,355
Increase in long-term portion of claims payable	(227,249)
Decrease in pollution remediation obligation	30,000
Increase in net other post employment benefits obligations	(1,496,872)
	(1,651,766)
Internal service fund used by management to charge the costs of equipment and self-insurance to the individual funds. The net income or expense of the internal service funds, including \$2,039,840 of depreciation, is reported with governmental funds	(575,808)
Change in net position of governmental activities	\$ (6,790,092)

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Net Position

Proprietary Funds

December 31, 2017

Assets and Deferred Outflows of Resources:	Business-type activities – enterprise funds			Internal Service
	Sanitary Sewer Fund	Solid Waste Fund	Total	Fund – Equipment Fund
Current assets:				
Cash and cash equivalents	\$ 882,020	\$ 65,427	\$ 947,447	\$ 1,536,976
Investments	5,878,860	-	5,878,860	3,505,928
Accrued interest receivable	22,089	-	22,089	6,809
Accounts receivable, net	796,324	271,572	1,067,896	21,742
Special assessment receivable, net	46,946	-	46,946	-
Grants receivable	1,468	235,736	237,204	-
Prepaid Insurance	-	682	682	-
Total current assets	7,627,707	573,417	8,201,124	5,071,455
Noncurrent assets:				
Accounts receivable, net	1,268,420	183,606	1,452,026	1,086
Special assessment receivable, net	293,012	-	293,012	-
Prepaid sewer services, net	4,315,732	-	4,315,732	-
Capital assets:				
Land and construction in progress	979,594	-	979,594	-
Depreciable infrastructure, buildings, machinery, and equipment, net of accumulated depreciation	22,418,413	-	22,418,413	8,762,487
Total noncurrent assets	29,275,171	183,606	29,458,777	8,763,573
Total assets	36,902,878	757,023	37,659,901	13,835,028
Deferred outflows of resources:				
Excess reacquisition cost of refunded bonds	322,546	-	322,546	-
Total assets and deferred outflows of resources	37,225,424	757,023	37,982,447	13,835,028
Liabilities, Deferred Inflows of Resources, and Net Position:				
Current liabilities:				
Accounts payable and accrued expenses	647,019	183,220	830,239	88,183
Interest payable	243,762	-	243,762	-
Due to other funds	20,149	-	20,149	-
Unearned revenue	14,060	-	14,060	-
Current portion of long-term debt	1,345,803	-	1,345,803	-
Total current liabilities	2,270,793	183,220	2,454,013	88,183
Noncurrent liabilities:				
Unearned revenue	151,158	-	151,158	-
Long-term portion of long-term debt, net	17,264,821	-	17,264,821	-
Total noncurrent liabilities	17,415,979	-	17,415,979	-
Total liabilities	19,686,772	183,220	19,869,992	88,183
Net Position				
Net position:				
Net investment in capital assets	5,351,267	-	5,351,267	8,762,487
Unrestricted	12,187,385	573,803	12,761,188	4,984,358
Total net position	\$ 17,538,652	\$ 573,803	\$ 18,112,455	\$ 13,746,845

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

Year ended December 31, 2017

	Business-type activities – enterprise funds			Internal Service Fund – Equipment Fund
	Sanitary	Solid Waste	Total	
	Sewer Fund	Fund		
Operating revenues:				
Charges and fees	\$ 8,314,873	\$ 6,927,705	\$ 15,242,578	\$ -
Rentals	-	-	-	3,465,054
Other	500	-	500	-
Total operating revenues	<u>8,315,373</u>	<u>6,927,705</u>	<u>15,243,078</u>	<u>3,465,054</u>
Operating expenses:				
Salaries and wages	1,299,975	2,890,012	4,189,987	601,396
Employee benefits	542,618	1,242,637	1,785,255	249,789
Utilities, supplies, and other	3,946,584	3,342,629	7,289,213	1,334,998
Depreciation and amortization	1,284,678	-	1,284,678	2,039,840
Total operating expenses	<u>7,073,855</u>	<u>7,475,278</u>	<u>14,549,133</u>	<u>4,226,023</u>
Operating income (loss)	<u>1,241,518</u>	<u>(547,573)</u>	<u>693,945</u>	<u>(760,969)</u>
Nonoperating revenues and expenses:				
Intergovernmental	635,962	254,908	890,870	-
Settlements	-	-	-	-
Interest expense	(565,278)	-	(565,278)	-
Interest income	49,291	19,508	68,799	43,711
Bond issuance costs	(50,085)	-	(50,085)	-
Gain (Loss) on disposal of capital assets	(14,645)	-	(14,645)	141,450
Total nonoperating revenues and expenses	<u>55,245</u>	<u>274,416</u>	<u>329,661</u>	<u>185,161</u>
Income before contributions and operating transfers	1,296,763	(273,157)	1,023,606	(575,808)
Transfers				
Transfers in	-	82,543	82,543	-
Transfers out	-	-	-	-
Total transfers	<u>-</u>	<u>82,543</u>	<u>82,543</u>	<u>-</u>
Change in net position	1,296,763	(190,614)	1,106,149	(575,808)
Net Position:				
Net position, January 1	<u>16,241,889</u>	<u>764,417</u>	<u>17,006,306</u>	<u>14,322,653</u>
Net position, December 31	<u>\$ 17,538,652</u>	<u>\$ 573,803</u>	<u>\$ 18,112,455</u>	<u>\$ 13,746,845</u>

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Cash Flows

Proprietary Funds

Year ended December 31, 2017

	Business-type activities – enterprise funds			Internal Service
	Sanitary Sewer Fund	Solid Waste Fund	Total	Fund – Equipment Fund
Cash flows from operating activities:				
Receipts from customers	\$ 8,611,375	\$ 6,971,103	\$ 15,582,478	\$ 3,601,083
Payments to suppliers	(3,931,095)	(2,709,417)	(6,640,512)	(1,439,997)
Payments to employees	(1,843,339)	(4,135,801)	(5,979,140)	(850,961)
Payments for interfund services used	(288,728)	(890,386)	(1,179,114)	-
Net cash provided by (used in) operating activities	<u>2,548,213</u>	<u>(764,501)</u>	<u>1,783,712</u>	<u>1,310,125</u>
Cash flows from noncapital financing activities:				
Intergovernmental	635,962	277,067	913,029	-
Transfer from other funds	-	82,543	82,543	-
Transfer to other funds	-	-	-	-
Net cash provided by noncapital financing activities	<u>635,962</u>	<u>359,610</u>	<u>995,572</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Proceeds from capital debt	3,998,370	-	3,998,370	-
Purchases of capital assets	(2,489,856)	-	(2,489,856)	(2,985,672)
Acquisition of sewer treatment plant capacity	-	-	-	-
Principal paid on capital debt	(1,222,159)	-	(1,222,159)	-
Bond issuance costs	(50,085)	-	(50,085)	-
Interest paid on capital debt	(547,005)	-	(547,005)	-
Payments to refunded bond escrow agent	-	-	-	-
Proceeds from settlements	-	-	-	-
Proceeds from sale of capital assets	-	-	-	141,450
Net cash used in capital and related financing activities	<u>(310,735)</u>	<u>-</u>	<u>(310,735)</u>	<u>(2,844,222)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	10,586,906	5,100,000	15,686,906	8,067,895
Purchase of investments	(13,665,566)	(4,650,000)	(18,315,566)	(6,029,057)
Interest and dividends received	34,610	20,318	54,928	44,906
Net cash provided by (used in) investing activities	<u>(3,044,050)</u>	<u>470,318</u>	<u>(2,573,732)</u>	<u>2,083,744</u>
Net decrease in cash and cash equivalents	(170,610)	65,427	(105,183)	549,647
Cash and cash equivalents, January 1	<u>1,052,630</u>	<u>-</u>	<u>1,052,630</u>	<u>987,329</u>
Cash and cash equivalents, December 31	<u>\$ 882,020</u>	<u>\$ 65,427</u>	<u>\$ 947,447</u>	<u>\$ 1,536,976</u>

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Cash Flows (Continued)

Proprietary Funds

Year ended December 31, 2017

	Business-type activities – enterprise funds			Internal Service
	Sanitary Sewer Fund	Solid Waste Fund	Total	Fund – Equipment Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,241,518	\$ (547,573)	\$ 693,945	\$ (760,969)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,284,678	-	1,284,678	2,039,840
Effect of changes in operating assets and liabilities:				
Accounts receivable	296,783	43,398	340,181	136,029
Other assets	-	-	-	-
Accounts payable and accrued expenses	59,607	(30,472)	29,135	(104,775)
Deferred revenue	(781)	(50,000)	(50,781)	-
Due to other funds	(333,592)	(179,854)	(513,446)	-
Total adjustments	1,306,695	(216,928)	1,089,767	2,071,094
Net cash provided by (used in) operating activities	\$ 2,548,213	\$ (764,501)	\$ 1,783,712	\$ 1,310,125

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2017

Assets	Pension Trust Funds	Appleford Private- Purpose Trust Fund
Cash and cash equivalents	\$ 384,623	\$ 101,000
Investments:		
Bond mutual funds	73,844,203	-
Equity mutual funds	146,387,042	-
Accrued income	35	-
Total assets	<u>220,615,903</u>	<u>101,000</u>
Liabilities		
Accounts payable and accrued expenses	<u>66,483</u>	<u>-</u>
Net Position		
Net Position:		
Restricted for pensions	220,549,420	-
Held in trust for Appleford property	<u>-</u>	<u>101,000</u>
Total net position	<u>\$ 220,549,420</u>	<u>\$ 101,000</u>

See accompanying notes to basic financial statements.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year ended December 31, 2017

	Pension Trust Funds	Appleford Private- Purpose Trust Fund
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Commonwealth of Pennsylvania allocation	\$ 2,066,280	\$ -
Employee contributions	596,805	-
Other contributions	21,604	-
Total contributions	<u>2,684,689</u>	<u>-</u>
Investment return:		
Interest and dividends	4,056,900	-
Gain on investments	27,769,725	-
Total investment return	<u>31,826,625</u>	<u>-</u>
Less investment expenses	<u>(40,590)</u>	<u>-</u>
Net investment return	<u>31,786,035</u>	<u>-</u>
Total additions	<u>34,470,724</u>	<u>-</u>
Deductions:		
Benefits paid	8,214,363	-
Administrative expenses	130,628	-
Total deductions	<u>8,344,991</u>	<u>-</u>
Change in net position	26,125,733	-
Net position – beginning of the year	<u>194,423,687</u>	<u>101,000</u>
Net position – end of the year	<u>\$ 220,549,420</u>	<u>\$ 101,000</u>

See accompanying notes to basic financial statements.



