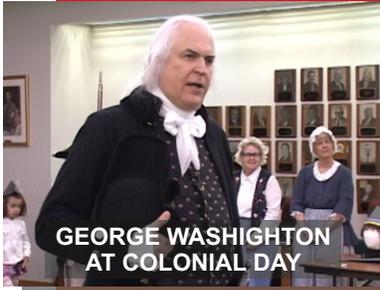


COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended
December 31, 2012



**UPPER MERION
TOWNSHIP,
PENNSYLVANIA**

*Prepared by
Upper Merion Township
Administration Department*

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**UPPER MERION TOWNSHIP
MONTGOMERY COUNTY,
PENNSYLVANIA**

Year Ended December 31, 2012

*Prepared by
Upper Merion Township Finance and Administration Department*

*Nicholas F. Hiriak
Director of Finance and Administration*



UPPER MERION TOWNSHIP

BOARD OF SUPERVISORS

175 WEST VALLEY FORGE ROAD
KING OF PRUSSIA, PA 19406-1802
610-265-2600
FAX: 610-265-0482
www.umtownship.org

BOARD OF SUPERVISORS

ERIKA SPOTT
CHAIRPERSON

GREG WAKS
VICE-CHAIRPERSON

WILLIAM JENAWAY, PhD
CAROLE KENNEY
GREG PHILIPS

TOWNSHIP MANAGER/ SECRETARY-TREASURER

RONALD G. WAGENMANN

TOWNSHIP SOLICITOR

FIRM OF:
HAMBURG, RUBIN, MULLIN,
MAXWELL & LUPIN, P.C.

June 24, 2013

To the Board of Supervisors and Citizens of Upper Merion Township:

I am pleased to present to you the Comprehensive Annual Financial Report of Upper Merion Township for the fiscal year ended December 31, 2012. The financial statements contained within the report are presented in accordance with generally accepted accounting principles by a firm of licensed certified public accountants.

This report was prepared by the Finance and Administration Department of Upper Merion Township, which is responsible for the accuracy, completeness and fairness of the data presented, including all disclosures. To the best of our knowledge, the information presented in this report is accurate in all material respects and is reported in a manner designed to fairly represent the financial position and results of operations of the funds and component units of Upper Merion Township. All disclosures necessary to enable the reader to gain an understanding of Upper Merion Township's activities have been included.

Maillie LLP, a firm of licensed certified public accountants, audits the Township's financial statements and has issued an unqualified ("clean") opinion on Upper Merion Township's financial statements for the year ended December 31, 2012. The independent auditor's report is located at the front of the Financial Section of this report.

The purpose of this report is to provide readers with useful information concerning the Township's financial position and operations. Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Upper Merion Township's MD&A can be found immediately following the report of the independent auditors.

Profile of the Township

Upper Merion Township is located in the south-central portion of Montgomery County and is part of the Philadelphia Metropolitan Area. The Township has the fifth largest population of the 62 municipalities in Montgomery County. Upper Merion is strategically located at the intersection of the Pennsylvania Turnpike (I-276) and the Schuylkill Expressway (I-76), about 16 miles northwest of Center City Philadelphia. U.S. Route 202 bisects the township at its mid-point.

Incorporated in 1789 and originally a rural-residential community, the Township has experienced rapid growth in the past 35 years and today is a major center for retail sales and has substantial corporate facilities for the pharmaceutical, aerospace and information management industries. Upper Merion is also the home to Valley Forge National Historic Park and the King of Prussia Plaza and Court at King of Prussia, which is the second largest mall complex in the country. Both of these facilities are major tourist destinations attracting several million visitors each year. Despite a strong business presence, Upper Merion retains its suburban character with a wide range of well-established residential neighborhoods. The Upper Merion Township Municipal Government provides a wide range of services to an area of 16.8 square miles and a community of approximately 28,000 residents. The Township is governed by a five-

member elected Board of Supervisors, that serves as the Township's legislative and policy-making body. The Township board members are elected at large to staggered six-year terms. The Board of Supervisors is assisted by a full-time appointed Township Manager, who is responsible for day to day operations of the Township. The Township provides services through seven operating departments as listed below:

- ◆ Administration
- ◆ Police
- ◆ Safety & Codes Enforcement
- ◆ Public Works
- ◆ Library
- ◆ Parks & Recreation
- ◆ Information Technology

Services in the Township are also provided by component units. Component units are legally separate entities for which Upper Merion Township is financially accountable and are therefore included in this report. The following entities are considered component units of Upper Merion Township for financial reporting purposes.

- **Upper Merion Municipal Utility Authority** - Established in 1986 to finance the Township's sewage collection and treatment facilities. A five-member board appointed by the Township's Board of Supervisors governs the Utility Authority.
- **Upper Merion Transportation Authority** - Established in 1985 to finance transportation projects within the Township through the imposition of traffic assessments. The Transportation Authority also coordinates transportation planning in the Upper Merion Area. A five-member board appointed by the Township's Board of Supervisors governs the Transportation Authority.

The annual budget serves as the foundation for the Township's financial planning and control. Activities of the General Fund, Sewer Fund and Capital Fund are included in the annual appropriated budget. The General Fund Budget represents revenues and expenditures for the day to day operations of the Township's departments. The annual budget process officially begins in August of each year with the goal setting conference between staff and the governing body. Throughout the course of September and October requests for funding are submitted and reviewed, in workshop meetings, culminating with a public hearing and vote for adoption by the governing body in December. The Township's fiscal year begins on January 1st and ends on December 31st.

The level of budgetary control (i.e., the level at which expenditures cannot exceed the appropriated amount) is maintained by object (line-item). Changes to the budget by transfer or supplemental appropriation can only be made after April 1st of the budget year in accordance with the Pennsylvania Second Class Township Code. The Board of Supervisors may increase the amount of any object in the budget through supplemental appropriation contingent upon available revenues. All annual appropriations lapse at year-end.

Local Economy

The Township has a thriving business community and is a net importer of labor, with more than twice as many jobs as there are residents. The strength of the local economy can be judged by looking at trends in employment and business tax receipts. The economic growth in the Township has been driven in large part by business development and retail sales. The economic recession, over the last few years, has had a negative impact on the collection of the business and mercantile tax as well as residential and some commercial development. Property transfer tax revenue has also suffered sharp declines. However, 2012 revenue does show a sign of recovery in some business sectors as well as development activity. A more detailed analysis of the Township's overall financial condition during the fiscal year ended 2012 is included as part of Management's Discussion and Analysis section of this report.

Long Term Financial Planning

The Board of Supervisors and Township staff is committed to providing value to the taxpayers by maintaining quality service levels and offering new benefits whenever the opportunity presents itself and the Township's fiscal position permits. To accomplish this, the Township regularly evaluates its revenue generating strategy. The Township also develops and maintains a multi-year capital purchasing plan.

Also, as a part of sound fiscal planning, the Township has adopted the Government Finance Officers Association's recommendation of maintaining an unassigned fund balance in the general fund of no less than five to fifteen percent of general fund operating revenues. The Township currently maintains a 15% unassigned fund balance. The Township has also taken steps to develop a revenue stabilization fund to supplement, or smooth, any fluctuations in the business/mercantile tax revenue collections. The revenue stabilization fund balance is currently at a level of \$2,000,000 or 7.1% of the general fund operating revenues.

Relevant Financial Policies

Internal Control – Management of the Township is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Township are protected from loss, theft or misuse and to ensure that adequate accounting information is compiled to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Budget Control – Budget control is maintained at the object (line-item) level on a departmental basis. Activities of the General Fund, the Sewer Revenue Fund (SRA) and the Capital Projects Fund are controlled by an annual legally appropriated budget. Capital Projects are also controlled on a multi-year basis.

