

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**  
**SINGLE AUDIT REPORT**  
**YEAR ENDED DECEMBER 31, 2018**



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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, 2018, 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, 2018, 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 4-19, and 70-76, 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.

***Emphasis of Matters***

As discussed in Note 13 to the financial statements, the Township implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018, which represents a change in accounting principle. As of January 1, 2018, the Township's net position was restated to reflect the impact of adoption. In addition, as discussed in Note 13 to the financial statements, certain errors in amounts previously reported in the Township's governmental capital assets and healthcare refund revenue and receivables as of December 31, 2017 were discovered by management during the year ended December 31, 2018. The Township's net position and certain fund balances were restated as of January 1, 2018 to reflect the impact of adoption and correction of these errors. Our opinion is not modified with respect to these matters.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2019, 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.

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

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
September 11, 2019



## **Management's Discussion and Analysis**

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Management's Discussion and Analysis

December 31, 2018

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, 2018. 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, 2018 was \$156.3 million. Of this amount, \$138.5 million represents the governmental net position and \$17.8 million represents the business-type net position. Of the total net position, \$15.4 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 \$7.8 million or 4.8%. The governmental net position decreased by \$7.7 million and the business-type assets decreased by \$0.1 million compared to 2017. The decreased net position is partially due to prior period adjustments.
- The total fund balance for governmental funds was \$23.5 million at December 31, 2018, with \$15.9 million in unassigned fund balance.
- The General Fund, the Township's primary operating fund, reported a total surplus of \$0.2 million in fund balance. As of December 31, 2018, the General Fund had a total fund balance of \$21.35 million, of which \$16.0 million was unassigned which represented 24.9% of total general fund expenditures and transfers out, for the year ended December 31, 2018.
- The Township's total long-term debt outstanding at December 31, 2018 was \$99.2 million, a decrease of \$8.3 million or 7.7% as compared to the fiscal year 2017. The Township's governmental debt was \$82.5 million, a decrease of nearly \$7.0 million or 7.8% as compared to the fiscal year 2017. The Township's business-type debt was \$16.7 million, a decrease of nearly \$1.35 million or 7.5% as compared to the fiscal year 2017. The Township did not issue any debt in 2018.
- 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, deferred outflows, liabilities, and deferred inflows except fiduciary funds, with the difference 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, 2018

*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 20-21 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 22-24 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, 2018

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 25-28 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 29-30 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 31-69 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, 2018

**Government-Wide Financial Analysis**

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

	Net Position December 31, 2018					
	Governmental activities		Business-type activities		Total	
	2018	2017*	2018	2017*	2018	2017*
<b>Assets</b>						
Current and other assets	\$ 52,983,445	\$ 75,446,093	\$ 11,683,098	\$ 14,241,745	\$ 64,666,543	\$ 89,687,838
Capital assets	<u>214,569,026</u>	<u>208,385,749</u>	<u>25,027,757</u>	<u>23,398,007</u>	<u>239,596,783</u>	<u>231,783,756</u>
Total assets	267,552,471	283,831,842	36,710,855	37,639,752	304,263,326	321,471,594
Total deferred outflows of resources	<u>26,352,835</u>	<u>11,780,032</u>	<u>281,956</u>	<u>322,546</u>	<u>26,634,791</u>	<u>12,102,578</u>
Total assets and deferred outflows	\$ <u>293,905,306</u>	\$ <u>295,611,874</u>	\$ <u>36,992,811</u>	\$ <u>37,962,298</u>	\$ <u>330,898,117</u>	\$ <u>333,574,172</u>
<b>Liabilities</b>						
Other liabilities	\$ 22,577,776	\$ 23,395,001	\$ 1,819,311	\$ 1,239,218	\$ 24,397,087	\$ 24,634,219
Long-term liabilities outstanding	<u>129,187,949</u>	<u>112,797,087</u>	<u>17,199,240</u>	<u>18,610,625</u>	<u>146,387,189</u>	<u>131,407,712</u>
Total liabilities	151,765,725	136,192,088	19,018,551	19,849,843	170,784,276	156,041,931
Total deferred inflow of resources	<u>3,676,639</u>	<u>13,249,101</u>	<u>-</u>	<u>-</u>	<u>3,676,639</u>	<u>13,249,101</u>
Total liabilities and deferred inflows	\$ <u>155,442,364</u>	\$ <u>149,441,189</u>	\$ <u>19,018,551</u>	\$ <u>19,849,843</u>	\$ <u>174,460,915</u>	\$ <u>169,291,032</u>
<b>Net Position</b>						
Net investment in capital assets	\$ 133,553,430	\$ 123,796,329	\$ 6,697,071	\$ 5,351,267	\$ 140,250,501	\$ 129,147,596
Restricted for:						
Roadway maintenance/improv.	-	200	-	-	-	200
Community development	621,208	647,201	-	-	621,208	647,201
Unrestricted	<u>4,288,304</u>	<u>21,726,955</u>	<u>11,277,189</u>	<u>12,761,188</u>	<u>15,565,493</u>	<u>34,488,143</u>
Total net position	\$ <u>138,462,942</u>	\$ <u>146,170,685</u>	\$ <u>17,974,260</u>	\$ <u>18,112,455</u>	\$ <u>156,437,202</u>	\$ <u>164,283,140</u>

\* The 2017 totals do not include the effects of GASB 75

The largest portion, \$140.3 million or 89.7% 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 increased by approximately \$11.1 million or 8.6% from the prior fiscal year.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Management's Discussion and Analysis

December 31, 2018

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, \$15.6 million or 10.0% 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, 2018					
	Governmental activities		Business-type activities		Total primary government	
	2018	2017*	2018	2017*	2018	2017*
Charges for services	\$ 12,876,415	\$ 13,100,260	\$ 14,936,072	\$ 15,243,078	\$ 27,812,487	\$ 28,343,338
Operating grants and contributions	5,751,738	5,377,534	301,185	890,870	6,052,923	6,268,404
Capital grants and contributions	1,691,476	467,790	194,049	-	1,885,525	467,790
Real estate taxes	35,833,247	35,829,905	-	-	35,833,247	35,829,905
Mercantile and business privilege taxes	12,147,500	10,411,124	-	-	12,147,500	10,411,124
Local services tax	1,933,383	1,975,287	-	-	1,933,383	1,975,287
Investment earnings	1,022,898	518,179	157,629	68,799	1,180,527	586,978
<b>Total revenues</b>	<b>71,256,657</b>	<b>67,680,079</b>	<b>15,588,935</b>	<b>16,202,747</b>	<b>86,845,592</b>	<b>83,882,826</b>
General government	9,717,934	12,949,484	-	-	9,717,934	12,949,484
Public safety	35,310,324	31,613,026	-	-	2,904,451	3,119,638
Building and planning	4,675,472	4,278,813	-	-	35,310,324	31,613,026
Public works	10,924,671	9,584,401	-	-	4,675,472	4,278,813
Libraries and recreation	11,042,268	10,317,251	-	-	10,924,671	9,584,401
Community development	1,024,152	845,494	-	-	11,042,268	10,317,251
Interest on long-term debt	2,904,451	3,119,638	-	-	1,024,152	845,494
Sanitary sewer	-	-	8,331,126	7,689,218	8,331,126	7,689,218
Solid waste	-	-	7,819,950	7,475,278	7,819,950	7,475,278
<b>Total expenses</b>	<b>75,599,272</b>	<b>72,708,107</b>	<b>16,151,076</b>	<b>15,164,496</b>	<b>91,750,348</b>	<b>87,872,603</b>
Increase (Decrease) in net position before transfers	(4,342,615)	(5,028,028)	(562,141)	1,038,251	(4,904,756)	(3,989,777)
Gain (Loss) on disposal of assets	150,247	(1,679,521)	-	(14,645)	150,247	(1,694,166)
Transfers	(76,146)	(82,543)	76,146	82,543	-	-
<b>Change in net position</b>	<b>(4,268,514)</b>	<b>(6,790,092)</b>	<b>(485,995)</b>	<b>1,106,149</b>	<b>(4,754,509)</b>	<b>(5,683,943)</b>
Net Position – Beginning, restated for 2018 (Note 13)	142,731,456	152,960,777	18,460,255	17,006,306	161,191,711	169,967,083
<b>Net Position – Ending</b>	<b>\$ 138,462,942</b>	<b>\$ 146,170,685</b>	<b>\$ 17,974,260</b>	<b>\$ 18,112,455</b>	<b>\$ 156,437,202</b>	<b>\$ 164,283,140</b>

\* The 2017 totals do not show the effects of GASB75

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Management's Discussion and Analysis

December 31, 2018

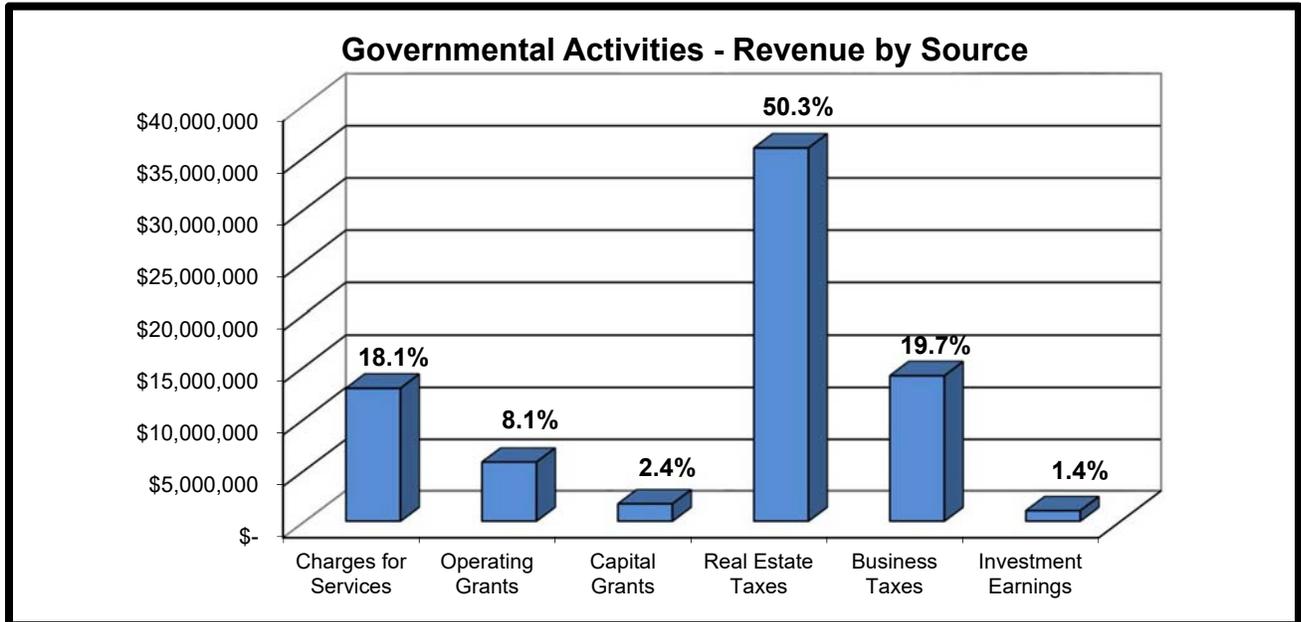
### Governmental Activities

Governmental activities decreased the Township's net position by \$4.3 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, 2018, revenues from governmental activities totaled \$72.3 million, an increase of \$4.7 million or 6.9% compared to the fiscal year 2017. Tax revenues of \$50.0 million, comprised of property tax, real estate transfer taxes and business privilege taxes, mercantile taxes, and local services taxes represent 69.1% of total revenues. The Township's real estate tax is the primary revenue source with a total taxable real estate assessment base of approximately \$7.614 billion for 2018. In 2018, the Township real estate tax rate was 4.19 mills, unchanged from 2017, and the real estate assessment base increased by \$46.0 million or 0.6% as compared to the fiscal year 2017. Overall, real estate tax revenue from property taxes and real estate transfer taxes increased minimally by \$3,342 to \$35.8 million in 2018.

Mercantile and business privilege tax revenue increased \$1.7 million or 16.7% from \$10.4 million in 2017 to \$12.1 million in 2018. The increase is primarily attributed to an increase in receipts from certain taxpayers along with some additional compliance programs implemented in 2018. The local services tax revenue generated \$1.9 million, which was down 2.1% compared to the prior fiscal year mainly due to an increase in refunds.

As indicated by the following graph, the primary revenue source of the governmental activities is real estate taxes, comprised of 50.3% or \$35.8 million of the total revenues.