Notes to Basic Financial Statements

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the Township of Lower Merion (the Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) *Financial Reporting Entity*

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the Township, which is a primary government, has evaluated all related entities for possible inclusion in the financial reporting entity. Consistent with the guidance contained in GASB Statement No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the criteria used by the Township to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

(b) *Government-Wide and Fund Financial Statements*

The government-wide financial statements (the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

For this purpose, the Township considers tax revenues to be available if collected within 60 days of year-end, and if collected within 90 days of year-end for all other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences, other postemployment benefits, and workers' compensation claims, are recorded when payment is due. The Township accrues the debt service expenditures and workers compensation claims in the entity wide statements.

Taxes, grants, fees, interest income, and various intergovernmental revenues associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township. Revenue related to expenditure-driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Township reports the following major governmental funds:

The *general fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects* fund is used to account for major capital expenditures, which include the maintenance and preservation of infrastructure as well as the acquisition of machinery and equipment, land, land improvements, and buildings, not financed by the internal service funds or enterprise funds.

The Township reports the following major proprietary funds:

The *sanitary sewer fund* provides sanitary sewer services to Township residents.

The *solid waste fund* provides waste management services to Township residents.

Proprietary funds are used to account for those activities that are financed and operated in a manner similar to private business enterprises. The cost of providing services on a continuing basis is recovered primarily through user charges.

Additionally, the Township reports the following additional funds:

The *Internal service fund* accounts for the financing of services provided by a centralized department to other departments on a cost-reimbursement basis. The Township's equipment fund is an internal service fund. The equipment fund is reimbursed by other funds for the use of its vehicles and communications equipment.

The Township received an endowment, the income of which is used to maintain the Appleford property, which is located at the Banks Arboretum. The *private-purpose trust fund* is used to account for resources legally held in trust in which principal and income benefit the Appleford property. All resources of the fund, including earnings on invested resources, may be used to support the activities of the Appleford property. There is no requirement that any portion of these resources be preserved as capital.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

The *pension trust funds* are used to report resources that are required to be held in trust for the members and beneficiaries of the Township's defined benefit plans. The Municipal Police Pension Plan and the Township Employees' Pension Plan are accounted for as pension trust funds.

1. Private-Sector Standards

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements and includes: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

2. Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Township's enterprise operations and various other functions of the Township's governmental operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

3. Program Revenues

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

4. Operating Versus Nonoperating Items

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include salaries, employee benefits, utilities and supplies, depreciation and amortization, and claim payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

5. Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraint placed upon the funds. The levels are as follows:

Nonspendable: This category represents funds that are not in spendable form and includes such items as loans receivable and inventory. As of December 31, 2017, the Township has nonspendable fund balance related to prepaid items.

Restricted: This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. At December 31, 2017, the Township had restrictions through grant agreements and debt covenants as described in the governmental fund balance sheet.

Committed: This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Township Board of Commissioners by resolution. Such a commitment, approved through a Township resolution must be made prior to the end of the fiscal year. Removal of this commitment also requires a resolution. As of December 31, 2017, the Township had committed funds to specific capital projects.

Assigned: This category represents intentions of the Township to use the funds for specific purposes. The authority to make assignments of fund balance may only be made by the Township Board of Commissioners and remains in place until the Board releases the assignments. The assignment cannot exceed the available spendable unassigned fund balance in any particular fund. Assigned fund balances as of December 31, 2017 are described in the governmental fund balance sheet.

Unassigned: This category includes the residual classification for the Township's General Fund and includes all spendable amounts not contained in other classifications. If a governmental fund other than the general fund has nonspendable, restricted, and committed fund balance in excess of total fund balance, the difference is reported as negative unassigned fund balance.

It is the Township's policy to use restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Township's policy is to use funds in the order of the most restrictive to the least restrictive.

The Township's fund balance policy for the General Fund provides for a minimum Unassigned Fund balance of 12% of that year's total General Fund operating expenditures. In addition, it is the goal of the Township to maintain a minimum 15% and a maximum of 18% of the Township's General Fund annual operating expenditures. The Township's fund balance policy also outlines conditions for the use of unassigned fund balance.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

6. Classification of Net Position

The government-wide and proprietary fund financial statements are required to classify net position into three components; (a) net investment in capital assets, (b) restricted, and (c) unrestricted. These classifications are defined as follows:

- Net investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted: This component of net position consists of constraints placed on assets through external restrictions or enabling legislation by the Township Board of Commissioners, reduced by liabilities related to those assets.
- Unrestricted: This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

7. Restricted Resources

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.

8. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value in three levels based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities.

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for assets or liabilities categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Township does not have any investments measured at net asset value (NAV).

9. Governmental Accounting Standards Board (GASB) Pronouncements

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this standard had no impact on the Township's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces the requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The adoption of this standard had no impact on the Township's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to nonprofit corporations for which the primary government is the sole corporate member. The adoption of this standard had no impact on the Township's financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts—or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements—in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The adoption of this standard had no impact on the Township's financial statements.

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In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee contribution requirements. The Township has adopted this standard and incorporated it into the Township's financial statements.

Pending Pronouncements: The Governmental Accounting Standards Board (GASB) has issued the following Statements that could impact the Township's financial statements in future years:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability equal to the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a health care cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The Township is required to adopt Statement No. 75 for its calendar 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Township is required to adopt Statement No. 83 for its calendar 2019 financial statements.

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In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Criteria for identifying fiduciary activities are generally defined as (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement also defines four fiduciary funds that should be reported. The Township is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which is effective for fiscal years beginning after June 17, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The Township is required to adopt Statement No. 85 for its calendar 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which is effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Township is required to adopt Statement No. 86 for its calendar 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Township is required to adopt Statement No. 87 for its calendar 2020 financial statements.

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In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The Township is required to adopt Statement No. 88 for its calendar 2019 financial statements.

Township management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the Township's financial statements.

(d) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity

1. Deposits and Investments

The Township's cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less.

As stated in the Commonwealth of Pennsylvania First Class Township Code (P.L. 1206, No. 331), the Township may invest operating funds in the following instruments:

- Short-term obligations of the U.S. government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits
- Obligations of the United States of America or any of its agencies backed by the full faith and credit of the United States of America, or of the Commonwealth of Pennsylvania or any of its agencies
- Certificates of deposit purchased from institutions that meet requirements set forth under Pennsylvania law (Act 72 of 1971)

The Township may also invest with trusts and other entities set up to specifically invest funds for Pennsylvania municipalities and legally restricted to allowable investment instruments under Pennsylvania law.

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In addition to the investments authorized for governmental and proprietary funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice. The Township's pension fund investments include collateralized mortgage obligations (CMOs) in their portfolios. The CMOs are planned amortization class bonds, which are generally a safe type of tranche in a CMO issue. The bonds are issued by agencies of the U.S. government and have virtually no credit risk, but the timing of the receipt of cash flows is not certain and fluctuations in interest rates and prepayments will affect the market value of the securities. Periodically, the pension funds also enter into forward contracts to hedge underlying currency exposure related to equity holdings in foreign equities. The funds will only hedge underlying positions, so the Township is not leveraging or speculating on currency.

The Township's investments are stated at fair value based on quoted market prices. The Township participates in the Pennsylvania Local Government Investment Trust (PLGIT), which collateralizes funds on a pooled basis for participating municipalities. The pension trust funds are administered by outside trustees, and their investments are accounted for separately from other Township funds. The outside trustees administering the pension trust funds have been appointed by the Township board of commissioners.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is referred to as "due to/due from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Based upon assessed valuations established by the Montgomery County Board of Assessments as of January 1, current year real estate taxes are billed and collected by the Township Treasurer. The real estate taxes are levied on approximately February 1, and are payable under the following terms: 2% discount first 60 days, face amount next 60 days, and a 10% penalty after 120 days. The elected Township Treasurer serves as tax collector in accordance with state law governing first-class townships. A lien is attached on property in January of the following year for unpaid real estate taxes.

3. Prepaid Items

Using the consumption method, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

In 1992, the Township entered into a 35-year agreement with the City of Philadelphia (the City) to purchase wastewater treatment services from the City. The Township made an initial capital contribution in the amount of \$6,463,000 to the City to reserve wastewater treatment capacity. The Township is required to pay the City additional capital contributions equal to its pro rata share of City incurred capital costs for improvement, renewal, and replacement of facilities. Contributions are amortized over the remaining life of the agreement. In addition, the Township pays the City quarterly for wastewater treatment charges and a 10% management fee.

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Total costs capitalized under this contract were \$13,155,395 at December 31, 2017. Accumulated amortization is \$8,839,663 at December 31, 2017. Amortization expense for the year ended December 31, 2017 was \$479,526.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed or at estimated historical cost if the original cost is not determinable. Major outlays for improvements are capitalized as projects are constructed.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3 to 20 years
Land improvements	15 to 20 years
Infrastructure	8 to 50 years
Buildings	20 to 50 years
Buildings improvements	10 to 30 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows 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.

Deferred outflows of resources for defined benefit plans result from the changes in actuarial assumptions and net difference between projected (actuarial) and actual earnings on pension plan investments.

The Township also has deferred charges on refunding reported in the government-wide statement of net position categorized as a deferred outflow of resources. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows 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.

Deferred inflows of resources for defined benefit plans result from the difference between expected (actuarial) and actual experience.

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The Township has another type of this item under the modified accrual basis of accounting that qualifies for reporting as a deferred inflow. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and grant revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Compensated Absences

Township employees are entitled to certain vacation, sick leave, and other compensated absences based on their length of employment. Most compensated absences do not vest or accumulate and are recorded as expenditures/expenses when they are paid. However, nonuniform Township employees hired after July 26, 2016 are allowed to carry their sick leave from one year to the next. However, there is no payment for unused sick leave at termination. The total value of these compensated absences is \$16,389 as of December 31, 2017.

7. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. Insurance

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance. Insurance settlements have not exceeded insurance coverage during the past three years.

The Township establishes a claims liability for its self-insured workers' compensation activities. Liabilities for self-insured claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors.