Major Initiatives

The stagnation of the economy in 2009 required the Governing Body and Staff to completely change its approach in formulating goals, objectives and initiatives of the Township. Since that time, the goals, objectives and initiatives focused on cost saving/reduction measures, reduction/elimination of certain services and a re-evaluation of how the Township does business in certain areas. The following list of items was included as the Township's goals, objectives and initiatives for 2012. The balance of these items is either in place, in progress or continues to be researched for future consideration:

- Establish a long range plan regarding the Township Building, Community Center, Senior Center, Library and others.
- Transition plan for senior staff.
- Develop plan for casino revenue for community assistance.
- Work with Business Improvement District-revamp appearance and utilization of major corridors in Township, particularly RT 202.
- Monitor and analyze the popularity of eBooks.
- Complete triennial professional consultant selection process in accordance with board policy.
- Move forward with sustainable energy projects to increase revenue.
- Introduce performance benchmarks for staff/departments.
- Continue partnership with UM Farmers Market.
- Implement library restructuring.
- Document management.

- Intranet for employee services.
- Orderly promotion and hiring transition due to Police Chief's retirement.
- Research implications of transferring police dispatch responsibilities to Montgomery County radio room.
- Assimilate job responsibilities from retired employees to other divisions within the department.
- Upgrade codes field personnel to wireless inspection process.
- Incorporate private property stormwater inspections.
- Tricentennial celebration.
- Electronic agenda.
- Evaluate leaf collection.
- Continue compressed work week.
- Hiring freeze.
- Renegotiate fees with consultants.
- No winter maintenance in parks.
- Overtime reduction.
- Update zoning, subdivision and land development codes.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Upper Merion Township for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2011. This was the fifteenth consecutive year that the Township has achieved this prestigious award.

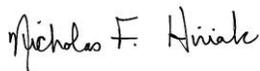
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this report would have been impossible without the hard work of the Finance and Administration Department Staff, not just in the compilation of information at year-end, but in maintaining the Township's financial records and fiscal control system throughout the year. Special thanks to Assistant Township Manager Judy Vicchio, Accounting Manager Marie Maharty and Accounts Receivable Director Michele Delli Pizzi for their continuing efforts to improve the Township's financial reporting.

We also greatly appreciate the ongoing support and guidance we receive from the Township Manager, Ronald G. Wagenmann, Township Manager Designee, David G. Kraynik, and the Board of Supervisors.

Sincerely,



Nicholas F. Hiriak
Director of Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Upper Merion Township
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