## TOWNSHIP OF LOWER MERION, PENNSYLVANIA

### Management's Discussion and Analysis

December 31, 2018

Charges for services revenue of \$12.9 million represented 18.1% of the total governmental activities revenue, a decrease of \$0.2 million or 1.7% from the fiscal year 2017. The Township's license and permit fee revenue, which has increased in recent years, was again relatively strong. While the Township issued 4,832 building permits in 2018 compared to 3,995 building permits in 2017, the value of the permits issued in 2018 was over \$99 million more than in 2017 which equated to strong license and permit fee revenue. However, the Township did experience a decline in revenue from its seasonal pool passes and in its franchise fees which was likely a result of the "cord-cutting" trend that has led to declines in cable television subscribers.

Operating grants and contributions of \$5.8 million represented 8.1% of the total governmental activities revenue, which is an increase of \$0.4 million or 7.0% from fiscal year 2017. The Township received nearly \$1.0 million in U.S. Department of Housing and Urban Development grant funds, as well as \$1.8 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 \$1.7 million or 2.4% of the total governmental activities revenue in fiscal year 2018.

For the fiscal year ended December 31, 2018, 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 \$75.6 million, an increase of \$2.9 million or 4.0% as compared to the fiscal year 2017.

Public safety accounted for \$35.3 million or 46.7% 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 increased \$3.7 million or 11.7% as compared to the prior fiscal year. The increase is primarily attributed to allocated costs for related to pension and OPEB liabilities.

General government accounted for \$9.7 million or 12.9% 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 decreased by \$3.2 million or 25% as compared to the prior fiscal year due to a reduction in allocated capital asset expenses.

Libraries and recreation accounted for \$11.0 million or 14.6% of these governmental activities. These costs increased \$0.7 million or 7.0% as compared to the prior fiscal year driven primarily by increased personnel expenses and an increase in allocated costs related to pension and OPEB liabilities.

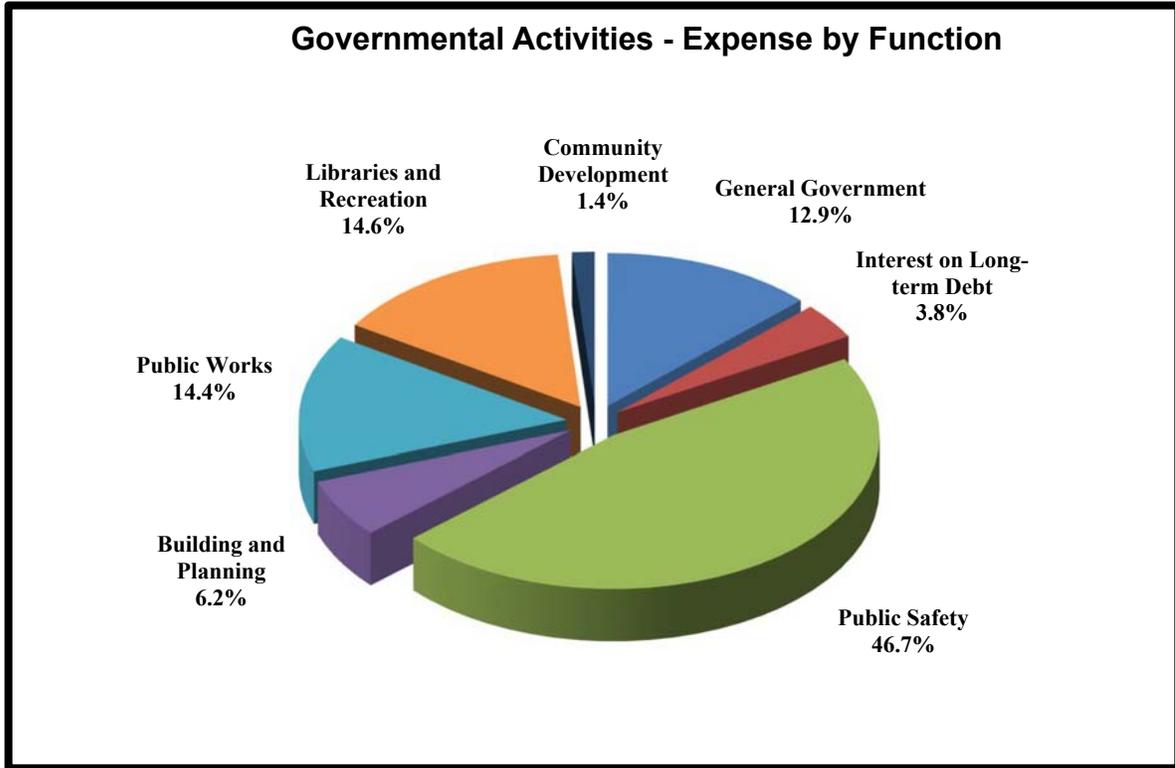
Public works accounted for \$10.9 million or 14.4% of these governmental activities and primarily covers maintenance improvement costs for the roadways, traffic and street lighting, facilities maintenance, and the Township's trees along streets and in the parks. These costs increased by \$1.3 million or 14.0% versus the prior fiscal year due to some increased spending due to a more severe winter along with an increase in allocated costs related to pension and OPEB liabilities.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Management's Discussion and Analysis

December 31, 2018

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



The remaining expenses are comprised of building and planning of \$4.7 million or 6.2% and community development of \$1.0 million or 1.4% of these governmental activities. In 2018, these total expenses increased \$0.6 million or 11.2% as compared to the prior fiscal year. The increase was related to higher spending in community development combined with an increase in allocated costs related to pension and OPEB liabilities.

Interest on long-term debt accounted for \$2.9 million or 3.8% of these governmental activities. In 2018, these expenses decreased \$0.2 million or 6.9% as compared to the prior fiscal year due to the fact that the Township did not issue any new debt in 2018.

### Business-Type Activities

The Township's business-type activities net position decreased by \$0.5 million, which accounts for a 2.6% decrease in business-type activities net position.

For the fiscal year ended December 31, 2018, revenues from business-type activities totaled \$15.4 million, a decrease of \$0.7 million or 4.4% compared to the fiscal year 2017. The decrease was mainly related to a reduction in operating grants and contributions of nearly \$0.6 million. Charges for services account for 96.8% or \$14.9 million of the total revenues. Overall, this revenue source is primarily earned through sanitary sewer rent fees and charges for services of nearly \$8.1 million and solid waste collection fees and charges for services of nearly \$6.9 million. In addition, operating grants and contributions totaled \$0.3 million and there was \$0.2 million in capital grants and contributions in 2018.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

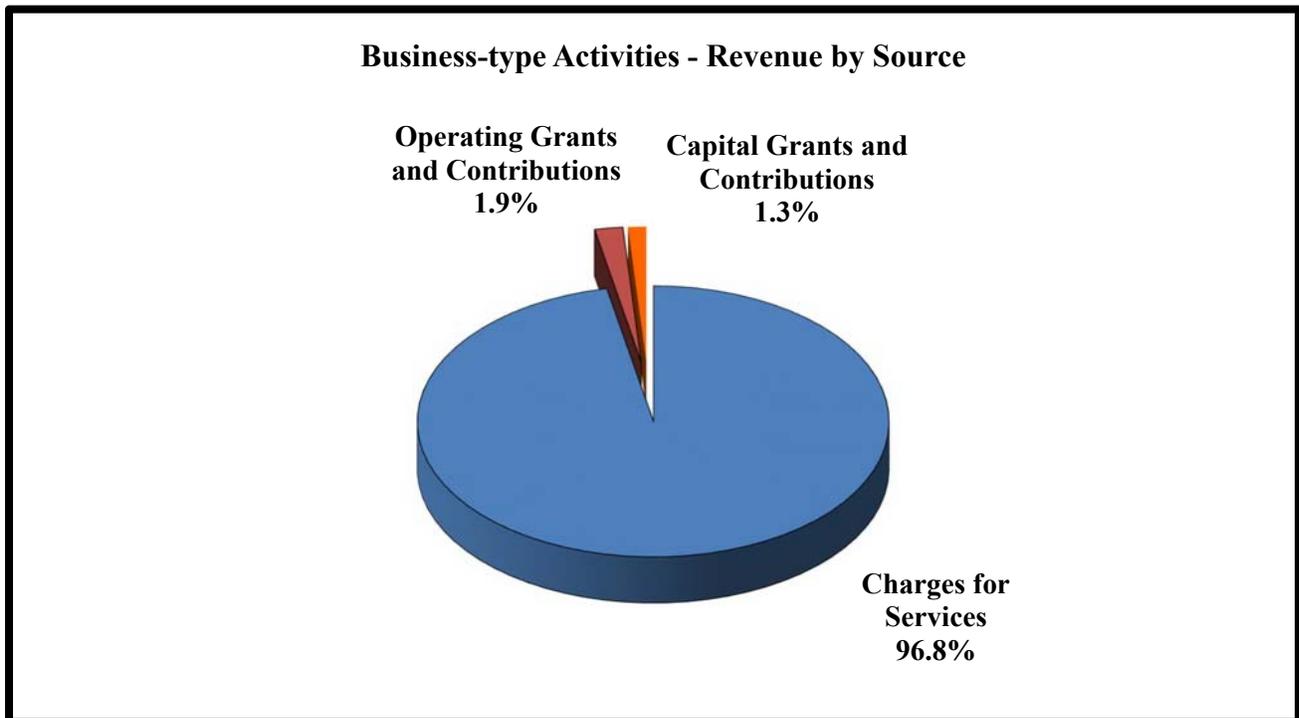
## Management's Discussion and Analysis

December 31, 2018

The Township's sanitary sewer rent fee is based on water consumption, which fluctuates with annual water usage. In 2018, the Township's billable water usage increased 0.2% to 1.610 billion gallons from 1.607 billion gallons in 2017. 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 2018 sanitary sewer fund operating revenues of \$8.1 million was \$0.3 million or 3.1% less than the fiscal year 2017 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 declining subscription levels has impacted the fund's financial results. The 2018 solid waste fund operating revenues of \$6.9 million was nearly \$50,000 or 0.7% less than the fiscal year 2017. While there was a 5% increase to solid waste fees in 2017, the Township was able to keep rates the same in 2018. The Township will continue to monitor the fund's financial condition moving forward.

Operating grants and contributions account for \$0.3 million or 1.9% of the total business-type activities revenue. The operating grant funding in 2018 for the solid waste fund is directly related to the Township's portion of the annual recycling performance grant funding from the Commonwealth of Pennsylvania. The grant awards are based on the total tons recycled in the previous year and the municipality's recycling rate. Capital grants and contributions account for \$0.2 million or 1.3% of the total business-type activities revenue. This revenue in the sanitary sewer fund is related to a grant to support upgrades to the Ardmore pump station.

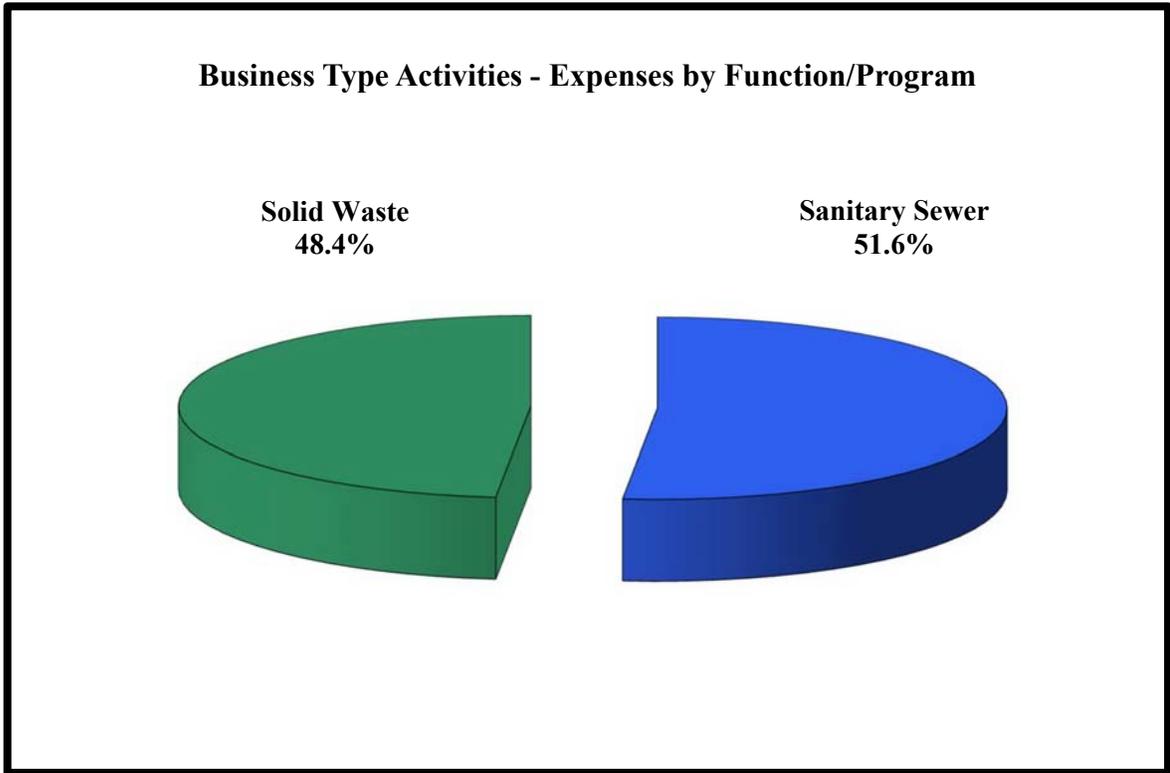
Below are graphs showing the major revenues and expenditures by source for the business-type activities:



**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Management's Discussion and Analysis

December 31, 2018



For the fiscal year ended December 31, 2018, expenses for business-type activities totaled \$16.15 million, which is \$1.0 million or 6.5% higher than fiscal year 2017.