9. Special Assessment Receivable

Special assessments are levied upon completion of the related projects and are payable either (a) when billed or (b) over a multiyear period from the date of the initial billing, at the option of the benefited property owner. Special assessments receivable recorded in the sanitary sewer fund under the deferred payment plan amounted to \$355,447 net of allowance for uncollectible amounts of \$15,489 at December 31, 2017.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(2) Deposits and Investments

(a) Deposits

At December 31, 2017, the carrying value of the Township's deposits with banks and PLGIT was \$14,044,894 in the various funds. The bank balances were \$11,950,451. Of the bank balances, 100% was covered by federal depository related insurance or collateralized in accordance with the Commonwealth of Pennsylvania Act 72 of 1971 (P.L. 281 as amended) (Act 72). Under Act 72, a depository holding public funds in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge assets to secure 100% of the Township's deposits. The pledged assets must be at least equal to the total amounts of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. All such pledged assets are held by the pledging financial institution's trust department or agent and not in the Township's name. The Township Finance Department is responsible for monitoring compliance with the collateralization and reporting requirements of Act 72.

(b) Investments

The Commonwealth of Pennsylvania First Class Township Code (P.L. 1206, No. 331) authorizes the Township to invest in obligations of the United States of America or any of its agencies backed by the full faith and credit of the United States of America, obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any other political subdivision of the Commonwealth, bank deposits, registered investment money market mutual funds, repurchase agreements, and local government investment pools. The Township's own investment policy emulates the Commonwealth's requirements.

The Township invests in an externally managed investment pool, the PLGIT, which is not required to register with the Securities and Exchange Commission and are not subject to the SEC's regulatory requirements for mutual funds given that it falls within the governmental exemption of Section 2(b) of the Investment Company Act of 1940. In accordance with the Commonwealth, Section 3 of Act 180 (the Intergovernmental Cooperation Act), Pennsylvania municipalities may jointly cooperate to perform their respective governmental functions, powers, or responsibilities. The purpose of PLGIT is to provide Pennsylvania municipalities with an instrumentality or agency to pool and invest their cash reserves to a greater advantage under the daily management of professional investment advisors. PLGIT, and service providers who serve PLGIT, are overseen by a Board of Trustees who are all elected members or full-time employees of municipalities or schools in the Commonwealth. PLGIT is subject to certain accounting standards and financial reporting requirements set forth by GASB and its financial statements are audited by an independent accounting firm annually. At December 31, 2017, the fair value of the Township's position in PLGIT is \$47,182,491, with \$9,323,632 invested in a PLGIT CLASS money market account, \$33,287,154 in PLGIT PRIME, CDs and TERM, and \$4,571,704 in PLGIT ARM. The fair value of the Township's position in PLGIT is the same as the value of the PLGIT pool shares.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

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1. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. As a course of limiting its exposure to fair value losses arising from increasing interest rates, the Township takes a conservative approach to managing the duration of the investment maturities. In general, the Township’s investment policy provides for investment in short-term investments, which shall not exceed two years. The basic strategy is to hold investments to maturity, thus safety of principal is the primary objective. In addition, the investment policy provides for long-term investments, maturities that are greater than two years in duration. The Township’s investment policy does not limit investments in the pension fund; however, pension fund investments are allocated generally to 60% equities and 40% fixed-income/cash for both the Township Employees’ Pension Plan and the Municipal Police Pension Plan.

The Township Code or investment policy does not limit total pension portfolio maturities. The following schedule represents a listing of fixed-income securities held by both the Township operating funds and pension funds and the related maturity schedule:

Township of Lower Merion Investments

<u>Investment type</u>	<u>Level</u>	<u>Investment maturities (in years)</u>	
		<u>Fair value</u>	<u>Less than 1 year</u>
Money Market Accounts (Non-PLGIT)	N/A	\$ 1,031,665	\$ 1,031,665
Certificates of Deposit (PLGIT and Other)	N/A	8,192,160	8,192,160
PLGIT PRIME	N/A	21,170,654	21,170,654
PLGIT TERM	N/A	10,880,500	10,880,500
PLGIT ARM	N/A	4,571,826	4,571,826
Total invested assets		<u>\$ 45,846,805</u>	<u>\$ 45,846,805</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

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Township of Lower Merion Pension Trust Fund Investments

Investment type	Level	Fair value	Investment maturities		
			1 year	1 – 5 years	6 – 10 years
Wells Fargo Advantage Treasury Money Fund	1	\$ 384,623	\$ 384,623	\$ -	\$ -
Bond mutual funds:					
T. Rowe Price Institutional Float Rate	1	12,113,256	-	12,113,256	-
Vanguard Short Term Investment Grade Fund	1	57,949,865	-	57,949,865	-
Aetna Bond Portfolio	1	3,781,082	-	-	3,781,082
Subtotal – bond fund investments		<u>73,844,203</u>	<u>-</u>	<u>70,063,121</u>	<u>3,781,082</u>
Subtotal – fixed- income investments		74,228,826	\$ 384,623	\$ 70,063,121	\$ 3,781,082
Equity mutual funds	1	<u>146,387,042</u>			
Subtotal – equity investments		<u>146,387,042</u>			
Total fair value of investments		<u>\$ 220,615,868</u>			

The Township pension plan uses the following valuation techniques to measure the fair value of its investments. U.S. Treasury and mutual funds are valued using quoted market prices (Level 1 inputs).

2. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Township’s general investment policy for credit risk is to ensure the safety of investment principal and to maintain public confidence in investment decisions by applying prudence and judgment. To minimize credit risk, the Township’s investment policy established a benchmark, which provides that return on investment will annually exceed the average annual rate of return on the three-month U.S. Treasury Bills. Failure to meet this objective due to safety of capital or tight maturity needs is acceptable. The Township Code authorizes the Township to invest in various investment instruments. In addition, the Township Code provides that the Township Chief Financial Officer is responsible for managing the investment of Township funds in accordance with the requirements of the Township’s investment policy and Commonwealth of Pennsylvania law. As provided in the Township’s investment policy, the Township’s allowable investments are: (1) U.S. Treasury bills, notes, and bonds; (2) U.S. government agency and instrumentality securities and mortgage-backed securities; (3) repurchase agreements with a counterparty having an underlying rating in one of the two highest categories by a nationally recognized rating agency; (4) certificate of deposits and time deposits issued by U.S. banks and FDIC insured or secured by collateral pledged by the depository pursuant to Act 72; (5) obligations of the Commonwealth of Pennsylvania or its agencies and any political subdivision of the Commonwealth of Pennsylvania; (6) local government investment pools formed and operated under the Commonwealth of Pennsylvania Intergovernmental Cooperation Act; and (7) money market funds regulated by the Securities and Exchange Commission.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

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Chapter 32 of the Township Code authorizes the Board of Trustees of the Township’s Municipal Police Pension Plan and the Pension Advisory Board for the Township Employees’ Pension Plan to administer and invest its funds with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims.

Township of Lower Merion Investment Credit Risk

<u>Investment type</u>	<u>Standard & Poor’s</u>	<u>Moody’s</u>	<u>Credit exposure as a percentage of total portfolio</u>
Bank money market deposits	AA+	P-1	48.4%
Certificates of deposit	AA+	Aaa	41.6
Pooled investments	AAAm	N/A	10.0

Township of Lower Merion Pension Trust Fund Investment Credit Risk

<u>Investment type</u>	<u>Credit quality (rating)</u>	<u>Credit exposure as a percentage of total portfolio</u>
Bond funds:		
T. Rowe Price Institutional Floating Rate	B	5.5%
Vanguard Short Term Investment Grade Fund	A	26.3
Aetna Bond Portfolio	A-	1.7

3. Custodial Credit Risk

Custodial risk is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township’s investment policy does not specifically address custodial credit risk for cash management deposits and investments. However, the investment policy does require that all cash management deposits be insured by the FDIC or fully collateralized according to Act 72. Deposits and investments are permitted in the PLGIT, which collateralizes funds on a pooled basis for participating municipalities. The pension trust fund investments are uninsured and unregistered, and the securities are held by the counterparty or by its trust department or agent but not in the Township’s name.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

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4. Concentration of Credit Risk

The Township’s investment policy does not place specific limitations on investments. However, the Township’s investment policy does seek to diversify its portfolio for investment type, institution, and maturity. Diversification and liquidity strategies are determined by the Chief Financial Officer and revised periodically. In general, the long-term objective of the pension trust funds is achieving a total return equivalent to or greater than the plan’s long-term obligation over the time horizon. The Pension Board of Trustees has selected a general asset allocation designed to achieve a return equal to or greater than the long-term objective. Other than described in the table above and in the pension footnote, the Township has no other issuers with investments in excess of 5% of the total portfolio.

5. Foreign Currency Risk

The Township is not subject to foreign currency risk.

(3) Receivables

Receivables as of year-end for the Township’s individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Funds</u>	<u>Internal Service Funds</u>	<u>Total Receivables</u>
Receivables:							
Taxes	\$ 569,234	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 569,234
Interest	18,339	8,350	22,089	-	-	6,809	55,587
Accounts	1,688,622	217,913	2,094,282	461,666	500,000	22,828	4,985,311
Loans	-	-	-	-	1,026,968	-	1,026,968
Special assessment	-	-	355,447	-	-	-	355,447
Grants	5,874	39,827	1,468	235,736	46,927	-	329,832
Total receivables	2,282,069	266,090	2,473,286	697,402	1,573,895	29,637	7,322,379
Allowance for doubtful accounts	(5,147)	-	(45,027)	(6,488)	-	-	(56,662)
Total receivables, net	<u>\$ 2,276,922</u>	<u>\$ 266,090</u>	<u>\$ 2,428,259</u>	<u>\$ 690,914</u>	<u>\$ 1,573,895</u>	<u>\$ 29,637</u>	<u>\$ 7,265,717</u>
Amounts not scheduled for collection during the subsequent year	\$ 135,468	\$ -	\$ 1,561,432	\$ 183,606	\$ 1,526,968	\$ 1,086	\$ 3,408,560

In the nonmajor governmental funds the Community Development loan receivables represent deferred loans provided to qualifying property owners to assist with housing rehabilitation in low to moderate income areas within the Township. These are no interest loans to be repaid in full upon the sale of the property or death of the program recipient.