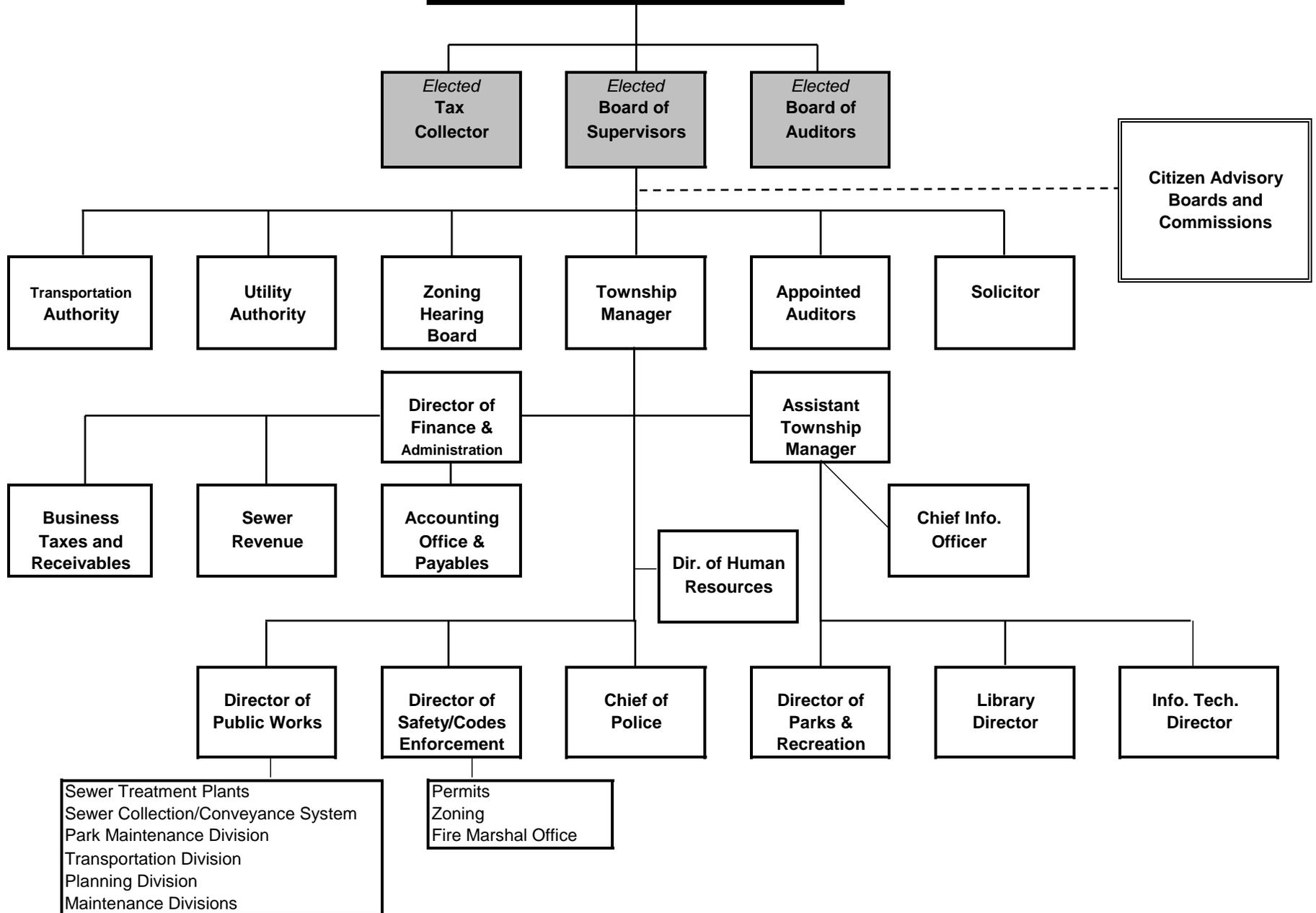
Christopher P. Moirill

President

Jeffrey R. Emer

Executive Director

Upper Merion Voters



Upper Merion Township
Montgomery County, Pennsylvania

2012 TOWNSHIP OFFICIALS

ELECTED OFFICIALS

Governing Body:

Chairman, Board of Supervisors	Erika Spott
Vice-Chairman, Board of Supervisors	Greg Waks
Member, Board of Supervisors	William Jenaway
Member, Board of Supervisors	Carole Kenney
Member, Board of Supervisors	Greg Philips

Elected Auditors:

Chairman	George Shoffner, CPA
Vice-Chairman	Van Weiss
Secretary	Lynn Cosentino

Elected Tax Collector	Rose Hykel
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APPOINTED OFFICIALS

Township Manager	Ronald G. Wagenmann
Township Manager, Designee	David G. Kraynik
Assistant Township Manager	Judith A. Vicchio
Director of Finance & Administration	Nicholas F. Hiriak
Library Director	Karl W. Helicher
Director of Parks & Recreation	Daniel Russell
Chief of Police	Ronald Fonock/Thomas Nolan
Director of Public Works	Edward O'Brien
Director of Safety & Codes Enforcement	John R. Waters
Information Technology Director	Scott Widenhofer
Township Solicitor	Joseph J. McGrory, Jr., Esq. Hamburg, Rubin, Mullin, Maxwell & Lupin PC
Township Engineer	Thomas F. Beach, P.E., CME Remington, Vernick & Beach
Township Appointed Auditors	Maillie LLP Certified Public Accountants

Independent Auditors' Report

To the Board of Supervisors
Upper Merion Township
King of Prussia, Pennsylvania

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Upper Merion Township as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

To the Board of Supervisors
Upper Merion Township
King of Prussia, Pennsylvania

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages through , budgetary comparison information on pages through , trend data on infrastructure condition on page and pension plan funding progress on page be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Upper Merion Township's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note T to the financial statements, for the year ended December 31, 2012, Upper Merion Township adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.