The major functions represented by business-type activities are the sanitary sewer of \$8.3 million and solid waste of \$7.8 million. The expenses for sanitary sewer increased \$0.6 million or 8.4% compared to fiscal year 2017. The Township and the City of Philadelphia have a long-term agreement for disposal and treatment of the Township's wastewater. In 2018, the Township paid approximately \$2.6 million or 30.7% of the total sanitary sewer operating expenses for disposal of wastewater, primarily to the City of Philadelphia. This expense was a nearly \$0.25 million increase in 2018 and the expense normally fluctuates annually with water consumption and weather patterns. The remaining increase compared to the prior fiscal year was related in higher operating expenses including personnel, engineering and debt service.

The expenses for solid waste increased \$0.3 million or 4.6% compared to the previous fiscal year. The Township expended approximately \$1.4 million for disposal of refuse and recycling in 2018. This cost represents 18.3% of the total solid waste operating expenditures. Another reason for the increase was higher operational costs related to vehicles paid to the equipment fund. The solid waste fund's primary expense is personnel which totaled \$4.3 million in 2018 or 55.1% of the total solid waste operating expenditures.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Management's Discussion and Analysis

December 31, 2018

### 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, 2018, the Township's governmental funds reported a combined ending fund balance of \$23.5 million, a decrease of \$4.8 million or 17.1% from fiscal year 2017. Approximately \$15.9 million or 67.8% 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 \$7.5 million or 32.2% 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, 2018, unassigned fund balance of the general fund was \$16.0 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 25.3% of total fund expenditures, net of transfers out, for the year ended December 31, 2018.

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 2018, 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 2018 general fund budget forecasted a fund balance draw down of \$3.2 million and an ending fund balance of approximately 23.7% of the 2018 expenditures. However, with better than expected revenue and expenditure performance, the general fund's fund balance increased by \$0.2 million to \$21.35 million or 33.7% of the total general fund expenditures, excluding 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 2018, the Township did not issue any new debt for the first time in several years as part of a multiyear plan to lower the Township's overall debt outstanding.

## TOWNSHIP OF LOWER MERION, PENNSYLVANIA

### Management's Discussion and Analysis

December 31, 2018

#### ***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 used 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, 2018 totaled \$11.0 million and \$0.2 million for the solid waste fund. Additionally, the sanitary sewer fund has \$6.7 million of net investment in capital assets.

Unrestricted net position of the Township's equipment fund for the year ended December 31, 2018 totaled \$5.4 million. Additionally, the equipment fund has \$7.7 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 2018 general fund budget included total revenues of \$62.2 million, including transfers in of approximately \$1.0 million and total expenditures and transfers out of \$65.4 million. For the year ended December 31, 2018, the general fund budget remained unchanged from the adopted amounts.

Financial performance of the general fund in 2018 was positive when compared to budget. Actual revenue and transfers in were higher than budgetary levels by approximately 3.7% or \$2.3 million while the Township expenditures were 1.6% or \$1.1 million lower compared to the budgeted expenditures.

The 2018 general fund budget included a planned imbalance of \$3.2 million; however, positive budgetary performance resulted in operating surplus of \$0.2 million. In 2018, 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 55.6% 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, 2018

Overall, revenue performance of the general fund in 2018 was positive when compared to budget. Actual revenues, net of transfers in, were approximately \$63.6 million for 2018. The Township experienced positive growth versus budgeted levels in business taxes due to the improving economy. Overall, business taxes were \$1.5 million or 12.2% more than budgeted. Increasing interest rates and higher than anticipated cash balances led to very strong growth in interest income which ended the year \$0.5 million higher than the budget. Finally, departmental earnings were 10.3% or nearly \$249,000 above budget due to stronger parking revenue than budgeted.

The Township realized approximately \$2.0 million of expenditure savings, net of transfers out, across all departments. The most significant factor in the overall positive performance was in general government and was due to a reimbursement from the Township's healthcare carrier due to medical claims that were far below projected levels. Other expenditure reductions were primarily achieved through reduced personnel costs. These cost reductions were due to a reduction in staffing and savings resulting from employee turnover. 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, 2018 amounted to \$239.6 million (net of accumulated depreciation), an increase of \$7.8 million or 3.4% over the fiscal year 2017. 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, 2018 included the following:

- Renovations to the Belmont Hills 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

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Management’s Discussion and Analysis

December 31, 2018

**Capital Assets  
(Net of Depreciation)**

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 91,136,400	\$ 91,136,400	\$ -	\$ -	\$ 91,136,400	\$ 91,136,400
Land improvements	4,922,729	4,741,946	-	-	4,922,729	4,741,946
Buildings	35,585,142	34,064,660	1,182,025	1,230,953	36,767,167	35,295,613
Building improvements	9,062,760	8,103,386	-	-	9,062,760	8,103,386
Machinery and equipment	14,352,197	15,796,937	-	-	14,352,197	15,796,937
Infrastructure	45,597,341	40,026,117	23,644,784	21,187,460	69,242,125	61,213,577
Construction in progress	13,912,457	14,516,303	200,948	979,594	14,113,405	15,495,897
<b>Total</b>	<b>\$ 214,569,026</b>	<b>\$ 208,385,749</b>	<b>\$ 25,027,757</b>	<b>\$ 23,398,007</b>	<b>\$ 239,596,783</b>	<b>\$ 231,783,756</b>

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, 2018, the Township had total bonded debt outstanding of \$99.2 million. The Township’s total debt decreased by \$8.3 million or 7.7% due to no new debt issuances in 2018.

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 82,514,064	\$ 89,473,260	\$ 16,700,936	\$ 18,046,740	\$ 99,215,000	\$ 107,520,000

In 2018, 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 very strong financial management, manageable debt levels, and stable economy of the Township. The Township’s management practices have consistently been rated very strong under Standard and Poor’s Financial Management Assessment (FMA). An FMA of very 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.

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

**Labor Relations**

In 2017, 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. The 2018 annual base wage increase for uniformed non-management police officers was 3.75% and police management employees received a 3.5% wage increase. In 2019 uniformed non-management police officers received an annual base wage increase of 3.75%. The 2019 adopted budget contained a 3.75% increase for Police management employee as well.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Management’s Discussion and Analysis

December 31, 2018

In 2016, the Township and the Workers Association (WA), which includes approximately 210 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 total 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 2018 annual base wage increase for WA employees was 3.25% beginning on January 1, 2018. The 2019 annual base wage increase for WA employees is 3.5% beginning on January 1, 2019.

All other nonuniform noncontractual employees (including management and all other nonunion employees) were granted a 3.25% base wage increase in 2018. In addition, the 2019 adopted budget included a base wage increase of 3.5% for these employees.

**Economic Factors and Fiscal Year 2018 Budget**

The Township’s December 2018 unemployment rate was 2.4%, 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 2017 rate of 2.7% 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 2017	4.1%	4.3%	4.1%	3.3%	2.7%
December 2018	3.9%	3.9%	3.6%	3.0%	2.4%

Note: All unemployment statistics are not seasonally adjusted

Highlights of the Township’s 2019 budget include:

- The Township’s real estate tax millage rate remained unchanged for 2019.
- The 2019 solid waste fees reflect a 10% increase compared to the 2018 rates.
- In 2019, the sanitary sewer rental rate was projected to remain unchanged at \$4.51 per 1,000 gallons of water used.
- The 2019 general fund revenue budget is \$64.2 million, which is \$2.0 million or 3.2% higher as compared to the 2018 budget.
- The 2019 general fund expenditure budget is \$68.2 million, which is \$2.8 million or 4.2% higher as compared to the 2018 budget.
- The 2019 general fund budget expenditures exceed revenue by \$3.96 million, requiring a planned budgeted drawdown of fund balance.
- The 2019 general fund budget projects an ending fund balance (undesignated) of \$16.1 million or 23.5% of 2019 budgeted expenditures
- The Township’s budgeted full time equivalent (FTE) personnel levels increased from the 2018 budget level of 469.3 to 470.2 in 2019.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Management's Discussion and Analysis

December 31, 2018

Highlights of the Township's Capital Improvement Program 2019-2024 include:

Proposed capital improvements, in the aggregate principal amount of approximately \$215.6 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 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
- 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](http://www.lowermerion.org).



## **Basic Financial Statements**



## **Government-Wide Financial Statements**

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Net Position

December 31, 2018

Assets and Deferred Outflows of Resources:	Primary government		
	Governmental activities	Business-type activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 9,116,806	\$ 765,298	\$ 9,882,104
Investments	38,393,813	4,551,661	42,945,474
Taxes receivable, net	477,777	-	477,777
Accounts receivable, net	3,558,113	2,105,682	5,663,795
Loans receivable	1,004,311	-	1,004,311
Special assessment receivable, net	-	337,401	337,401
Grants receivable	184,982	235,700	420,682
Internal balances	206,082	(206,082)	-
Other assets	41,561	31,192	72,753
Prepaid sewer services, net	-	3,862,246	3,862,246
Capital assets not being depreciated:			
Land	91,136,400	-	91,136,400
Construction in progress	13,912,457	200,948	14,113,405
Capital assets, net of accumulated depreciation:			
Land improvements	4,922,729	-	4,922,729
Buildings	35,585,142	1,182,025	36,767,167
Building improvements	9,062,760	-	9,062,760
Machinery and equipment	14,352,197	-	14,352,197
Infrastructure	45,597,341	23,644,784	69,242,125
Total assets	267,552,471	36,710,855	304,263,326
<b>Deferred outflows of resources:</b>			
Deferred outflows related to pensions	22,271,306	-	22,271,306
Deferred outflows related to OPEB	2,375,075	-	2,375,075
Deferred charges on refunding	1,706,454	281,956	1,988,410
Total deferred outflows of resources	26,352,835	281,956	26,634,791
Total assets and deferred outflows of resources	293,905,306	36,992,811	330,898,117
<b>Liabilities, Deferred Inflows of Resources, and Net Position:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	3,276,947	1,425,555	4,702,502
Interest payable	1,143,516	243,762	1,387,278
Escrow deposits	16,136,778	-	16,136,778
Unearned revenue	2,020,535	149,994	2,170,529
Noncurrent liabilities:			
Net Pension liability	10,463,003	-	10,463,003
Net OPEB liability - Due within one year	1,403,334	-	1,403,334
Net OPEB liability	29,572,977	-	29,572,977
Pollution remediation obligation - Due within one year	30,000	-	30,000
Pollution remediation obligation	112,200	-	112,200
Other noncurrent liabilities - Due within one year	8,206,027	1,461,784	9,667,811
Other noncurrent liabilities	79,400,408	15,737,456	95,137,864
Total liabilities	151,765,725	19,018,551	170,784,276
Deferred inflows related to pensions	3,676,639	-	3,676,639
Total liabilities and deferred inflows of resources	155,442,364	19,018,551	174,460,915
<b>Net position:</b>			
Net investment in capital assets	133,553,430	6,697,071	140,250,501
Restricted for:			
Community development	621,208	-	621,208
Unrestricted	4,288,304	11,277,189	15,565,493
Total net position	\$ 138,462,942	\$ 17,974,260	\$ 156,437,202