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Receivables of the sanitary sewer and solid waste funds are reported net of allowance for uncollectible amounts. Total uncollectible amounts related to receivables as of December 31, 2017 are as follows:

Uncollectible related to engineering fees (general fund)	\$	5,147
Uncollectible related to sanitary sewer charges		29,538
Uncollectible related to sanitary sewer special assessments		15,489
Uncollectible related to solid waste charges		<u>6,488</u>
Total uncollectibles of the current year	\$	<u><u>56,662</u></u>

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At year-end, the various components of unavailable and unearned revenues reported in the governmental funds were as follows:

		<u>Unavailable</u>		<u>Unearned</u>		<u>Total</u>
Real estate taxes receivables (general fund)	\$	570,161	\$	-	\$	570,161
Nontax receivables (general fund)		-		547,432		547,432
Nontax receivables (capital fund)		-		111,000		111,000
Nontax receivables (nonmajor governmental funds)		<u>500,000</u>		<u>1,026,968</u>		<u>1,526,968</u>
Total deferred/unearned revenue for governmental funds	\$	<u><u>1,070,161</u></u>	\$	<u><u>1,685,400</u></u>	\$	<u><u>2,755,561</u></u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

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(4) Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 91,136,400	\$ -	\$ -	\$ 91,136,400
Construction in progress	16,263,978	2,081,863	(3,829,538)	14,516,303
Total capital assets, not being depreciated	<u>107,400,378</u>	<u>2,081,863</u>	<u>(3,829,538)</u>	<u>105,652,703</u>
Capital assets being depreciated:				
Land improvements	12,355,438	276,053	-	12,631,491
Buildings	44,424,627	1,188,373	-	45,613,000
Building improvements	11,835,592	454,585	-	12,290,177
Machinery and equipment	39,385,050	3,889,657	(1,126,274)	42,148,433
Infrastructure	126,101,883	3,053,433	-	129,155,316
Total capital assets being depreciated	<u>234,102,590</u>	<u>8,862,101</u>	<u>(1,126,274)</u>	<u>241,838,417</u>
Less accumulated depreciation for:				
Land improvements	(7,531,943)	(357,602)	-	(7,889,545)
Buildings	(10,684,824)	(863,516)	-	(11,548,340)
Building improvements	(3,595,951)	(590,840)	-	(4,186,791)
Machinery and equipment	(24,166,790)	(3,310,980)	1,126,274	(26,351,496)
Infrastructure	(82,402,911)	(6,726,288)	-	(89,129,199)
Total accumulated depreciation	<u>(128,382,419)</u>	<u>(11,849,226)</u>	<u>1,126,274</u>	<u>(139,105,371)</u>
Total capital assets, being depreciated, net	<u>105,720,171</u>	<u>(2,987,125)</u>	<u>-</u>	<u>102,733,046</u>
Governmental activities capital assets, net	<u>\$ 213,120,549</u>	<u>\$ (905,262)</u>	<u>\$ (3,829,538)</u>	<u>\$ 208,385,749</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities – Sewer Fund:				
Capital assets, not being depreciated:				
Construction in progress	\$ 1,132,237	\$ 840,443	\$ (993,086)	\$ 979,594
Total capital assets, not being depreciated	<u>1,132,237</u>	<u>840,443</u>	<u>(993,086)</u>	<u>979,594</u>
Capital assets being depreciated:				
Buildings	4,485,596	586,500	(195,500)	4,876,596
Infrastructure	<u>37,866,511</u>	<u>2,055,999</u>	<u>-</u>	<u>39,922,510</u>
Total capital assets being depreciated	<u>42,352,107</u>	<u>2,642,499</u>	<u>(195,500)</u>	<u>44,799,106</u>
Less accumulated depreciation for:				
Buildings	(3,720,571)	(105,927)	180,855	(3,645,643)
Infrastructure	<u>(17,840,836)</u>	<u>(894,214)</u>	<u>-</u>	<u>(18,735,050)</u>
Total accumulated depreciation	<u>(21,561,407)</u>	<u>(1,000,141)</u>	<u>180,855</u>	<u>(22,380,693)</u>
Total capital assets, being depreciated, net	<u>20,790,700</u>	<u>1,642,358</u>	<u>(14,645)</u>	<u>22,418,413</u>
Business-type activities capital assets, net	<u>\$ 21,922,937</u>	<u>\$ 2,482,801</u>	<u>\$ (1,007,731)</u>	<u>\$ 23,398,007</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government, including depreciation of general infrastructure assets	\$ 6,660,992
Public safety	1,436,278
Building, planning, and health	25,041
Public works	1,429,955
Libraries and recreation	2,294,523
Community development	2,437
Total depreciation expense – governmental activities	<u>\$ 11,849,226</u>
Business-type activities:	
Sewer	<u>\$ 1,000,141</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Construction Commitments

The Township has active construction projects as of December 31, 2017. The projects include the reconstruction of existing bridges, upgrades to traffic signals, and improvements made to existing land and buildings. At year-end, the Township's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to date</u>	<u>Remaining Commitment</u>
Building and building components	\$ 829,606	\$ 2,362,201
Bridge reconstruction	2,267,077	81,691
Traffic signal upgrades	247,042	56,593
Land and land improvements	283,780	-
Machinery and equipment	155,696	276,603
Other infrastructure	<u>10,733,102</u>	<u>393,405</u>
Total	\$ <u>14,516,303</u>	\$ <u>3,170,493</u>

Encumbrances

Purchase orders are issued throughout the fiscal year to encumber budgets in the governmental funds. Encumbrances will be liquidated either from existing assigned or restricted fund balance or from future revenues. Significant encumbrances as of December 31, 2017 are as follows:

Major funds:	
General fund	\$ 322,117
Capital projects fund	<u>3,170,493</u>
Total Major funds	3,492,610
Non-Major governmental funds	<u>113,212</u>
Total Encumbrances	\$ <u>3,605,822</u>

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2017 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 95,172
General	Sanitary Sewer	20,149
		\$ <u>115,321</u>

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed between funds within the Township's reporting entity. The amount due from the Nonmajor Governmental Fund to the General Fund was created by expenditures relating to reimbursement-type federal and state grant revenues. The amount due from the Sanitary Sewer Fund to the General Fund was created for reimbursement relating to debt service costs.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

A summary of transfers reported for the year ended December 31, 2017 is as follows:

Transfer in	Transfer out	Amount
General	Nonmajor Governmental	\$ 1,095,429
Capital Projects	Nonmajor Governmental	1,432,695
Solid Waste	General	82,543
		\$ 2,610,667

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures, and changes in fund balance; the statement of revenues, expenses, and changes in fund net position; and Proprietary Funds represent transfers between funds. Transfers from the Nonmajor Governmental Funds to the General Fund are used to move revenues from the Highway Aid Fund in which the Commonwealth of Pennsylvania requires funds to be collected and move them to the General Fund in which the expenditures were incurred. The transfer from the Nonmajor Governmental Fund to the Capital Projects Fund was to partially fund the Township’s annual rotomilling and road reconstruction project from the Highway Aid Fund allocation from the Commonwealth of Pennsylvania. The funds transferred from the General Fund to the Solid Waste Fund represent a subsidy to the Solid Waste Fund in which fees do not cover the entire cost of the services provided by the fund.

(6) Long-Term Debt

(a) Series A of 2017 General Obligation Bonds

On October 13, 2017, the Township issued \$9,805,000 of General Obligation Bonds, Series A of 2017. Proceeds of the Series A Bonds were used to fund various capital projects in the Township’s Capital Improvement Program in 2017 and 2018.

(b) Build America Bonds (BABs)

In 2010, the Township issued the Series C of 2010 Bonds as BABs for purposes of the American Recovery and Reinvestment Act of 2009. Pursuant to the Recovery Act, the Township receives a cash subsidy payment from the United States Treasury equal to 28% of the interest payable on each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the Township are deposited into the Sinking Fund. The total cash subsidy interest payment in 2017 was \$247,311 and was included in other revenues on the statement of revenues, expenditures and changes in fund balance of the General Fund and as non-operating revenues on the statements of revenues, expenses, and changes in net position of the Sewer Fund.

(c) General Obligation Bonds Outstanding

The Township has pledged its full faith and credit for the payment of principal and interest on general obligation bonds. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. The bonds were used to fund various capital projects of the Township for both governmental and business-type activities.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

The general obligation bonds currently outstanding at December 31, 2017 are as follows:

Description	Average interest rate	Maturity dates through	Balance outstanding
Series A of 2010	4.11	2026	\$ 11,675,000
Series C of 2010	5.17	2031	14,540,000
Series A of 2011	3.33	2023	6,925,000
Series B of 2011	3.51	2028	10,330,000
Series A of 2012	3.93	2027	7,690,000
Series A of 2013	2.00	2033	9,750,000
Series A of 2014	2.70	2029	5,590,000
Series B of 2014	2.90	2034	8,195,000
Series A of 2015	4.40	2020	3,140,000
Series B of 2015	3.78	2035	9,010,000
Series A of 2016	4.00	2020	3,655,000
Series B of 2016	2.04	2036	7,215,000
Series A of 2017	2.61	2037	<u>9,805,000</u>
Total general obligation bonds			107,520,000
Less allocation to business-type activities			<u>18,046,740</u>
Total governmental activities general obligation bonds			<u>\$ 89,473,260</u>

Annual debt service requirements to maturity for general obligation bonds at December 31, 2017 are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
Year ending December 31,				
2018	\$ 6,959,197	\$ 3,056,476	\$ 1,345,803	\$ 607,426
2019	6,913,797	2,805,418	1,396,203	562,824
2020	7,010,037	2,524,277	1,389,963	507,052
2021	7,085,659	2,261,989	1,339,341	455,980
2022	7,011,864	1,996,626	1,353,136	404,005
2023 to 2027	30,972,353	6,460,620	5,697,647	1,364,367
2028 to 2032	17,133,853	2,276,397	3,651,147	547,722
2033 to 2037	<u>6,386,500</u>	<u>372,587</u>	<u>1,873,500</u>	<u>137,409</u>
Total	<u>\$ 89,473,260</u>	<u>\$ 21,754,390</u>	<u>\$ 18,046,740</u>	<u>\$ 4,586,785</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(d) Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 90,453,101	\$ 5,883,000	\$ (6,862,841)	\$ 89,473,260	\$ 6,959,197
Less deferred amounts:					
Unamortized bond discount	(111,802)	-	9,200	(102,602)	(9,200)
Unamortized bond premium	<u>3,353,249</u>	<u>114,555</u>	<u>(376,672)</u>	<u>3,091,132</u>	<u>376,672</u>
Total bonds payable	93,694,548	5,997,555	(7,230,313)	92,461,790	7,326,669
Capital lease payable	-	309,366	(34,374)	274,992	58,927
Claim costs payable	<u>1,842,980</u>	<u>747,839</u>	<u>(466,623)</u>	<u>2,124,196</u>	<u>784,257</u>
Governmental activity long-term liabilities	<u>\$ 95,537,528</u>	<u>\$ 7,054,760</u>	<u>\$ (7,731,310)</u>	<u>\$ 94,860,978</u>	<u>\$ 8,169,853</u>
Business-type activities:					
General obligation bonds	\$ 15,346,899	\$ 3,922,000	\$ (1,222,159)	\$ 18,046,740	\$ 1,345,803
Unamortized bond discount	(24,618)	-	1,978	(22,640)	(1,978)
Unamortized bond premium	<u>636,431</u>	<u>76,370</u>	<u>(126,276)</u>	<u>586,525</u>	<u>63,741</u>
	<u>\$ 15,958,712</u>	<u>\$ 3,998,370</u>	<u>\$ (1,346,457)</u>	<u>\$ 18,610,625</u>	<u>\$ 1,407,566</u>

At year-end, \$150,000 of liability claims payable and \$1,974,196 of workers' compensation claims payable are included in the above claims costs payable amounts. Also, for the governmental activities, claims payable are generally liquidated by the General Fund.