See accompanying notes to basic financial statements.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Activities

Year ended December 31, 2018

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
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 9,717,934	\$ 5,689,470	\$ 326,262	\$ 4,950	\$ (3,697,252)	\$ -	\$ (3,697,252)
Public safety	35,310,324	678,788	1,861,108	-	(32,770,428)	-	(32,770,428)
Building and planning	4,675,472	3,903,724	186,005	-	(585,743)	-	(585,743)
Public works	10,924,671	1,573,559	2,169,215	1,100,244	(6,081,653)	-	(6,081,653)
Libraries and recreation	11,042,268	875,413	368,532	586,282	(9,212,041)	-	(9,212,041)
Community development	1,024,152	155,461	840,616	-	(28,075)	-	(28,075)
Interest on long-term debt	2,904,451	-	-	-	(2,904,451)	-	(2,904,451)
Total governmental activities	<u>75,599,272</u>	<u>12,876,415</u>	<u>5,751,738</u>	<u>1,691,476</u>	<u>(55,279,643)</u>	<u>-</u>	<u>(55,279,643)</u>
<b>Business-type activities:</b>							
Sanitary sewer	8,331,126	8,055,880	49,233	194,049	-	(31,964)	(31,964)
Solid waste	7,819,950	6,880,192	251,952	-	-	(687,806)	(687,806)
Total business-type activities	<u>16,151,076</u>	<u>14,936,072</u>	<u>301,185</u>	<u>194,049</u>	<u>-</u>	<u>(719,770)</u>	<u>(719,770)</u>
Total	<u>\$ 91,750,348</u>	<u>\$ 27,812,487</u>	<u>\$ 6,052,923</u>	<u>\$ 1,885,525</u>	<u>(55,279,643)</u>	<u>(719,770)</u>	<u>(55,999,413)</u>
<b>General revenues:</b>							
Taxes:							
Real estate taxes					35,833,247	-	35,833,247
Mercantile and business privilege taxes					12,147,500	-	12,147,500
Local services tax					1,933,383	-	1,933,383
Interest income					1,022,898	157,629	1,180,527
Gain on disposal of assets					150,247	-	150,247
<b>Transfers</b>					<u>(76,146)</u>	<u>76,146</u>	<u>-</u>
Total general revenues and transfers					<u>51,011,129</u>	<u>233,775</u>	<u>51,244,904</u>
Change in net position					<u>(4,268,514)</u>	<u>(485,995)</u>	<u>(4,754,509)</u>
Net position, January 1, 2018					146,170,685	18,112,455	164,283,140
Prior period adjustments (Note 13)					<u>(3,439,229)</u>	<u>347,800</u>	<u>(3,091,429)</u>
Net position, January 1, 2018, restated					<u>142,731,456</u>	<u>18,460,255</u>	<u>161,191,711</u>
Net position, December 31, 2018					<u>\$ 138,462,942</u>	<u>\$ 17,974,260</u>	<u>\$ 156,437,202</u>

See accompanying notes to basic financial statements.



## **Fund Financial Statements**

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Balance Sheets

Governmental Funds

December 31, 2018

Assets	Other			Total
	General	Capital Projects	Governmental Funds	Governmental Funds
Cash and cash equivalents	\$ 10,658,534	\$ 3,591	\$ 82,165	\$ 10,744,290
Investments	28,107,982	3,211,073	-	31,319,055
Taxes receivable, net	477,777	-	-	477,777
Accounts receivable, net	2,980,813	10,323	500,000	3,491,136
Loan receivable	-	-	1,004,311	1,004,311
Grants receivable	-	4,243	180,739	184,982
Due from other funds	300,119	-	-	300,119
Prepaid items	41,561	-	-	41,561
Total assets	<u>\$ 42,566,786</u>	<u>\$ 3,229,230</u>	<u>\$ 1,767,215</u>	<u>\$ 47,563,231</u>

**Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)**

<b>Liabilities:</b>				
Accounts payable and accrued expenditures	\$ 2,397,930	\$ 625,962	\$ 141,696	\$ 3,165,588
Due to other funds	-	-	94,037	94,037
Escrow deposits	15,879,958	256,820	-	16,136,778
Unearned revenue	750,308	265,916	1,004,311	2,020,535
Estimated claims costs payable	860,103	-	-	860,103
Total liabilities	<u>19,888,299</u>	<u>1,148,698</u>	<u>1,240,044</u>	<u>22,277,041</u>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	<u>1,328,256</u>	-	500,000	<u>1,828,256</u>
Total deferred inflows of resources	<u>1,328,256</u>	-	500,000	<u>1,828,256</u>

<b>Fund balances (deficit):</b>				
Nonspendable:				
Prepaid items	\$ 41,561	\$ -	\$ -	\$ 41,561
Restricted:				
Community development	-	-	121,208	121,208
Committed:				
Capital projects	-	2,080,532	-	2,080,532
Assigned:				
Future healthcare cost increases	400,000	-	-	400,000
Future pension cost increases	625,000	-	-	625,000
Subsequent year's budget	3,956,345	-	-	3,956,345
General government	321,499	-	-	321,499
Unassigned	16,005,827	-	(94,037)	15,911,790
Total fund balances	<u>21,350,232</u>	<u>2,080,532</u>	<u>27,171</u>	<u>23,457,935</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 42,566,787</u>	<u>\$ 3,229,230</u>	<u>\$ 1,767,215</u>	<u>\$ 47,563,232</u>
Total Fund Balances – All Governmental Funds, December 31, 2018				\$ 23,457,935

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.	214,569,026
Deferred outflows and deferred inflows related to the net pension and OPEB liability 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	22,271,306
Deferred inflow related to pensions	(3,676,639)
Deferred outflow related to OPEB	2,375,075
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.	1,828,256
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.	1,706,454
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.	5,402,893
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	(1,143,516)
Long-term portion of claims payable	(1,400,875)
Unfunded other postemployment benefits obligation	(30,976,311)
Pollution remediation obligation	(142,200)
Net pension liability	(10,463,003)
Long-term debt, net	(85,345,459)
Net position of governmental activities	<u>\$ 138,462,942</u>

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, 2018

	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Real estate taxes	\$ 35,925,631	\$ -	\$ -	\$ 35,925,631
Licenses and permits	6,340,597	-	-	6,340,597
Business and other taxes	14,080,883	-	-	14,080,883
Fines, forfeits, and costs	862,934	-	-	862,934
Interest income	858,304	49,989	28,539	936,832
Grants and gifts	84,615	1,691,476	5,822,584	7,598,675
Departmental earnings	2,660,292	-	-	2,660,292
Other	2,745,400	1,212,440	-	3,957,840
Total revenues	63,558,656	2,953,905	5,851,123	72,363,684
<b>Expenditures:</b>				
Current:				
General government	5,819,274	20,883	-	5,840,157
Public safety	26,559,083	-	3,038,579	29,597,662
Building and planning	4,099,474	-	-	4,099,474
Public works	8,685,788	-	-	8,685,788
Libraries and recreation	8,125,099	8,587	-	8,133,686
Community development	-	-	1,024,152	1,024,152
Debt service:				
Principal	6,959,196	-	-	6,959,196
Interest	3,060,347	-	-	3,060,347
Capital outlays	-	9,721,497	-	9,721,497
Total expenditures	63,308,261	9,750,967	4,062,731	77,121,959
Excess (deficiency) of revenues over (under) expenditures	250,395	(6,797,062)	1,788,392	(4,758,275)
Other financing sources (uses), including transfers				
Transfers in	1,001,735	1,811,715	-	2,813,450
Transfers out	(1,076,146)	-	(1,813,450)	(2,889,596)
Total other financing sources (uses)	(74,411)	1,811,715	(1,813,450)	(76,146)
Net change in fund balances	175,984	(4,985,347)	(25,058)	(4,834,421)
<b>Fund balances – beginning</b>	21,174,248	7,065,879	52,229	28,292,356
<b>Fund balances – ending</b>	\$ 21,350,232	\$ 2,080,532	\$ 27,171	\$ 23,457,935

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, 2018

Net change in fund balance – total governmental funds	\$	(4,834,421)
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 capital outlays of \$9,721,497 exceeded depreciation of \$6,298,154.		
		3,423,343
Other adjustments to capital assets		(162,777)
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		(1,213,338)
Changes in net pension liability, net of related deferred outflows and deferred inflows are not reported in the funds		(6,683,231)
Changes in net OPEB liability, net of related deferred outflows and deferred inflows are not reported in the funds		(1,433,044)
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.		
Debt principal payments		6,959,196
Net change in bond premiums, discounts and deferred gain or loss		144,246
Capital lease principal payments		58,927
		7,162,369
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		155,896
Increase in long-term portion of claims payable		(60,934)
Decrease in pollution remediation obligation		30,000
		124,962
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 \$2,059,682 of depreciation, is reported with governmental funds		(652,377)
Change in net position of governmental activities	\$	(4,268,514)

See accompanying notes to basic financial statements.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Net Position

Proprietary Funds

December 31, 2018

Assets and Deferred Outflows of Resources:	Business-type activities – enterprise funds			Internal Service
	Sanitary Sewer	Solid Waste	Total	Fund –
	Fund	Fund		Equipment
				Fund
Current assets:				
Cash and cash equivalents	\$ 765,298	\$ -	\$ 765,298	\$ 1,345,164
Investments	4,551,661	-	4,551,661	4,102,110
Accrued interest receivable	30,259	-	30,259	22,059
Accounts receivable, net	516,462	356,696	873,158	44,229
Special assessment receivable, net	50,396	-	50,396	-
Grants receivable	-	235,700	235,700	-
Prepaid items	-	932	932	-
Total current assets	5,914,076	593,328	6,507,404	5,513,562
Noncurrent assets:				
Accounts receivable, net	1,052,206	180,318	1,232,524	691
Special assessment receivable, net	287,005	-	287,005	-
Prepaid sewer services, net	3,862,246	-	3,862,246	-
Capital assets:				
Land and construction in progress	200,950	-	200,950	-
Depreciable infrastructure, buildings, machinery, and equipment, net of accumulated depreciation	24,826,809	-	24,826,809	7,740,775
Total noncurrent assets	30,229,216	180,318	30,409,534	7,741,466
Total assets	36,143,292	773,646	36,916,938	13,255,028
Deferred outflows of resources:				
Excess reacquisition cost of refunded bonds	281,956	-	281,956	-
Total assets and deferred outflows of resources	36,425,248	773,646	37,198,894	13,255,028
 <b>Liabilities, Deferred Inflows of Resources, and Net Position:</b>				
Current liabilities:				
Accounts payable and accrued expenses	1,080,600	344,956	1,425,556	111,360
Interest payable	243,762	-	243,762	-
Due to other funds	20,728	185,354	206,082	-
Unearned revenue	14,213	-	14,213	-
Current portion of long-term debt	1,461,784	-	1,461,784	-
Total current liabilities	2,821,087	530,310	3,351,397	111,360
Noncurrent liabilities:				
Unearned revenue	135,781	-	135,781	-
Long-term portion of long-term debt, net	15,737,456	-	15,737,456	-
Total noncurrent liabilities	15,873,237	-	15,873,237	-
Total liabilities	18,694,324	530,310	19,224,634	111,360
<b>Net Position</b>				
Net position:				
Net investment in capital assets	6,697,071	-	6,697,071	7,740,775
Unrestricted	11,033,853	243,336	11,277,189	5,402,893
Total net position	\$ 17,730,924	\$ 243,336	\$ 17,974,260	\$ 13,143,668

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, 2018

	<u>Business-type activities – enterprise funds</u>			<b>Internal Service Fund – Equipment Fund</b>
	<u>Sanitary</u>	<u>Solid Waste</u>	<u>Total</u>	
	<u>Sewer Fund</u>	<u>Fund</u>		
<b>Operating revenues:</b>				
Charges and fees	\$ 8,009,853	\$ 6,778,809	\$ 14,788,662	\$ -
Rentals	-	-	-	3,615,822
Other	46,027	101,383	147,410	20,247
Total operating revenues	<u>8,055,880</u>	<u>6,880,192</u>	<u>14,936,072</u>	<u>3,636,069</u>
<b>Operating expenses:</b>				
Salaries and wages	1,312,545	3,027,851	4,340,396	632,007
Employee benefits	561,684	1,278,591	1,840,275	251,110
Utilities, supplies, and other	4,318,944	3,513,508	7,832,452	1,581,960
Depreciation and amortization	1,559,391	-	1,559,391	2,059,682
Total operating expenses	<u>7,752,564</u>	<u>7,819,950</u>	<u>15,572,514</u>	<u>4,524,759</u>
Operating income (loss)	<u>303,316</u>	<u>(939,758)</u>	<u>(636,442)</u>	<u>(888,690)</u>
<b>Nonoperating revenues and expenses:</b>				
Intergovernmental	49,233	251,952	301,185	-
Grants and gifts	194,049	-	194,049	-
Interest expense	(578,562)	-	(578,562)	-
Interest income	121,836	35,793	157,629	86,066
Gain (Loss) on disposal of capital assets	-	-	-	150,247
Total nonoperating revenues and expenses	<u>(213,444)</u>	<u>287,745</u>	<u>74,301</u>	<u>236,313</u>
Income before contributions and operating transfers	89,872	(652,013)	(562,141)	(652,377)
Transfers in	-	76,146	76,146	-
Change in net position	89,872	(575,867)	(485,995)	(652,377)
<b>Net Position:</b>				
Net position, January 1, 2018	17,538,652	573,803	18,112,455	13,746,845
Prior period adjustments (Note 13)	102,400	245,400	347,800	49,200
Net position, January 1, 2018, restated	<u>17,641,052</u>	<u>819,203</u>	<u>18,460,255</u>	<u>13,796,045</u>
Net position, December 31, 2018	<u>\$ 17,730,924</u>	<u>\$ 243,336</u>	<u>\$ 17,974,260</u>	<u>\$ 13,143,668</u>

See accompanying notes to basic financial statements.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Cash Flows

Proprietary Funds

Year ended December 31, 2018

	<b>Business-type activities – enterprise funds</b>			<b>Internal Service Fund – Equipment Fund</b>
	<b>Sanitary Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total</b>	<b>Fund</b>
Cash flows from operating activities:				
Receipts from customers	\$ 8,553,965	\$ 6,798,155	\$ 15,352,120	\$ 3,613,978
Other cash operating receipts	102,946	245,600	348,546	49,200
Payments to suppliers	(3,589,807)	(2,237,135)	(5,826,942)	(1,561,407)
Payments to employees	(1,866,798)	(4,286,368)	(6,153,166)	(880,495)
Payments for interfund services used	(317,632)	(949,606)	(1,267,238)	-
Net cash provided by (used in) operating activities	<u>2,882,674</u>	<u>(429,354)</u>	<u>2,453,320</u>	<u>1,221,276</u>
Cash flows from noncapital financing activities:				
Intergovernmental	244,750	251,988	496,738	-
Transfer from other funds	-	76,146	76,146	-
Net cash provided by noncapital financing activities	<u>244,750</u>	<u>328,134</u>	<u>572,884</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(2,735,655)	-	(2,735,655)	(1,037,971)
Principal paid on capital debt	(1,345,804)	-	(1,345,804)	-
Interest paid on capital debt	(603,553)	-	(603,553)	-
Proceeds from sale of capital assets	-	-	-	150,247
Net cash used in capital and related financing activities	<u>(4,685,012)</u>	<u>-</u>	<u>(4,685,012)</u>	<u>(887,724)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	18,787,387	4,155,720	22,943,107	3,631,358
Purchase of investments	(17,460,187)	(4,155,720)	(21,615,907)	(4,227,537)
Interest and dividends received	113,666	35,793	149,459	70,815
Net cash provided by (used in) investing activities	<u>1,440,866</u>	<u>35,793</u>	<u>1,476,659</u>	<u>(525,364)</u>
Net decrease in cash and cash equivalents	(116,722)	(65,427)	(182,149)	(191,812)
Cash and cash equivalents, January 1, 2018	<u>882,020</u>	<u>65,427</u>	<u>947,447</u>	<u>1,536,976</u>
Cash and cash equivalents, December 31, 2018	<u>\$ 765,298</u>	<u>\$ -</u>	<u>\$ 765,298</u>	<u>\$ 1,345,164</u>

See accompanying notes to basic financial statements.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Cash Flows (Continued)

Proprietary Funds

Year ended December 31, 2018

	<b>Business-type activities – enterprise funds</b>			<b>Internal Service</b>
	<b>Sanitary Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total</b>	<b>Fund – Equipment Fund</b>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 303,316	\$ (939,758)	\$ (636,442)	\$ (888,690)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,559,391	-	1,559,391	2,059,682
Effect of changes in operating assets and liabilities:				
Accounts receivable	601,031	163,564	764,595	27,108
Other assets	-	(250)	(250)	-
Accounts payable and accrued expenses	433,580	161,736	595,316	23,176
Deferred revenue	(15,223)	-	(15,223)	-
Due to other funds	579	185,354	185,933	-
Total adjustments	2,579,358	510,404	3,089,762	2,109,966
Net cash provided by (used in) operating activities	\$ 2,882,674	\$ (429,354)	\$ 2,453,320	\$ 1,221,276

See accompanying notes to basic financial statements.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2018

<b>Assets</b>	<b>Pension Trust Funds</b>	<b>Appleford Private- Purpose Trust Fund</b>
Cash and cash equivalents	\$ 398,447	\$ 101,000
Investments:		
Bond mutual funds	68,718,767	-
Equity mutual funds	133,160,146	-
Accrued income	186	-
Total assets	202,277,546	101,000
<b>Liabilities</b>		
Accounts payable and accrued expenses	33,057	-
<b>Net Position</b>		
Net Position:		
Restricted for pensions	202,244,489	-
Held in trust for Appleford property	-	101,000
Total net position	\$ 202,244,489	\$ 101,000

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, 2018

	<u>Pension Trust Funds</u>	<u>Appleford Private- Purpose Trust Fund</u>
Additions:		
Contributions:		
Commonwealth of Pennsylvania allocation	\$ 2,389,038	\$ -
Employee contributions	741,322	-
Other contributions	21,679	-
Total contributions	<u>3,152,039</u>	<u>-</u>
Investment return:		
Interest and dividends	4,657,408	-
Loss on investments	(17,236,801)	-
Total investment loss	<u>(12,579,393)</u>	<u>-</u>
Less investment expenses	<u>(41,532)</u>	<u>-</u>
Net investment loss	<u>(12,620,925)</u>	<u>-</u>
Total additions	<u>(9,468,886)</u>	<u>-</u>
Deductions:		
Benefits paid	8,739,959	-
Administrative expenses	96,086	-
Total deductions	<u>8,836,045</u>	<u>-</u>
Change in net position	<u>(18,304,931)</u>	<u>-</u>
Net position – beginning	<u>220,549,420</u>	<u>101,000</u>
Net position – ending	<u>\$ 202,244,489</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, 2018

### (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, 2018

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, 2018

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, 2018

### 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, 2018, 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, 2018, 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, 2018, 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, 2018 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, 2018

### 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, 2018

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. 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 has adopted this Statement and incorporated it into the Township's 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 has adopted this Statement and incorporated it into the Township's financial statements.

## TOWNSHIP OF LOWER MERION, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2018

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 has adopted this Statement 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 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.

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 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.

## TOWNSHIP OF LOWER MERION, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2018

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.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is effective for fiscal years beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Township is required to adopt Statement No. 89 for its calendar 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which is effective for fiscal years beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Township is required to adopt Statement No. 90 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.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2018

### (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.

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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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.

Total costs capitalized under this contract were \$13,184,689 at December 31, 2018. Accumulated amortization is \$9,322,444 at December 31, 2018. Amortization expense for the year ended December 31, 2018 was \$482,781.

**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 acquisition 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

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2018

### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

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

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

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 \$57,919 as of December 31, 2018.

### 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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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 \$352,890 net of allowance for uncollectible amounts of \$15,489 at December 31, 2018

**(2) Deposits and Investments**

**(a) Deposits**

At December 31, 2018, the carrying value of the Township's deposits was \$9,983,102 in the various funds. The bank balances were \$10,146,546. 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.

# TOWNSHIP OF LOWER MERION, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2018

### **(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 is 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, 2018, the fair value of the Township's position in PLGIT is \$34,909,556, with \$32,499,266 in PLGIT PRIME and TERM and \$2,410,290 in PLGIT ARM. The fair value of the Township's position in PLGIT is the same as the value of the PLGIT pool shares.

#### **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, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**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	\$ 713,268	\$ 713,268
Certificates of Deposit (Non-PLGIT)	N/A	7,322,648	7,322,648
PLGIT PRIME	N/A	23,999,266	23,999,266
PLGIT TERM	N/A	8,500,000	8,500,000
PLGIT ARM	N/A	2,410,290	2,410,290
Total invested assets		<u>\$ 42,945,472</u>	<u>\$ 42,945,472</u>

**Township of Lower Merion Pension Trust Fund Investments**

<u>Investment type</u>	<u>Level</u>	<u>Fair value</u>	<u>Investment maturities</u>		
			<u>1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>
Wells Fargo Advantage Treasury Money Fund	1	\$ 398,447	\$ 398,447	\$ -	\$ -
Bond mutual funds:					
T. Rowe Price Institutional Float Rate	1	12,104,418	-	12,104,418	-
Vanguard Short Term Investment Grade Fund	1	52,673,924	-	52,673,924	-
Aetna Bond Portfolio	1	3,940,425	-	-	3,940,425
Subtotal – bond fund investments		<u>68,718,767</u>	<u>-</u>	<u>64,778,342</u>	<u>3,940,425</u>
Subtotal – fixed-income investments		<u>69,117,214</u>	<u>\$ 398,447</u>	<u>\$ 64,778,342</u>	<u>\$ 3,940,425</u>
Equity mutual funds	1	<u>133,160,146</u>			
Subtotal – equity investments		<u>133,160,146</u>			
Total fair value of investments		<u>\$ 202,277,360</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).

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**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.

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 &amp; Poor’s</u>	<u>Moody’s</u>	<u>Credit exposure as a percentage of total portfolio</u>
Bank money market deposits	A-1+	P-1	57.6%
Certificates of deposit	AA+	Aaa	36.8
Pooled investments	AAAm	N/A	5.6

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**Township of Lower Merion Pension Trust Fund Investment Credit Risk**

<b>Investment type</b>	<b>Credit quality (rating)*</b>	<b>Credit exposure as a percentage of total portfolio</b>
Bond funds:		
T. Rowe Price Institutional Floating Rate	B	6.0%
Vanguard Short Term Investment Grade Fund	A	26.2
Aetna Bond Portfolio	A-	1.6

\* Ratings obtained via Morningstar (T. Rowe Price & Vanguard) and via Aetna's Internal Reporting since there is no verifiable third party source

**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.

**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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**(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	\$ 477,777	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 477,777
Interest	65,773	-	30,259	-	-	22,059	118,091
Accounts	2,936,245	10,323	1,596,477	543,502	500,000	44,920	5,631,467
Loans	-	-	-	-	1,004,311	-	1,004,311
Special assessment	-	-	352,890	-	-	-	352,890
Grants	-	4,243	-	235,700	180,739	-	420,682
<b>Total receivables</b>	<b>3,479,795</b>	<b>14,566</b>	<b>1,979,626</b>	<b>779,202</b>	<b>1,685,050</b>	<b>66,979</b>	<b>8,005,218</b>
Allowance for doubtful accounts	(21,205)	-	(43,298)	(6,488)	-	-	(70,991)
<b>Total receivables, net</b>	<b>\$ 3,458,590</b>	<b>\$ 14,566</b>	<b>\$ 1,936,328</b>	<b>\$ 772,714</b>	<b>\$ 1,685,050</b>	<b>\$ 66,979</b>	<b>\$ 7,934,227</b>
Amounts not scheduled for collection during the subsequent year	\$ 189,307	\$ -	\$ 1,339,211	\$ 180,318	\$ 1,535,037	\$ 691	\$ 3,244,564

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.