(e) Legal Debt Margin

The Township's legal debt limit (excluding lease rental debt), as defined in Section 102 of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (Act 52), to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$218,144,630 at December 31, 2017, with \$107,520,000 of nonelectoral debt outstanding at December 31, 2017.

(f) Capital Lease

The Township entered into a lease agreement as lessee for financing the acquisition of IT equipment valued at \$309,366. The equipment has a five-year estimated useful life. This year, \$30,937 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes. The portion of future lease payments attributable to interest is considered to be immaterial.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

The future capital lease payments as of December 31, 2017, were as follows:

Year Ended December 31,	Governmental Activities	
2018	\$	58,927
2019		58,927
2020		58,927
2021		58,927
2022		39,284
Total	\$	<u>274,992</u>

(7) Pension Plans

(a) Description of Pension Plans

The Township maintains two pension plans that cover members of the Township’s police force and other employees. Also, the Township offers its employees a deferred compensation plan. The plans do not issue stand-alone reports.

In accordance with Pennsylvania Act No. 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), the Township has biennial actuarial valuations performed; the most recent valuation date was as of January 1, 2017. The pension plan benefits and refunds are recognized when due and payable in accordance with the pension plan terms.

Pension plan information as of and for the year ended December 31, 2017 is as follows:

Statement of Fiduciary Net Position

Assets	Pension Trust Funds		Total
	Municipal Police Pension Plan	Township Employees’ Pension Plan	
Cash and cash equivalents:			
Money market mutual funds	\$ 383,994	\$ 629	\$ 384,623
Investments:			
Bond mutual funds	40,071,892	33,772,311	73,844,203
Equity mutual funds	81,057,844	65,329,198	146,387,042
Accrued income	31	4	35
Total assets	<u>121,513,761</u>	<u>99,102,142</u>	<u>220,615,903</u>
Liabilities			
Accounts payable and accrued expenses	<u>32,923</u>	<u>33,560</u>	<u>66,483</u>
Net Position			
Net position:			
Held in trust for pension benefits	<u>\$ 121,480,838</u>	<u>\$ 99,068,582</u>	<u>\$ 220,549,420</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Statement of Fiduciary Changes in Net Position

	Pension Trust Funds		Total
	Municipal Police Pension Plan	Township Employees' Pension Plan	
Additions:			
Contributions:			
Employee contributions	\$ 156,190	\$ 440,615	\$ 596,805
Commonwealth of Pennsylvania allocation	1,340,633	725,647	2,066,280
Other contributions	21,343	261	21,604
Total contributions	1,518,166	1,166,523	2,684,689
Investment income:			
Interest and dividends	2,214,695	1,842,205	4,056,900
Net appreciation of investments	15,356,418	12,413,307	27,769,725
Total investment earnings	17,571,113	14,255,512	31,826,625
Less investment expenses	-	(40,590)	(40,590)
Net investment income	17,571,113	14,214,922	31,786,035
Total additions	19,089,279	15,381,445	34,470,724
Deductions:			
Benefits paid	4,564,642	3,649,721	8,214,363
Administrative expenses	69,657	60,971	130,628
Total deductions	4,634,299	3,710,692	8,344,991
Change in net position	14,454,980	11,670,753	26,125,733
Net position – beginning of the year	107,025,858	87,397,829	194,423,687
Net position – end of the year	\$ 121,480,838	\$ 99,068,582	\$ 220,549,420

(b) *Municipal Police Pension Plan*

The Municipal Police Pension Plan is a single-employer defined benefit plan that provides retirement benefits as well as death and disability benefits. Administrative costs of the plan are financed by the plan’s investment earnings as shown in the fiduciary funds statement of net position. All benefits vest after 12 years of credited service. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average salary. Final average salary is the employee’s average salary over the last three years of credited service. Employee pension contributions can be adjusted each year by Resolution subject to the plans meeting certain financial conditions. Employee pension contributions were 1.2% in 2017, 2016 and 2015. If an employee leaves covered employment before 12 years of credited service, then accumulated employee contributions plus interest are refunded to the employee or designated beneficiary. The Township is required by statute, principally Act 205, to contribute any remaining amounts necessary to finance the pension plan. Benefit and contribution provisions are established by Township ordinance, collective bargaining provisions, and Pennsylvania law and may be amended only as allowed by Pennsylvania law.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Deferred Retirement Option (DRO) program

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option program for a period of no more than 48 months. The monthly pension shall be calculated as of the date of participation in the program and shall be accumulated with no annual interest and distributed in a lump sum upon retirement.

(c) Township Employees' Pension Plan

The Township Employees' Pension Plan is a single-employer defined benefit plan that provides retirement and death benefits. Administrative costs of the plan are financed by the plan's investment earnings as shown in the fiduciary funds statement of net position. There are four groups covered, which have differing vesting schedules, normal retirement ages, employee contribution requirements, and annual benefit formulas. Police officers (permitted to join until December 31, 1992) who have completed 20 years of service are immediately vested, normal retirement age is 60, the contribution rate is 5%, and the annual benefit is 40% of total employee contributions. The other three employee groups, Workers Association, Non-Workers Association and Management, have the same five-year vesting and annual benefit formula. Employee pension contributions can be adjusted each year by Resolution subject to the plans meeting certain financial conditions. Effective January 1, 2007, the Township implemented a new policy that requires all new full-time employees eligible for the pension plan to participate on the first day of employment and contribute at a rate of 5%. Credited service noted in the table below is different from when an employee was hired and refers to employees that did not join the pension plan when they were initially hired. An employee's credited service is the number of years an employee has been a member of the pension plan. The following table outlines the 2017 employee contributions to the pension plan.

	Workers Association	Non-Workers Association	Management
Employees hired prior to 2003:			
0 to 4.99 years of credited service	3%	4%	4%
5 to 9.99 years of credited service	1%	2%	2%
10 to 24.99 years of credited service	0%	1%	1%
Over 25 years of credited service	0%	0%	0%
Employees hired between 1/1/2003 and 12/17/2013	4%	5%	5%
Employees hired after 12/17/2013	5%	5%	5%

The 40-hour-per-week and management employee groups have an age 60 normal retirement age; the 37.5-hour-per-week employee group has an age 63 normal retirement age. These three groups have two benefit formulas for their annual benefit calculation for all employees hired before 1995, with one benefit calculation available for those hired thereafter. For nonpolice employees in these groups, the pension is calculated using two formulas: (a) 1.4% of final average salary multiplied by total years of credited service to a maximum of 35 years; and (b) 2% of final average salary multiplied by total years of credited service to a maximum of 25 years of service. The employee receives a pension based upon the highest of the two calculation methods. However, all employees hired on or after January 1, 1995 are only eligible for the first pension calculation method noted above. Final average salary is the employee's average salary during their final 36 months of employment with the Township.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

If an employee leaves covered employment or dies before vesting, then accumulated employee contributions plus interest are refunded to the employee or beneficiary. The Township is required by statute, principally Act 205, to contribute any remaining amounts necessary to finance the plan. Benefit and contribution provisions are established by Township ordinance and collective bargaining provisions.

(d) Funding Policy

The Township has made contributions that meet or exceed the annual required contributions in the current and prior years. Pursuant to Act 205, the Township participates in the Commonwealth of Pennsylvania’s General Municipal Pension System State Aid Program, wherein it receives an allocation of certain state insurance premium taxes. In 2017, the Township received an allocation of \$2,066,280 from the General Municipal Pension System State Aid Program. The revenue and expenditures for this program are shown in the nonmajor governmental funds. Normal cost is funded on a current basis. Contributions are made by the Township, beyond the contribution of state funds to the pension plans, in accordance with actuarially determined requirements and the Township’s minimum municipal obligation, as defined by Act 205. Historical trend information on the contributions to the pension plans as well as an analysis of funding progress is provided as Required Supplementary Information (unaudited) following the notes to the financial statements.

(e) GASB 68 – Financial Reporting for Pension Plans

The Township has adopted GASB Statement No. 68, *Accounting for Pension by State and Local Governmental Employers*. Statement No. 68 requires the Township to report its defined benefit pension assets, liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources.

For the year ended December 31, 2017, the Township recognized aggregate pension expense of \$3,696,096 and net pension assets of \$18,219,372. The Municipal Police Pension Plan and the Township Employees’ Pension Plan both have measurement dates as of December 31, 2017, and the total pension liability was calculated using the January 1, 2017 actuarial valuation which was rolled forward to December 31, 2017.

At December 31, 2017, the Township’s pension plans reported plan membership as follows:

	Municipal Police Pension Plan	Township Employees' Pension Plan
Inactive Members or Beneficiaries Currently Receiving Benefits	133	192
Inactive Members Entitled to but not yet Receiving Benefits	7	22
Active Members	130	260
Total Members	270	474

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to its pension plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Municipal Police Pension Plan		
Difference Between Expected and Actual Experience	\$ -	\$ 1,338,462
Changes in Assumptions	4,407,304	-
Net Difference Between Projected and Actual Investment Earnings	-	4,779,535
Municipal Police Pension Plan Subtotal	<u>\$ 4,407,304</u>	<u>\$ 6,117,997</u>
Township Employees' Pension Plan		
Difference Between Expected and Actual Experience	\$ -	\$ 3,383,308
Changes in Assumptions	5,437,320	-
Net Difference Between Projected and Actual Investment Earnings	-	3,747,796
Municipal Police Pension Plan Subtotal	<u>\$ 5,437,320</u>	<u>\$ 7,131,104</u>
Total Pension Plans	<u><u>\$ 9,844,624</u></u>	<u><u>\$ 13,249,101</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	<u>Municipal Police Pension Plan</u>	<u>Township Employees' Pension Plan</u>	<u>Total Pension Plans</u>
2018	\$ 299,930	\$ 366,979	\$ 666,909
2019	299,930	366,979	666,909
2020	(1,212,507)	(853,919)	(2,066,426)
2021	(1,261,737)	(1,592,111)	(2,853,848)
2022-2023	163,691	18,288	181,979
Total	<u>\$ (1,710,693)</u>	<u>\$ (1,693,784)</u>	<u>\$ (3,404,477)</u>

Plan Administration

The Municipal Police Pension Plan and the Township Employees' Pension Plan are single-employer defined benefit pension plans. The Police Plan and Employees Plan were established by Township ordinance, collective bargaining provisions, and Pennsylvania law and may be amended only as allowed by Pennsylvania law. The Plans are governed by the Board of Commissioners which may amend plan provisions, and are responsible for the management of Plan assets. The Board of Commissioners has delegated the authority to manage Plan assets to the Municipal Police Pension Board and the Township Employees' Pension Board.

Investment Policy

The Pension Plan Board is responsible for administering the investment policies of the Plans and providing oversight for the management of the Plans' assets. The investment strategy of the Plans is to emphasize total return (defined as the aggregate return from capital appreciation and dividend and interest income). The investment policy requires that all Plan assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Plans, with minimal impact on market price. The following was the Plans' adopted asset allocation policy as of December 31, 2017:

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	45.00%
International Equity	15.00%
Fixed Income	39.50%
Real Estate	0.00%
Cash	0.50%

Concentrations

At December 31, 2017, Municipal Police Pension Plan and the Township Employees' Pension Plan had the following investments which exceeded 5% or more of the Plan Net Assets:

<u>Issuer</u>	<u>Type of Investment</u>	<u>Amount</u>	<u>Percentage of Investments of Plan Net Assets</u>
Vanguard Short-Term Investment Grade	Bond	\$ 58,237,090	26.5%
Vanguard PrimeCap Core	U.S. Equities	48,827,761	22.2%
Vanguard Mega Cap 300 Index	U.S. Equities	21,972,005	10.0%
Vanguard Total International Stock Index	International Equities	18,298,559	8.3%
Europacific Growth	International Equities	15,035,871	6.8%
T.Rowe Price Institutional Emerging Markets	International Equities	13,577,291	6.2%
T.Rowe Price Institutional Floating Rate	Bond	12,113,260	5.5%

Net Pension Asset

The net pension asset of the plans as of the measurement date of December 31, 2017, was as follows:

	<u>Municipal Police Pension Plan</u>	<u>Township Employees' Pension Plan</u>
Total Pension Liability	\$ 111,688,312	\$ 90,641,736
Plan Fiduciary Net Position	121,480,838	99,068,582
Net Pension Asset	<u>\$ (9,792,526)</u>	<u>\$ (8,426,846)</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Method and assumptions used to determine Net Pension Asset for the Municipal Police Pension Plan were as follows:

Actuarial Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market value of assets as determined by the trustee.

Actuarial Assumptions:

Investment Rate of Return	7.20% including inflation
Salary Increases	5.25% average, including inflation
Inflation	3.00%
Post Retirement Cost of Living Increase	3.00%
Retirement Age	Increasing proportion as age increases; 70% at Age 50; up to 100% at Age 56.
Mortality	IRS 2017 Static Combined Table for Small Plans.

Method and assumptions used to determine Net Pension Asset for the Township Employees' Plan Pension were as follows:

Actuarial Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market value of assets as determined by the trustee.

Actuarial Assumptions:

Investment Rate of Return	7.20% including inflation
Salary Increases	4.50% average, including inflation
Inflation	3.00%
Post Retirement Cost of Living Increase	2.75%
Retirement Age	Normal Retirement Age
Mortality	IRS 2017 Static Combined Table for Small Plans.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

The long-term expected rate of return on pension plan investments was based on the Plan’s current asset allocation, expected long term inflation, and historical long term expected real rates of on the Plan’s major asset classes. Best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.5% - 7.5%
International Equity	4.5% - 6.5%
Fixed Income	1.0% - 3.0%
Real Estate	4.5% - 6.5%
Cash	0.0% - 1.0%

Discount Rate

The discount rate used to measure the total pension asset was 7.20%. The projection of cash flow to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the MMO. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on the pension plan investment was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) calculated using the discount rate of 7.20%, as well as what the Plan’s net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%), or 1-percentage-point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Net Pension Liability (Asset) - Municipal Police Pension Plan	\$ 3,972,335	\$ (9,792,526)	\$ (21,293,063)
Net Pension Liability (Asset) - Township Employees' Pension Plan	\$ 2,157,525	\$ (8,426,846)	\$ (17,200,616)

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Rate of Return on Investments

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses not funded through the MMO, for plan year 2017 was 16.87% and 16.79% for the Municipal Police Pension Plan and the Township Employees' Pension Plan, respectively. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

(8) Deferred Compensation Plan

In accordance with the Internal Revenue Code (IRC) Section 457, the Township offers a deferred compensation plan (457 plan), which employees may elect to participate. The Township makes a 7% contribution into individual deferred compensation accounts for each of its management employees hired prior to November 20, 2013, which is administered by ICMA-RC. During the year ended December 31, 2017, the cost to the Township for the 457 plan was \$257,544 and \$260,168 in 2016. Additionally, employees contributed approximately \$1,170,211 in 2017 \$1,149,136 in 2016.

In addition, the Township offers an Internal Revenue Code (IRC) Section 401(a) Governmental Profit Sharing Plan, which management employees, hired after November 20, 2013 may elect to participate. The Township makes a 4% contribution into individual profit sharing accounts which is administered by ICMA-RC for each of its management employees in this plan. During the year ended December 31, 2017, the cost to the Township for the 401(a) plan was \$18,980 and \$14,421 in 2016.

(9) Other Postemployment Benefits

(a) Plan Description

The Lower Merion Township Post-Employment Benefits Plan (the Plan) is a single-employer defined benefit plan. The Plan provides life insurance and retirement medical coverage to eligible retirees and their spouses for the Township's Fraternal Order of Police, Nonunion, Management, and Workers Association employees. The policy and management of OPEB benefits provided to retirees are the responsibility of the Township. The Plan benefits and refunds are recognized when due and payable in accordance with the Plan terms.

As of January 1, 2017, the date of the most recent valuation, participants of the plan consist of approximately 397 active members and approximately 216 retirees and their dependents who are receiving life insurance and medical benefits.

The substantive plan provisions are derived from contractual arrangements including union agreements, which can be modified through agreement of the Township and the contracting parties. Benefits generally include full or partial (depending on employee type and elections) medical and prescription coverage for the retiree and spouse (if applicable) until the retiree attains age 65 or becomes eligible for Medicare, and \$11,000 of life insurance upon retirement with smaller grandfathered life insurance amounts for retirees who retired prior to the \$11,000 benefit amount becoming effective for nonuniformed employees. Uniformed employees receive \$10,000 of life insurance upon retirement with smaller grandfathered life insurance amounts for retirees who retired prior to the \$10,000 benefit amount becoming effective.

The Plan does not issue a stand-alone financial report.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(b) Funding Policy

The required contractual medical and prescription coverage contribution rates vary by employee type, and represent the difference between the Township's reimbursement amount and the group rate charged by the insurer. There is no required contribution from Management retirees. Police retirees pay the costs of dental and vision coverage only. For all other retirees, required contributions represent the difference between the Township's contribution and the benefit cost.

Retiree contribution rates can be affected by employee retirement date, with eligible retirements for most workers paying a higher rate for more recent retirements.

The Township funds the Plan for current retirees on a pay-as-you-go basis. There is currently no plan for the funding of future benefits. Projected pay-as-you-go financing requirements are established annually as part of the annual budget process.

Healthcare premium costs paid by retirees totaled \$60,501 for fiscal year 2017. The Township's life insurance premium costs were approximately \$5,909 for fiscal year 2017.

Actuarial Valuation and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB 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, as described above. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Township's OPEB liability is based on an actuarial valuation as of January 1, 2017, in which the entry age normal actuarial cost method was used. The general OPEB inflation rate assumption is 4.5%. The actuarial assumptions included a 4.5% investment rate of return, which is the risk free rate of return, and a medical inflation rate of 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075. The UAAL is being amortized as a level dollar amount on a 30-year open period.

(c) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The Township's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 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 thirty years. Amounts required but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and the Township's net OPEB obligation:

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

Annual required contribution	\$ 3,086,405
Interest on Net OPEB Obligation	732,016
Adjustment to annual required contribution	<u>(998,658)</u>
Annual OPEB Cost	2,819,763
Contributions made	<u>(1,322,891)</u>
Change in Net OPEB liability	1,496,872
Net OPEB liability beginning of year	<u>16,267,037</u>
Net OPEB liability end of year	\$ <u><u>17,763,909</u></u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009 (the year the Township implemented GASB 45) through 2017 are as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB Liability (asset)</u>
Fiscal year ended December 31,			
2009	\$ 3,014,302	36.1%	\$ 3,170,309
2010	2,982,775	42.4	4,888,631
2011	3,366,017	36.9	7,011,705
2012	3,331,217	42.3	8,932,983
2013	3,282,294	45.4	10,725,552
2014	3,252,911	50.4	12,338,952
2015	3,767,609	45.4	14,394,996
2016	3,733,907	49.9	16,267,037
2017	2,819,763	46.9	17,763,909

As of the January 1, 2017 valuation, the actuarial accrued liability for benefits was \$26,300,326 and there were no assets to be valued as of the valuation date, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,300,326. The covered payroll (annual payroll of active employees covered by the plan) was \$31,357,782 and the ratio of the UAAL to the covered payroll was 83.87%.

Actuarial valuations of an ongoing plan involve 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 (unaudited) following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(10) Risk Management Programs

(a) Workers' Compensation and General Liability

Under the Township's insurance program for workers' compensation, the Township maintains a deductible of \$500,000 for each occurrence. In addition, under the Township's insurance program for general liability the Township maintains a deductible of \$25,000 for each occurrence. The Township purchases commercial insurance for claims in excess of the deductible. Settled claims have not exceeded this commercial coverage in any of the past three years.

Under the Workers' Compensation policy, the Township is required to provide collateral to protect the Delaware Valley Workers' Compensation Trust against default by the Township for not reimbursing the insurer for claims. As collateral, the Township has in place a Letter of Credit with TD Bank in the amount of \$2,775,000. The collateral covers all open workers' compensation policy periods. Since its inception, the Letter of Credit has never been called upon.