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, 2018 are as follows:

Uncollectible related to engineering fees (general fund)	\$ 21,205
Uncollectible related to sanitary sewer charges	27,809
Uncollectible related to sanitary sewer special assessments	15,489
Uncollectible related to solid waste charges	<u>6,488</u>
<b>Total uncollectibles of the current year</b>	<b>\$ <u><u>70,991</u></u></b>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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:

	<b>Unavailable</b>	<b>Unearned</b>	<b>Total</b>
Real estate taxes receivables (general fund)	\$ 477,777	\$ -	\$ 477,777
Healthcare receivable (general fund)	850,479	-	850,479
Nontax receivables (general fund)	-	750,308	750,308
Nontax receivables (capital fund)	-	265,916	265,916
Nontax receivables (nonmajor governmental funds)	500,000	1,004,311	1,504,311
Total deferred/unearned revenue for governmental funds	\$ 1,828,256	\$ 2,020,535	\$ 3,848,791

**(4) Capital Assets**

Capital asset activity for the year ended December 31, 2018 was as follows:

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending balance</b>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 91,136,400	\$ -	\$ -	\$ -	91,136,400
Construction in progress	14,516,303	9,388,898	(29,470)	(9,963,274)	13,912,457
Total capital assets, not being depreciated	105,652,703	9,388,898	(29,470)	(9,963,274)	105,048,857
Capital assets being depreciated:					
Land improvements	12,631,491	-	-	557,899	13,189,390
Buildings	46,405,890	-	-	2,862,763	49,268,653
Building improvements	12,290,177	-	-	1,601,620	13,891,797
Machinery and equipment	42,148,433	1,193,928	(305,965)	508,474	43,544,870
Infrastructure	129,155,316	43,337	-	4,432,518	133,631,171
Total capital assets being depreciated	242,631,307	1,237,265	(305,965)	9,963,274	253,525,881
Less accumulated depreciation for:					
Land improvements	(7,889,545)	(377,116)	-	-	(8,266,661)
Buildings	(12,746,110)	(937,401)	-	-	(13,683,511)
Building improvements	(4,186,791)	(642,246)	-	-	(4,829,037)
Machinery and equipment	(26,351,496)	(3,147,142)	305,965	-	(29,192,673)
Infrastructure	(84,779,898)	(3,253,932)	-	-	(88,033,830)
Total accumulated depreciation	(135,953,840)	(8,357,837)	305,965	-	(144,005,712)
Total capital assets, being depreciated, net	106,677,467	(7,120,572)	-	9,963,274	109,520,169
Governmental activities capital assets, net	\$ 212,330,170	\$ 2,268,326	\$ (29,470)	\$ -	214,569,026

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending balance</b>
Business-type activities – sewer:					
Capital assets, not being depreciated:					
Construction in progress	\$ 979,594	\$ 2,717,018	\$ (64,435)	\$ (3,431,227)	\$ 200,950
Total capital assets, not being depreciated	979,594	2,717,018	(64,435)	(3,431,227)	200,950
Capital assets being depreciated:					
Buildings	4,876,596	53,779	-	-	4,930,375
Infrastructure	39,922,510	-	(709,374)	3,431,227	42,644,363
Total capital assets being depreciated	44,799,106	53,779	(709,374)	3,431,227	47,574,738
Less accumulated depreciation for:					
Buildings	(3,645,643)	(102,707)	-	-	(3,748,350)
Infrastructure	(18,735,050)	(973,903)	709,374	-	(18,999,579)
Total accumulated depreciation	(22,380,693)	(1,076,610)	709,374	-	(22,747,929)
Total capital assets, being depreciated, net	22,418,413	(1,022,831)	-	3,431,227	24,826,809
Business-type activities capital assets, net	\$ 23,398,007	\$ 1,694,187	\$ (64,435)	\$ -	\$ 25,027,759

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government, including depreciation of general infrastructure assets	\$ 3,235,284
Public safety	1,375,600
Building, planning, and health	41,639
Public works	1,498,228
Libraries and recreation	2,207,086
Total depreciation expense – governmental activities	\$ 8,357,837

Business-type activities:

Sewer	\$ 1,076,610
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**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

***Construction Commitments***

The Township has active construction projects as of December 31, 2018. 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:

<b>Project</b>	<b>Spent to date</b>	<b>Remaining Commitment</b>
Building and building components	\$ -	\$ 246,873
Bridge reconstruction	3,007,172	54,740
Land and land improvements	209,801	48,885
Machinery and equipment	252,101	532,189
Other infrastructure	10,276,858	381,116
Total	\$ 13,745,932	\$ 1,263,803

***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, 2018 are as follows:

Major funds:		
General fund	\$	321,499
Capital projects fund		1,263,803
Total Major funds		1,585,302
Nonmajor governmental funds		187,261
Total Encumbrances	\$	1,772,563

**(5) Interfund Receivables, Payables, and Transfers**

The composition of interfund balances at December 31, 2018 is as follows:

<b>Receivable fund</b>	<b>Payable fund</b>	<b>Amount</b>
General	Solid Waste	\$ 185,354
General	Nonmajor Governmental	94,037
General	Sanitary Sewer	20,728
		\$ 300,119

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 Solid Waste Fund and 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, 2018

A summary of transfers reported for the year ended December 31, 2018 is as follows:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Capital Projects	General	\$ 1,000,000
General	Nonmajor Governmental	1,001,735
Capital Projects	Nonmajor Governmental	811,715
Solid Waste	General	76,146

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. The Board of Commissioners approved a resolution for a one-time transfer from the General Fund to the Capital Projects Fund to in order to eliminate the need to issue debt in 2018 and restrain future debt issuance. 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) General Obligation Bonds**

The Township issued no new bonds in 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 2018 was \$246,167 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, 2018

The general obligation bonds currently outstanding at December 31, 2018 are as follows:

Description	Average interest rate	Maturity dates through	Balance outstanding
Series A of 2010	4.13	2026	\$ 10,725,000
Series C of 2010	5.17	2031	14,540,000
Series A of 2011	3.40	2023	5,215,000
Series B of 2011	3.56	2028	10,280,000
Series A of 2012	3.81	2027	6,145,000
Series A of 2013	2.07	2033	9,695,000
Series A of 2014	2.67	2029	4,695,000
Series B of 2014	2.83	2034	7,695,000
Series A of 2015	4.50	2020	2,570,000
Series B of 2015	3.76	2035	8,665,000
Series A of 2016	3.50	2020	2,675,000
Series B of 2016	2.04	2036	6,895,000
Series A of 2017	2.70	2037	9,420,000
Total general obligation bonds			99,215,000
Less allocation to business-type activities			16,700,936
Total governmental activities general obligation bonds			\$ <u>82,514,064</u>

Annual debt service requirements to maturity for general obligation bonds at December 31, 2018 are as follows:

Year ending December 31,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
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	6,961,789	1,738,443	1,293,211	353,395
2024 to 2028	28,521,498	5,437,985	5,313,502	1,176,172
2029 to 2033	14,831,920	1,729,979	3,218,080	432,865
2034 to 2037	4,177,500	203,196	1,397,500	87,067
Total	\$ <u>82,514,064</u>	\$ <u>18,697,913</u>	\$ <u>16,700,936</u>	\$ <u>3,979,360</u>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**(d) Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2018 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	\$ 89,473,260	\$ -		\$ (6,959,196)		\$ 82,514,064		\$ 6,913,797	
Less deferred amounts:									
Unamortized bond discount	(102,602)	-		9,200		(93,402)		(9,200)	
Unamortized bond premium	3,091,132	-		(382,400)		2,708,732		382,400	
Total bonds payable	92,461,790	-		(7,332,396)		85,129,394		7,286,997	
Capital lease payable	274,992	-		(58,927)		216,065		58,927	
Claim costs payable	2,124,196	1,186,728		(1,049,948)		2,260,976		860,103	
Governmental activity long-term liabilities:	<u>\$ 94,860,978</u>	<u>\$ 1,186,728</u>		<u>\$ (8,441,271)</u>		<u>\$ 87,606,435</u>		<u>\$ 8,206,027</u>	
Business-type activities:									
General obligation bonds	\$ 18,046,740	\$ -		\$ (1,345,804)		\$ 16,700,936		\$ 1,396,203	
Unamortized bond discount	(22,640)	-		1,978		(20,662)		(1,978)	
Unamortized bond premium	586,525	-		(67,559)		518,966		67,559	
	<u>\$ 18,610,625</u>	<u>\$ -</u>		<u>\$ (1,411,385)</u>		<u>\$ 17,199,240</u>		<u>\$ 1,461,784</u>	

At year-end, \$150,000 of liability claims payable and \$2,110,976 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 \$232,195,209 at December 31, 2018, with \$99,215,000 of nonelectoral debt outstanding at December 31, 2018.

**(f) Capital Lease**

The Township entered into a lease agreement as lessee for financing the acquisition of IT equipment valued at \$309,366, which has accumulated depreciation of \$93,301 as of December 31, 2018. The equipment has a five-year estimated useful life. This year, \$58,927 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, 2018

The future capital lease payments as of December 31, 2018, were as follows:

Year Ended December 31,	Governmental Activities	
2019	\$	58,927
2020		58,927
2021		58,927
2022		39,284
Total	\$	216,065

**(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, 2018 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	\$ 397,885	\$ 562	\$ 398,447
Investments:			
Bond mutual funds	37,207,876	31,510,891	68,718,767
Equity mutual funds	73,752,617	59,407,529	133,160,146
Accrued income	150	36	186
Total assets	111,358,528	90,919,018	202,277,546
<b>Liabilities</b>			
Accounts payable and accrued expenses	13,029	20,028	33,057
<b>Net Position</b>			
Net position:			
Held in trust for pension benefits	\$ 111,345,499	\$ 90,898,990	\$ 202,244,489

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**Statement of Fiduciary Changes in Net Position**

	<b>Pension Trust Funds</b>		<b>Total</b>
	<b>Municipal Police Pension Plan</b>	<b>Township Employees' Pension Plan</b>	
<b>Additions:</b>			
<b>Contributions:</b>			
Employee contributions	\$ 170,255	\$ 571,067	\$ 741,322
Commonwealth of Pennsylvania allocation	1,514,947	874,091	2,389,038
Other contributions	18,560	3,119	21,679
<b>Total contributions</b>	<b>1,703,762</b>	<b>1,448,277</b>	<b>3,152,039</b>
<b>Investment income:</b>			
Interest and dividends	2,543,496	2,113,912	4,657,408
Net appreciation of investments	(9,565,360)	(7,671,441)	(17,236,801)
<b>Total investment earnings</b>	<b>(7,021,864)</b>	<b>(5,557,529)</b>	<b>(12,579,393)</b>
Less investment expenses	-	(41,532)	(41,532)
<b>Net investment income</b>	<b>(7,021,864)</b>	<b>(5,599,061)</b>	<b>(12,620,925)</b>
<b>Total additions</b>	<b>(5,318,102)</b>	<b>(4,150,784)</b>	<b>(9,468,886)</b>
<b>Deductions:</b>			
Benefits paid	4,768,356	3,971,603	8,739,959
Administrative expenses	48,881	47,205	96,086
<b>Total deductions</b>	<b>4,817,237</b>	<b>4,018,808</b>	<b>8,836,045</b>
<b>Change in net position</b>	<b>(10,135,339)</b>	<b>(8,169,592)</b>	<b>(18,304,931)</b>
Net position – beginning of the year	121,480,838	99,068,582	220,549,420
Net position – end of the year	\$ 111,345,499	\$ 90,898,990	\$ 202,244,489

**(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 2018, 2017 and 2016. 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, 2018

**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.

	<b>All Non-Uniform Employees</b>
Employees hired prior to 2003:	
0 to 4.99 years of credited service	4%
5 to 9.99 years of credited service	2%
10 to 24.99 years of credited service	1%
Over 25 years of credited service	0%
Employees hired after 1/1/2003	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, 2018

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 2018, the Township received an allocation of \$2,389,038 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) 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, 2018, the Township recognized aggregate pension expense of \$9,072,269 and net pension liability of \$10,463,003. The Municipal Police Pension Plan and the Township Employees’ Pension Plan both have measurement dates as of December 31, 2018, and the total pension liability was calculated using the January 1, 2017 actuarial valuation which was rolled forward to December 31, 2018.

At December 31, 2018, 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	142 *	195
Inactive Members Entitled to but not yet Receiving Benefits	8	21
Active Members	126	263
Total Members	276	479

\* Includes 9 members in the DRO program

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to its pension plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Municipal Police Pension Plan</b>		
Difference Between Expected and Actual Experience	\$ -	\$ 1,009,067
Changes in Assumptions	3,351,622	-
Net Difference Between Projected and Actual Investment Earnings	<u>8,198,274</u>	<u>-</u>
<b>Municipal Police Pension Plan Subtotal</b>	<b>\$ 11,549,896</b>	<b>\$ 1,009,067</b>
<b>Township Employees' Pension Plan</b>		
Difference Between Expected and Actual Experience	\$ -	\$ 2,667,572
Changes in Assumptions	4,046,056	-
Net Difference Between Projected and Actual Investment Earnings	<u>6,675,354</u>	<u>-</u>
<b>Municipal Police Pension Plan Subtotal</b>	<b>\$ 10,721,410</b>	<b>\$ 2,667,572</b>
<b>Total Pension Plans</b>	<b><u>\$ 22,271,306</u></b>	<b><u>\$ 3,676,639</u></b>

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,	Municipal Police Pension Plan	Township Employees' Pension Plan	Total Pension Plans
2019	\$ 3,437,792	\$ 2,895,630	\$ 6,333,422
2020	1,925,356	1,674,732	3,600,088
2021	1,876,126	936,540	2,812,666
2022	3,301,555	2,537,793	5,839,348
2023	-	9,143	9,143
Total	<u>\$ 10,540,829</u>	<u>\$ 8,053,838</u>	<u>\$ 18,594,667</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 target as of December 31, 2018:

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

Asset Class	Target Allocation
Domestic Equity	45.00%
International Equity	15.00%
Fixed Income	39.50%
Cash	0.50%

**Concentrations**

At December 31, 2018, Municipal Police Pension Plan and the Township Employees' Pension Plan had the following investments which exceeded 5% or more of the Plan Net Assets:

Investment Name	Type of Investment	Amount	Percentage of Investments of Plan Net Assets
Vanguard Short-Term Investment Grade	Fixed Income	\$ 52,987,691	26.3%
Vanguard PrimeCap Core	U.S. Equities	46,433,342	23.1%
Vanguard Total International Stock Index	International Equities	15,818,700	7.9%
Europacific Growth	International Equities	12,794,567	6.4%
T. Rowe Price Institutional Floating Rate	Fixed Income	12,104,418	6.0%
T. Rowe Price Institutional Emerging Markets	International Equities	11,401,344	5.7%
Vanguard Mega Cap 300 Index	U.S. Equities	10,254,718	5.1%

**Net Pension Liability**

The net pension liability of the plans as of the measurement date of December 31, 2018, was as follows:

	Municipal Police Pension Plan	Township Employees' Pension Plan	Total
Total Pension Liability	\$ 117,646,858	\$ 95,060,633	\$ 212,707,491
Plan Fiduciary Net Position	111,345,499	90,898,989	202,244,488
Net Pension Liability	<u>\$ 6,301,359</u>	<u>\$ 4,161,644</u>	<u>\$ 10,463,003</u>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

At December 31, 2018, the Township's pension plans reported the following changes in total pension liability and fiduciary net position:

	Municipal Police Pension Plan	Township Employees' Pension Plan
<b>Total Pension Liability</b>		
Service Cost	\$ 2,701,862	\$ 1,872,456
Interest	8,025,040	6,518,044
Changes in Benefit Terms	-	-
Changes in Experience	-	-
Changes of Assumptions	-	-
Benefit Payments	(4,768,356)	(3,971,603)
Net Change in Total Pension Liability	5,958,546	4,418,897
Total Pension Liability - Beginning	111,688,312	90,641,736
Total Pension Liability - Ending	\$ 117,646,858	\$ 95,060,633
<b>Plan Fiduciary Net Position</b>		
Contribution - Employer	\$ 1,514,947	\$ 874,091
Contribution - Member	170,255	571,067
Net Investment Income	(7,054,156)	(5,602,722)
Miscellaneous Income	15,000	-
Benefit Payments	(4,768,356)	(3,971,603)
Administrative Expense	(13,029)	(40,426)
Net Change in Plan Fiduciary Net Position	(10,135,339)	(8,169,593)
Plan Fiduciary Net Position - Beginning	121,480,838	99,068,582
Plan Fiduciary Net Position - Ending	\$ 111,345,499	\$ 90,898,989
Net Pension Liability	\$ 6,301,359	\$ 4,161,644

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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	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	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	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**

Notes to Financial Statements

December 31, 2018

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, 2018 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	5.5% - 7.5%
International Equity	4.5% - 6.5%
Fixed Income	1.0% - 3.0%
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	\$ 20,593,385	\$ 6,301,359	\$ (5,600,819)
Net Pension Liability (Asset) - Township Employees' Pension Plan	\$ 15,029,205	\$ 4,161,644	\$ (4,843,068)

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**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 2018 was -5.97% and -5.82% 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, 2018, the cost to the Township for the 457 plan was \$253,654 and \$257,544 in 2017. Additionally, employees contributed approximately \$1,262,626 in 2018 and \$1,170,211 in 2017.

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, 2018, the cost to the Township for the 401(a) plan was \$25,260 and \$18,980 and in 2017.

**(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 the following:

	Management	Non-Union Non- Management	Workers Association	Fraternal Order of Police	Total
Active Members	43	25	208	121	397
Vested Former Participants	0	0	0	0	0
Retired Participants	29	8	83	96	216
Total Members	72	33	291	217	613

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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.

**(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 OPEB Trust nor is there a plan for the funding of future benefits. Projected pay-as-you-go financing requirements are established annually as part of the annual budget process.

**Net OPEB Liability**

The components of the net OPEB liability of the Township as of December 31, 2018, were as follows:

Total OPEB Liability	\$	30,976,311
Plan Fiduciary Net Position		-
Township's Net OPEB Liability	\$	<u>30,976,311</u>
Plan Fiduciary Net Position as a percentage of Total OPEB liability		0%

**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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

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 3.16%. The actuarial assumptions included a 3.16% investment rate of return, which is based on S&P municipal bond 20 year high grade rate index, and a medical inflation rate of 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075. The mortality rates were based on the IRS 2017 Static Combined Table for Small Plans.

**(c) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the Township calculated using the current discount rate of 3.16%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

	1% Decrease	Current Rate	1% Increase
	<u>2.16%</u>	<u>3.16%</u>	<u>4.16%</u>
Net OPEB Liability	\$ <u>33,474,441</u>	\$ <u>30,976,311</u>	\$ <u>28,716,915</u>

**(d) Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the net OPEB liability of the Township calculated using the current healthcare trend rates, as well as what the net OPEB liability would be if it were calculated using healthcare trend rates that are 1% lower or 1% higher than the current healthcare cost rates:

	1% Decrease	Current Rate	1% Increase
	<u>28,068,402</u>	<u>30,976,311</u>	<u>34,368,076</u>
Net OPEB Liability	\$ <u>28,068,402</u>	\$ <u>30,976,311</u>	\$ <u>34,368,076</u>

**(e) Net OPEB Liability and Deferred Outflows/Inflows of Resources**

The Township’s net OPEB liability has been measured as of January 1, 2018. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, and by rolling forward the liabilities from the January 1, 2017 actuarial valuation through the measurement date.

	<u>Net OPEB Liability</u>
Balance at January 1, 2017	\$ 28,491,084
Changes for the year:	
Service cost	1,607,487
Interest cost	1,090,071
Changes for experience	-
Changes in assumptions	1,110,561
Benefit Payments	<u>(1,322,892)</u>
Net Changes	<u>2,485,227</u>
Balance at January 1, 2018	\$ <u>30,976,311</u>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

For the year ending December 31, 2018, the Township recognized OPEB expense of \$2,836,378. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	971,741	-
Benefit payments subsequent to the measurement date	1,403,334	-
	\$ 2,375,075	\$ -

The Township will recognize the \$1,403,334 reported as deferred outflows for benefit payments subsequent to the measurement date as a reduction of the Net OPEB Liability in the year ending December 31, 2019.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Amount
2019	\$ 138,820
2020	138,820
2021	138,820
2022	138,820
2023	138,820
Thereafter	277,641
Total	\$ 971,741

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**(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 \$2,700,000. 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, 2018, such interfund premiums did not exceed reimbursable expenditures.

A claims liability of \$860,103 is reported in the General Fund, and \$2,260,976 is reported in the government-wide statement of net position at December 31, 2018.

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

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</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	\$ 1,974,196	\$ 1,692,980
Incurred claims (including IBNR)	-	-	1,186,728	747,839
Claim payments	-	-	(1,049,948)	(466,623)
Balance, end of year	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 2,110,976</u>	<u>\$ 1,974,196</u>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**(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 \$75,000 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 \$1,017,389 due to be paid in 2019.

**(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, 2018.

**(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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2018

**(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.

**(13) Restatements**

The Township adopted GASB Statement No. 75 (Note 1) for its calendar year ended December 31, 2018, which requires that the effects be applied to the earliest period practical. Additionally, the Township recorded restatements related to errors within capital asset depreciation and healthcare receivable.

The changes within the Township’s January 1, 2018 net position for the adoption of GASB Statement No. 75 and correction of the prior period errors noted above are as follows:

	Township Governmental Activities	Township Business-Type Activities	Sewer Fund	Solid Waste Fund	Equipment Fund
Net position, as previously reported, at January 1, 2018	\$ 146,170,685	18,112,455	17,538,652	573,803	13,746,845
Net post-retirement benefit liability (GASB 75)	(9,404,283)	-	-	-	-
Capital asset depreciation	3,944,421	-	-	-	-
Healthcare receivable	2,020,633	347,800	102,400	245,400	49,200
Restated net position, at January 1, 2018	<u>\$ 142,731,456</u>	<u>18,460,255</u>	<u>17,641,052</u>	<u>819,203</u>	<u>13,796,045</u>

**(14) Subsequent Events**

**(a) 2019 Bonds**

On May 8, 2019, the Township issued \$8,780,000 of General Obligation Bonds, Series A of 2019. Proceeds of the Bonds will be applied towards the current refunding of certain outstanding General Obligation bonds and paying the costs of issuing the Bonds. Series A of 2019 Bonds will be applied to currently refund a portion of the Township’s General Obligation Bonds, Series A & B of 2014.

On June 5, 2019, the Township issued \$8,820,000 of General Obligation Bonds, Series B of 2019. Proceeds of the Bonds will be applied towards funding various capital projects in the Township’s Capital Improvement Program in 2019 and 2020 and paying the costs of issuing the Bonds. The Series B of 2019 Bonds are stated to mature on July 15th of the years 2020 – 2039.



## **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, 2018

	General Fund			Variance with final budget – positive (negative)
	Budgeted amounts		Actual Amounts	
	Original	Final		
<b>Revenues:</b>				
Real estate taxes	\$ 35,757,300	\$ 35,757,300	\$ 35,925,631	\$ 168,331
Licenses and permits	6,638,800	6,638,800	6,340,597	(298,203)
Mercantile, business, and local services taxes	12,550,000	12,550,000	14,080,883	1,530,883
Fines, forfeits, and costs	1,020,000	1,020,000	862,934	(157,066)
Interest income	345,000	345,000	858,304	513,304
Grants and gifts	110,000	110,000	84,615	(25,385)
Departmental earnings	2,411,500	2,411,500	2,660,292	248,792
Other	2,401,300	2,401,300	2,745,400	344,100
Total revenues	<u>61,233,900</u>	<u>61,233,900</u>	<u>63,558,656</u>	<u>2,324,756</u>
<b>Expenditures:</b>				
Current:				
General government	7,668,737	7,668,737	5,819,274	1,849,463
Public safety	26,543,877	26,543,877	26,559,083	(15,206)
Building, and planning	4,164,652	4,164,652	4,099,474	65,178
Public works	8,846,005	8,846,005	8,685,788	160,217
Libraries and recreation	8,085,270	8,085,270	8,125,099	(39,829)
Debt service:				
Principal	6,979,925	6,979,925	6,959,196	20,729
Interest	3,060,348	3,060,348	3,060,347	1
Total expenditures	<u>65,348,814</u>	<u>65,348,814</u>	<u>63,308,261</u>	<u>2,040,553</u>
(Deficiency) excess of revenues (under) over expenditures	(4,114,914)	(4,114,914)	250,395	4,365,309
<b>Other financing sources:</b>				
Transfers in	1,000,000	1,000,000	1,001,735	1,735
Transfers out	<u>(101,000)</u>	<u>(101,000)</u>	<u>(1,076,146)</u>	<u>(975,146)</u>
Revenues and other financing sources (under) over expenditures and other financing uses	(3,215,914)	(3,215,914)	175,984	3,391,898
<b>Fund balance – beginning</b>	<u>18,965,351</u>	<u>18,965,351</u>	<u>21,174,248</u>	<u>2,208,897</u>
<b>Fund balance – ending</b>	<u>\$ 15,749,437</u>	<u>\$ 15,749,437</u>	<u>\$ 21,350,232</u>	<u>\$ 5,600,795</u>

See accompanying notes to required supplementary information.