Premiums are paid into the General Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are used to reduce the amount of claims expenditures reported in the General Fund. As of December 31, 2017, such interfund premiums did not exceed reimbursable expenditures.

A claims liability of \$784,257 is reported in the General Fund, and \$2,124,196 is reported in the government-wide statement of net position at December 31, 2017.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>General liability</u>	<u>General liability</u>	<u>Workers' compensation</u>	<u>Workers' compensation</u>
Balance, beginning of year	\$ 150,000	\$ 150,000	\$ 1,692,980	\$ 1,216,291
Incurred claims				
(including IBNR)	-	-	747,839	1,052,040
Claim payments	-	-	(466,623)	(575,351)
Balance, end of year	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 1,974,196</u>	<u>\$ 1,692,980</u>

(b) Health Insurance

The Township is a part of the Pennsylvania Municipal Health Insurance Cooperative (PMHIC). PMHIC is a public entity risk pool organized under the provision of the Pennsylvania Intergovernmental Cooperation Act with the objective of obtaining preferential pricing on health care services and diversification of self-insurance risk. PMHIC is fully funded by its members. The membership is comprised of approximately 250 municipal governments located in Pennsylvania. The structure of the PMHIC is a partially self-insured model. Each member of the PMHIC funds their claim liability separately. Stop loss insurance levels are set for each member to cap their claim liability, the Township's level is \$70,000 per medical claim per covered individual per year. The Township believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. This structure of this self-insured model allows members to benefit via refunds in years in which its medical claims costs were less than anticipated. The Township has a refund deposit related to the plan in the amount of \$2,368,390 due to be paid in 2018.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Financial Statements

December 31, 2017

(11) Pollution Remediation Obligation

State and federal laws and regulations require the Township to perform certain maintenance and monitoring functions at the former Township landfill located on the Robert J. Koegel Public Works Complex. Prior to 1977, this site was utilized by the Township as a trash incinerator and landfill; however, after closure in 1977 the site was converted to the current municipal solid waste transfer station. In August 2002, the Pennsylvania Department of Environmental Protection notified the Township of a water quality imbalance in the Glanraffan Creek as a result of groundwater seeping from the former landfill site. The Township designed and permitted a two-phase passive treatment system for the remediation of iron laden water coming from the groundwater seep. This treatment system commenced operation on February 11, 2008 and is currently performing the required maintenance and monitoring functions. The estimated annual cost to comply with remediation regulations is \$30,000 including all staff and engineering costs. This cost is expected to continue in future years to ensure the water quality of the Glanraffan Creek.

(12) Contingencies

(a) *Litigation*

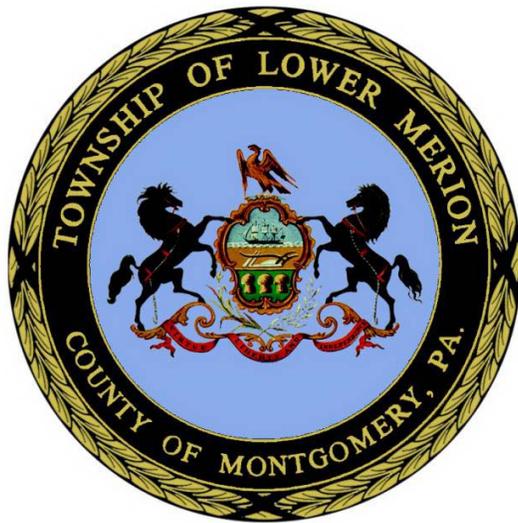
The Township is involved in numerous lawsuits arising in the normal course of business. It is the Township's opinion that the aggregate amount of potential claims resulting from actions against the Township would not materially affect the financial position of the Township at December 31, 2017.

(b) *Grants and Cost-Reimbursable Contracts*

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the Township under some of these grants and contracts are subject to audit. To date, the Township has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, the expenditures that have been made for grants and contracts were made in accordance with the provisions of such grants and contracts. Any adjustments for unallowable costs, if any, that would result from audits will not have a material effect on the Township's financial statements.

(c) *Letter of Credit – Pennsylvania Department of Environmental Protection*

Due to its operation of the Lower Merion Transfer Station, the Township is required to provide collateral to satisfy Pennsylvania Department of Environmental Protection regulations. As collateral, the Township has in place a Letter of Credit with TD Bank in the amount of \$272,648. Since its inception, the Letter of Credit has never been called upon.



Required Supplementary Information

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balances –

Budget and Actual (Budget Basis)

General Fund

Year ended December 31, 2017

	General Fund			Variance with final budget – positive (negative)
	Budgeted amounts		Actual Amounts	
	Original	Final		
Revenues:				
Real estate taxes	\$ 35,283,066	\$ 35,283,066	\$ 35,894,268	\$ 611,202
Licenses and permits	6,093,483	6,093,483	6,680,814	587,331
Mercantile, business, and local services taxes	12,668,500	12,668,500	12,386,411	(282,089)
Fines, forfeits, and costs	1,090,800	1,090,800	994,184	(96,616)
Interest income	165,985	165,985	421,457	255,472
Grants and gifts	55,000	55,000	180,956	125,956
Departmental earnings	2,500,660	2,500,660	2,729,021	228,361
Other	2,411,079	2,411,079	3,679,595	1,268,516
Total revenues	<u>60,268,573</u>	<u>60,268,573</u>	<u>62,966,706</u>	<u>2,698,133</u>
Expenditures:				
Current:				
General government	7,998,391	7,998,391	7,267,106	731,285
Public safety	25,091,644	25,091,644	25,432,256	(340,612)
Building, and planning	4,040,588	4,040,588	3,957,127	83,461
Public works	8,964,400	8,964,400	8,011,963	952,437
Libraries and recreation	7,907,362	7,907,362	7,833,172	74,190
Debt service:				
Principal	6,882,990	6,882,990	6,862,841	20,149
Interest	3,161,992	3,161,992	3,161,992	-
Total expenditures	<u>64,047,367</u>	<u>64,047,367</u>	<u>62,526,457</u>	<u>1,520,910</u>
(Deficiency) excess of revenues (under) over expenditures	(3,778,794)	(3,778,794)	440,249	4,219,043
Other financing sources:				
Transfers in	1,000,000	1,000,000	1,095,429	95,429
Transfers out	(101,000)	(101,000)	(82,543)	18,457
Revenues and other financing sources (under) over expenditures and other financing uses	(2,879,794)	(2,879,794)	1,453,135	4,332,929
Fund balance – beginning	<u>19,767,109</u>	<u>19,767,109</u>	<u>19,721,113</u>	<u>(45,996)</u>
Fund balance – ending	<u>\$ 16,887,315</u>	<u>\$ 16,887,315</u>	<u>\$ 21,174,248</u>	<u>\$ 4,286,933</u>

See accompanying notes to required supplementary information.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Notes to Required Supplementary Information

December 31, 2017

Stewardship, Compliance, and Accountability

Budgetary Information

The statement of revenues, expenditures, and changes in fund balance – budget and actual – General Fund, which is required supplementary information, is reported on the budgetary basis of accounting, which differs in some respects from generally accepted accounting principles (GAAP). A reconciliation from budgetary basis to GAAP basis is included in the statement. The beginning fund balance is adjusted for changes in open encumbrances at year-end.

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

During November and December, the Township holds public hearings for the purpose of receiving oral and written comments from interested parties in regard to the possible use of funds expected to be received by the Township for the fiscal year commencing the following January 1.

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.

Prior to December 31, the Township holds its final public hearing to obtain taxpayer comments, after which the budget is legally adopted through passage of an ordinance.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Fund, and Proprietary Funds. The Township has legally adopted budgets for the General Fund and Special Revenue Funds.

The Township budgets the Capital Projects Funds over the life of the project rather than an annual budget. Consequently, a budget-to-actual comparison for the Capital Projects Funds for the year ended December 31, 2017 is not presented because such a statement would not be meaningful. In addition, the Township budgets for indirect costs as revenue and expenditures, but they are not reported as such under GAAP.

The legal level of budgetary control is maintained at the fund level with budgets adopted for all operating funds. The appropriated budget is adopted by fund, function, department, and object of expenditure. The Township Manager may make transfers of appropriations that do not affect overall fund appropriations. Changes to total appropriations to funds must be made by the Township Board of Commissioners. All appropriations lapse at year-end to the extent they are not encumbered.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as assignments of fund balances. Encumbrances do not constitute expenditures or liabilities. In the combined statement of revenues, expenditures, and changes in fund balances – budget and actual (budget basis), encumbrances are recorded as expenditures.

The Highway Aid Fund exceeded its budgeted transfers out for 2017. The additional transfers were made from excess revenues as well as available fund balance.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Required Supplementary Information

Municipal Police Pension Fund

December 31, 2017

<u>Changes in the Employer's Net Pension Liability (Asset)</u>				
	Measurement Year Ending 12/31/17	Measurement Year Ending 12/31/16	Measurement Year Ending 12/31/15	Measurement Year Ending 12/31/14
Total Pension Liability				
Service Cost	\$ 2,567,090	\$ 2,394,058	\$ 2,274,639	\$ 2,098,114
Interest	7,654,744	7,257,847	6,903,059	6,809,010
Changes of Benefit Terms	(867,488)	-	1,783,181	(3,634,274)
Benefit Payments	(4,564,642)	(4,289,627)	(4,449,375)	-
Difference Between Actual and Expected, if any	(125,325)	-	(2,159,546)	-
Assumption Changes	1,107,467	-	6,097,727	-
Net Change in Total Pension Liability	5,771,846	5,362,278	10,449,685	5,272,850
Total Pension Liability - Beginning	105,916,466	100,554,188	90,104,503	84,831,653
Total Pension Liability - Ending (a)	<u>\$ 111,688,312</u>	<u>\$ 105,916,466</u>	<u>\$ 100,554,188</u>	<u>\$ 90,104,503</u>
Plan Fiduciary Net Position				
Contribution - Employer	\$ 1,340,633	\$ 1,412,111	\$ 1,356,837	\$ 1,288,720
Contribution - Member	156,190	154,273	167,713	-
Net Investment Income	17,571,113	7,049,660	(58,044)	8,630,961
Miscellaneous Income	21,343	17,288	12,500	12,500
Benefit Payments	(4,564,642)	(4,289,627)	(4,449,375)	(3,634,274)
Administrative Expense	(69,657)	(20,210)	(27,536)	(12,490)
Refund of Member Contributions	-	-	-	-
Net Change in Plan Fiduciary Net Position	14,454,980	4,323,495	(2,997,905)	6,285,417
Plan Fiduciary Net Position - Beginning	107,025,858	102,702,363	105,700,268	99,414,851
Plan Fiduciary Net Position - Ending (b)	<u>\$ 121,480,838</u>	<u>\$ 107,025,858</u>	<u>\$ 102,702,363</u>	<u>\$ 105,700,268</u>
Net Pension Asset (a-b)	<u>\$ (9,792,526)</u>	<u>\$ (1,109,392)</u>	<u>\$ (2,148,175)</u>	<u>\$ (15,595,765)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	108.77%	101.05%	102.14%	117.31%
Covered Employee Payroll	\$ 14,340,629	\$ 13,354,108	\$ 14,346,358	\$ 12,959,524
Net Pension Asset as a Percentage of Covered Employee Payroll	68.29%	8.31%	14.97%	120.34%