## TOWNSHIP OF LOWER MERION, PENNSYLVANIA

### Notes to Required Supplementary Information

December 31, 2018

#### **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 GAAP basis of accounting.

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, 2018 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.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**

Required Supplementary Information

Municipal Police Pension Fund

December 31, 2018

Changes in the Employer's Net Pension Liability (Asset)

	Measurement Year Ending 12/31/18	Measurement Year Ending 12/31/17	Measurement Year Ending 12/31/16	Measurement Year Ending 12/31/15	Measurement Year Ending 12/31/14
<b>Total Pension Liability</b>					
Service Cost	\$ 2,701,862	\$ 2,567,090	\$ 2,394,058	\$ 2,274,639	\$ 2,098,114
Interest	8,025,040	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	(4,768,356)	(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	5,958,546	5,771,846	5,362,278	10,449,685	5,272,850
Total Pension Liability - Beginning	111,688,312	105,916,466	100,554,188	90,104,503	84,831,653
Total Pension Liability - Ending (a)	<u>\$ 117,646,858</u>	<u>\$ 111,688,312</u>	<u>\$ 105,916,466</u>	<u>\$ 100,554,188</u>	<u>\$ 90,104,503</u>
<b>Plan Fiduciary Net Position</b>					
Contribution - Employer	\$ 1,514,947	\$ 1,340,633	\$ 1,412,111	\$ 1,356,837	\$ 1,288,720
Contribution - Member	170,255	156,190	154,273	167,713	-
Net Investment Income	(7,054,156)	17,571,113	7,049,660	(58,044)	8,630,961
Miscellaneous Income	15,000	21,343	17,288	12,500	12,500
Benefit Payments	(4,768,356)	(4,564,642)	(4,289,627)	(4,449,375)	(3,634,274)
Administrative Expense	(13,029)	(69,657)	(20,210)	(27,536)	(12,490)
Refund of Member Contributions	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(10,135,339)	14,454,980	4,323,495	(2,997,905)	6,285,417
Plan Fiduciary Net Position - Beginning	121,480,838	107,025,858	102,702,363	105,700,268	99,414,851
Plan Fiduciary Net Position - Ending (b)	<u>\$ 111,345,499</u>	<u>\$ 121,480,838</u>	<u>\$ 107,025,858</u>	<u>\$ 102,702,363</u>	<u>\$ 105,700,268</u>
Net Pension Liability (Asset) (a-b)	<u>\$ 6,301,359</u>	<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	94.64 %	108.77 %	101.05 %	102.14 %	117.31 %
Covered Payroll	\$ 13,920,288	\$ 14,340,629	\$ 13,354,108	\$ 14,346,358	\$ 12,959,524
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	45.27 %	(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 %
2018	(5.97)%

\*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, 2018

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%
2018	1,514,947	1,514,947	-	13,920,228	10.88%

Schedule of the Employer's Net Pension Liability (Asset)\*

Measurement Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability (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%
2018	117,646,858	111,345,499	6,301,359	94.64%	13,920,228	45.27%

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, 2018

Changes in the Employer's Net Pension Liability (Asset)

	Measurement Year Ending 12/31/18	Measurement Year Ending 12/31/17	Measurement Year Ending 12/31/16	Measurement Year Ending 12/31/15	Measurement Year Ending 12/31/14
<b>Total Pension Liability</b>					
Service Cost	\$ 1,872,456	\$ 1,791,824	\$ 1,644,967	\$ 1,574,131	\$ 1,215,974
Interest	6,518,044	6,210,443	5,903,515	5,614,351	5,585,931
Changes of Benefit Terms	-	-	-	-	(2,867,719)
Benefit Payments	(3,971,603)	(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	4,418,897	4,416,544	4,205,300	8,043,689	3,934,186
Total Pension Liability - Beginning	90,641,736	86,225,192	82,019,892	73,976,203	70,042,017
Total Pension Liability - Ending (a)	<u>\$ 95,060,633</u>	<u>\$ 90,641,736</u>	<u>\$ 86,225,192</u>	<u>\$ 82,019,892</u>	<u>\$ 73,976,203</u>
<b>Plan Fiduciary Net Position</b>					
Contribution - Employer	\$ 874,091	\$ 725,647	\$ 750,108	\$ 670,235	\$ 705,710
Contribution - Member	571,067	440,615	400,241	354,914	299,971
Net Investment Income	(5,602,722)	14,214,922	5,609,419	19,719	6,946,407
Miscellaneous Income	-	261	-	-	-
Benefit Payments	(3,971,603)	(3,649,721)	(3,343,182)	(3,143,107)	(2,867,719)
Administrative Expense	(40,426)	(60,971)	(20,975)	(33,960)	(20,265)
Refund of Member Contributions	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(8,169,593)	11,670,753	3,395,611	(2,132,199)	5,064,104
Plan Fiduciary Net Position - Beginning	99,068,583	87,397,830	84,002,219	86,134,418	81,070,314
Plan Fiduciary Net Position - Ending (b)	<u>\$ 90,898,990</u>	<u>\$ 99,068,583</u>	<u>\$ 87,397,830</u>	<u>\$ 84,002,219</u>	<u>\$ 86,134,418</u>
Net Pension Liability (Asset) (a-b)	<u>\$ 4,161,643</u>	<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	95.62 %	109.30 %	101.36 %	102.42 %	116.44 %
Covered Payroll	\$ 18,632,460	\$ 18,178,518	\$ 17,108,829	\$ 17,852,222	\$ 16,067,828
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	22.34 %	(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 %
2018	(5.82)%

\*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, 2018

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%
2018	579,640	874,091	(294,451)	18,632,460	4.69%

Schedule of the Employer's Net Pension Liability (Asset)\*

Measurement Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability (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%
2018	95,060,633	90,898,989	4,161,644	95.62%	18,632,460	22.34%

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**

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios

December 31, 2018

	Measurement Year Ending 1/1/18
Total OPEB Liability	
Service Cost	\$ 1,607,487
Interest	1,090,071
Changes of Benefit Terms	-
Benefit Payments	(1,322,892)
Difference Between Actual and Expected, if any	-
Assumption Changes	1,110,561
Net Change in Total OPEB Liability	2,485,227
Total OPEB Liability - Beginning	28,491,084
Total OPEB Liability - Ending (a)	\$ 30,976,311
Plan Fiduciary Net Position	
Contribution - Employer	\$ -
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	\$ -
Net OPEB Liability	\$ 30,976,311
Fiduciary Net Position as a Percentage of Net OPEB Liability	0.00%
Covered Payroll	\$ 31,357,782
Net OPEB Liability as a Percentage of Covered Payroll	98.78%

NOTES TO SCHEDULE

- 1) No assets are accumulated in a trust to pay benefits related to this plan.
- 2) Changes in assumptions: The discount rate changed from 3.71% to 3.16%. The trend assumption was updated.
- 3) 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  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2018**

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
<b>Federal Awards:</b>						
U.S. Department of Housing and Urban Development:						
Community Development Block Grants/ Entitlement Grants	14.218		\$ 4,240	B-16-MC-42-0011	07/01/2015 until expended	\$ 120,959
Community Development Block Grants/ Entitlement Grants	14.218		42,468	B-17-MC-42-0011	07/01/2016 until expended	751,333
Community Development Block Grants/ Entitlement Grants	14.218		30,631	B-18-MC-42-0011	07/01/2017 until expended	151,860
Total U.S. Department of Housing and Urban Development:			<u>77,339</u>			<u>1,024,152</u>
U.S. Department of Justice:						
Bulletproof Vest Partnership Program	16.607		-	N/A	01/01/2016 until expended	1,045
Bulletproof Vest Partnership Program	16.607		-	N/A	01/01/2018-12/31/2018	19,855
Total U.S. Department of Justice			<u>-</u>			<u>20,900</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-2018-LOWER MERION-00020	-	N/A	10/01/2017-09/30/2018	26,948
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	IDP-G-2019-LOWER MERION-00025	-	N/A	10/01/2018-09/30/2018	1,804
Total Highway Safety Cluster			<u>-</u>			<u>28,752</u>
Highway Planning and Construction	20.205		-	R16060002	03/23/2016-06/30/2019	657,480
Total U.S. Department of Transportation			<u>-</u>			<u>686,232</u>
U.S. Department of Interior:						
Historic Preservation Fund-Grants-In-Aid	15.904		-	ME# 61703	08/01/2017-07/31/2018	36,000
Total U.S. Department of Interior			<u>-</u>			<u>36,000</u>
Total Federal Awards			<u>\$ 77,339</u>			<u>\$ 1,767,284</u>

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2018**

**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 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 \$77,339 for the year ended December 31, 2018.



## **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, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated September 11, 2019.

### **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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified one deficiency in internal control as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a significant deficiency.

### **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  
September 11, 2019



**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, 2018. 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, 2018.

### **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, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements. We issued our report thereon dated September 11, 2019, 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 expenditures 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.

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

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
September 11, 2019

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2018**

**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?   X   yes        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><b>CFDA Number(s)</b></u>	<u><b>Name of Federal Program or Cluster</b></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

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2018**

**Section II – Financial Statement Findings**

**2018-001 – Fixed Asset Depreciation and Healthcare Receivable**

**Material Weakness in Internal Control over Financial Reporting**

**Criteria:**

Management is responsible for adopting sound accounting policies and establishing and maintaining a system of internal control for the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America.

**Condition:**

During the Township's current year capital asset and depreciation procedures, it noted prior period errors related to the depreciation of the Township Police Building and a Rotomilling and Road Reconstruction project. These prior period errors were confirmed based on our review and recalculation of capital assets and depreciation.

Additionally, the Township incorrectly recorded the effect of its healthcare refund revenue and receivable in the prior year. The impact of these errors as of December 31, 2017 was an understatement of the Township's governmental net assets of \$5.9M and an understatement of the Township's business type activity net assets of \$0.3M.

**Cause:**

The Township noted that there was transition within the department that resulted in a change of roles and responsibilities in capital asset management. Additionally, the lack of uniform fixed asset schedules resulted in difficulties in tracking the activity and related depreciation.

The healthcare refund revenue was generated for the first time in 2017 (and subsequently paid in installments in 2018) as the Township started working with a new healthcare insurance provider.

**Effect:**

Prior period errors within the areas identified resulted in a material misstatement to the Township's Financial Statements for these account balances.

**Repeat Finding:**

No.

**Recommendation:**

We would recommend the Township review their policies and procedures around revenue recognition when there are significant new sources of revenue.

Fixed asset and depreciation schedules should be reworked to ensure consistency and accuracy, along with being reviewed by someone independent of the preparer. In addition, the Township should consider purchasing fixed asset software in order to track fixed asset activity and eliminate the risks of error associated with the use of the Excel spreadsheets currently used.

**Views of responsible officials:**

See attached corrective action plan.

**TOWNSHIP OF LOWER MERION, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2018**

**Section III – Federal Award Findings**

None

**Section IV – Prior Findings**

None



**TOWNSHIP OF LOWER MERION, PENNSYLVANIA  
CORRECTIVE ACTION PLAN  
YEAR ENDED DECEMBER 31, 2018**

Township of Lower Merion, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2018.

Audit period: January 01, 2018 - December 31, 2018

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS—FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESS**

**2018-001 Fixed Asset Depreciation and Healthcare Receivable**

**Recommendation:** We would recommend the Township review their policies and procedures around revenue recognition when there are significant new sources of revenue. Fixed asset and depreciation schedules should be reworked to ensure consistency and accuracy, along with being reviewed by someone independent of the preparer. In addition, the Township should consider purchasing fixed asset software in order to track fixed asset activity and eliminate the risks of error associated with the use of the Excel spreadsheets currently used.

**Explanation of disagreement with audit finding:** There is no disagreement.

**Action taken in response to finding:**

New Sources of Revenue – The Township will create a receivable for any anticipated healthcare refund, as appropriate. In addition, it will review all new sources of revenue for proper revenue recognition when determining if the revenue should be recorded to the prior or current period when addressing year end activity.

Fixed Assets and Depreciation – The Township will evaluate whether fixed asset software or reworking existing fixed asset and depreciation schedules using Microsoft Excel is best for consistent and accurate capital asset reporting. Another member of the finance team will review completed capital asset and depreciation schedules for completeness and accuracy.

**Name(s) of the contact person(s) responsible for corrective action:** Eric Traub, Chris Welde and JoAnn Drayton.

**Planned completion date for corrective action plan:** The Township will begin implementing its corrective action plan immediately. The Township's goal is to have all changes implemented by the time it publishes the 12/31/2019 CAFR. However, if the Township does pursue a fixed asset software system that may not be available until later in 2020 due to the time involved to research, procure and implement such a system.

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an SEC-registered investment advisor. | CliftonLarsonAllen LLP