Schedule of Investment Returns*

Year Ended December 31,	Actual Money Weighted Rate of Return, Net of Investment Expense
2014	8.94%
2015	0.04%
2016	7.07%
2017	16.87%

*Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available in future years.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Required Supplementary Information

Municipal Police Pension Fund (Continued)

December 31, 2017

Schedule of Employer Contributions*

Measurement Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2014	\$ 1,234,246	\$ 1,288,720	\$ (57,474)	\$ 12,959,524	9.94%
2015	1,356,837	1,356,837	-	14,346,358	9.46%
2016	1,260,304	1,412,111	(151,807)	13,354,108	10.57%
2017	1,292,814	1,340,633	(47,819)	14,340,629	9.35%

Schedule of the Employer's Net Pension Asset*

Measurement Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ 90,104,503	\$ 105,700,268	\$ (15,595,765)	117.31%	\$ 12,959,524	-120.34%
2015	100,554,188	102,702,363	(2,148,175)	102.14%	14,346,358	-14.97%
2016	105,916,466	107,025,858	(1,109,392)	101.05%	13,354,108	-8.31%
2017	111,688,312	121,480,838	(9,792,526)	108.77%	14,340,629	-68.29%

*Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available in future years.

Method and assumptions used to determine Pension Contributions for the Municipal Police Pension Plan were as follows:

Actuarial Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Smoothed over a five (5) year period. In no event is the actuarial value of the assets allowed to be greater than 120% or less than 80% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.20% including inflation
Salary Increases	5.25% average, including inflation
Inflation	3.00%
Post Retirement Cost of Living Increase	3.00%
Retirement Age	Age 52 and completion of 25 years of service
Mortality	IRS 2017 Static Combined Table for Small Plans

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Required Supplementary Information

Township Employees' Pension Fund

December 31, 2017

<u>Changes in the Employer's Net Pension Liability (Asset)</u>				
	Measurement Year Ending 12/31/17	Measurement Year Ending 12/31/16	Measurement Year Ending 12/31/15	Measurement Year Ending 12/31/14
Total Pension Liability				
Service Cost	\$ 1,791,824	\$ 1,644,967	\$ 1,574,131	\$ 1,215,974
Interest	6,210,443	5,903,515	5,614,351	5,585,931
Changes of Benefit Terms	-	-	-	(2,867,719)
Benefit Payments	(3,649,721)	(3,343,182)	(3,143,107)	-
Difference Between Actual and Expected, if any	(2,884,236)	-	(1,822,212)	-
Assumption Changes	2,948,234	-	5,820,526	-
Net Change in Total Pension Liability	4,416,544	4,205,300	8,043,689	3,934,186
Total Pension Liability - Beginning	86,225,192	82,019,892	73,976,203	70,042,017
Total Pension Liability - Ending (a)	<u>\$ 90,641,736</u>	<u>\$ 86,225,192</u>	<u>\$ 82,019,892</u>	<u>\$ 73,976,203</u>
Plan Fiduciary Net Position				
Contribution - Employer	\$ 725,647	\$ 750,108	\$ 670,235	\$ 705,710
Contribution - Member	440,615	400,241	354,914	299,971
Net Investment Income	14,214,922	5,609,419	19,719	6,946,407
Miscellaneous Income	261	-	-	-
Benefit Payments	(3,649,721)	(3,343,182)	(3,143,107)	(2,867,719)
Administrative Expense	(60,971)	(20,975)	(33,960)	(20,265)
Refund of Member Contributions	-	-	-	-
Net Change in Plan Fiduciary Net Position	11,670,753	3,395,611	(2,132,199)	5,064,104
Plan Fiduciary Net Position - Beginning	87,397,830	84,002,219	86,134,418	81,070,314
Plan Fiduciary Net Position - Ending (b)	<u>\$ 99,068,583</u>	<u>\$ 87,397,830</u>	<u>\$ 84,002,219</u>	<u>\$ 86,134,418</u>
Net Pension Asset (a-b)	<u>\$ (8,426,847)</u>	<u>\$ (1,172,638)</u>	<u>\$ (1,982,327)</u>	<u>\$ (12,158,215)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	109.30%	101.36%	102.42%	116.44%
Covered Employee Payroll	\$ 18,178,518	\$ 17,108,829	\$ 17,852,222	\$ 16,067,828
Net Pension Asset as a Percentage of Covered Employee Payroll	46.36%	6.85%	11.10%	75.67%

Schedule of Investment Returns*

Year Ended December 31,	Actual Money Weighted Rate of Return, Net of Investment Expense
2014	8.80%
2015	0.17%
2016	6.92%
2017	16.79%

*Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available in future years.

TOWNSHIP OF LOWER MERION, PENNSYLVANIA

Required Supplementary Information

Township Employees' Pension Fund

December 31, 2017

Schedule of Employer Contributions*

Measurement Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2014	\$ 625,489	\$ 705,710	\$ (80,221)	\$ 16,067,828	4.39%
2015	625,947	670,235	(44,288)	17,852,222	3.75%
2016	750,108	750,108	-	17,108,829	4.38%
2017	665,987	725,647	(59,660)	18,178,518	3.99%

Schedule of the Employer's Net Pension Asset*

Measurement Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ 73,976,203	\$ 86,134,418	\$ (12,158,215)	116.44%	\$ 16,067,828	-75.67%
2015	82,019,892	84,002,219	(1,982,327)	102.42%	17,852,222	-11.10%
2016	86,225,192	87,397,830	(1,172,638)	101.36%	17,108,829	-6.85%
2017	90,641,736	99,068,582	(8,426,846)	109.30%	18,178,518	-46.36%

*Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available in future years.

Method and assumptions used to determine Pension Contributions for the Township Employees' Plan Pension were as follows:

Actuarial Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Smoothed over a five (5) year period. In no event is the actuarial value of the assets allowed to be greater than 120% or less than 80% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.20% including inflation
Salary Increases	4.50% average, including inflation
Inflation	3.00%
Post Retirement Cost of Living Increase	2.75%
Retirement Age	Normal Retirement Age
Mortality	IRS 2017 Static Combined Table for Small Plans

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Grantor's Number	Award Period	Expenditures
Federal Awards:						
U.S. Department of Housing and Urban Development:						
Community Development Block Grants/ Entitlement Grants	14.218		\$ 16,793	B-16-MC-42-0011	07/01/2015-06/30/2016	\$ 637,566
Community Development Block Grants/ Entitlement Grants	14.218		<u>20,245</u>	B-17-MC-42-0011	07/01/2016-06/30/2017	<u>207,929</u>
Total U.S. Department of Housing and Urban Development:			<u>37,038</u>			<u>845,495</u>
U.S. Department of Justice:						
Bulletproof Vest Partnership Program	16.607		-	N/A	01/01/2017-12/31/2017	20,554
Equitable Sharing Program	16.922		-	N/A	01/01/2017-12/31/2017	<u>25,034</u>
Total U.S. Department of Justice			<u>-</u>			<u>45,588</u>
U.S. Department of Transportation:						
Highway Safety Cluster:						
Pass-through from the Commonwealth of Pennsylvania Department of Transportation:						
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	IDP-G-2017-LOWER MERION-00003	-	N/A	10/01/2016-09/30/2017	29,857
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	IDP-G-2018-LOWER MERION-00020	-	N/A	10/01/2017-09/30/2018	3,006
Total Highway Safety Cluster			<u>-</u>			<u>32,863</u>
Highway Planning and Construction	20.205		-	R16060002	03/23/2016-06/30/2019	<u>72,444</u>
Total U.S. Department of Transportation			<u>-</u>			<u>105,307</u>
U.S. Department of Interior:						
Historic Preservation Fund-Grants-In-Aid	15.904		-	ME# 61604	08/01/2016-07/31/2017	15,205
Historic Preservation Fund-Grants-In-Aid	15.904		-	ME# 61703	08/01/2017-07/31/2018	<u>5,698</u>
Total U.S. Department of Interior			<u>-</u>			<u>20,903</u>
U.S. Department of Treasury:						
Equitable Sharing Program	21.000		-	N/A	01/01/2016-12/31/2016	<u>8,534</u>
Total U.S. Department of Treasury			<u>-</u>			<u>8,534</u>
Total Federal Awards			<u>\$ 37,038</u>			<u>\$ 1,025,827</u>

TOWNSHIP OF LOWER MERION, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Lower Merion Township. The Township is defined in Note 1 to the Township's Notes to Financial Statements. All federal awards received as federal awards passed through other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The basis of accounting is described in Note 1 to the Township's financial statements.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for state, local, and Indian tribal governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Township has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 – RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with the amounts reported in the Township's financial statements.

NOTE 5 – SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Federal Awards, the Township passed through federal awards to subrecipients for the Community Development Block Grants (Federal CFDA 14.218) of \$37,038 for the year ended December 31, 2017.

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

Honorable Township Commissioners
Township of Lower Merion, 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, business type activities, each major fund, and the aggregate remaining fund information of Lower Merion Township (the Township), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated June 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Honorable Township Commissioners
Township of Lower Merion, Pennsylvania

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 28, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable Township Commissioners
Township of Lower Merion, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Lower Merion Township's (the Township) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Township's major federal programs for the year ended December 31, 2017. The Township's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Township's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Township's compliance.

Opinion on Each Major Federal Program

In our opinion, the Township complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Township is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Township's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Lower Merion as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements. We issued our report thereon dated June 28, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

Honorable Township Commissioners
Township of Lower Merion, Pennsylvania

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 28, 2018

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X no

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development – Community Development Block Grants/ Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

Section IV – Prior Findings

None



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.