Oaks, Pennsylvania
June 25, 2013

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Our discussion and analysis of Upper Merion Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the Township's financial statements, which begin with the statement of net position.

FINANCIAL HIGHLIGHTS

- The assets of the Township exceeded its liabilities by \$78,957,268 (net position).
- The Township completed its purchase of the former Gold's Gym building for \$1,517,352. The building comprises 114,614 square feet of space and will be completely rehabilitated into a Township recreation and community center.
- The Township continued the Homestead Real Estate Tax Exclusion program for all primary (owner-occupied) residential real estate property.
- The Township issued General Obligation Bonds, Series of 2012, and was rated by Moody's Investor Services and reaffirmed Aaa status.
- The litigation regarding the former Valley Forge Golf Course property (comprised of 135 acres) that involved matters of purchase, sale, development and use and leasing was settled in June 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Township. The components of the report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements and notes to the basic financial statements. This report also contains other required and supplementary information in addition to the basic financial statements.

The independent auditors' report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

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

The basic financial statements include the statement of net position, statement of activities, fund financial statements and the notes to the basic financial statements. Statements of net position and activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Township.

- The *statement of net position* focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

- The *statement of activities* focuses on gross and net costs of Township programs and the extent to which such programs rely upon taxes and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other sources.
- *Fund financial statements* focus separately on major Governmental Funds, Proprietary Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column titled "Other Governmental Funds." Statements for the Township's Proprietary and Fiduciary Funds follow the Governmental Funds and include net position, revenues, expenses and changes in net position and cash flows. The Proprietary Funds represent the Township's Sewer Operating Fund and the General Authority and can be found in more detail beginning with the statement of net position, Proprietary Funds. The Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. The Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance its operations.
- The *notes to the basic financial statements* provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.

Other required supplementary information is additional information consisting of budgetary comparisons for the General Fund, trend data on infrastructure condition and pension plan funding progress.

Other supplementary information consists of the balance sheets and schedules of revenues, expenditures and changes in fund balances for the Library Operations Fund and Other Governmental Funds and schedule of changes in assets and liabilities for the Agency Fund.

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Position and Statement of Activities

Our analysis of the Township as a whole begins with the statement of net position. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Township as a whole and about its activities in a way that helps answer this question. In these statements, we divide the Township into three kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including police, public works, safety and codes, library, parks and recreation and administration. Real estate and business taxes, fees and charges and grants finance most of these activities.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

- Business-Type Activities** - The Township's sewer system and General Authority are reported here. For the Township's sewer system, the Township charges a fee to customers to help it cover most of the cost of certain services it provides. For the General Authority, established in 1986 as a financing authority for the expansion and renovation of the Township Building, the Authority charges the Township an annual rental fee which is equal to the debt service for the bond issue used to construct the building.
- Component Units** - The Township includes two separate legal entities in this report: the Municipal Utility Authority and the Transportation Authority. Although legally separate, these component units are important because the Township is financially accountable for them. Additional financial information regarding the Township's component units can be found in the statement of net position and statement of activities of this report. Separately audited annual financial reports of these component units may be obtained from the Township's Finance Director.

The analysis below focuses on the net position (Tables 1 and 2) and changes in net position (Tables 3 and 4) of the Township's governmental and business-type activities.

Table 1
Condensed Statement of Net Position
December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
ASSETS			
Cash and investments	\$ 35,711,774	\$ 8,425,773	\$ 44,137,547
Other assets	10,475,957	2,014,978	12,490,935
Capital assets, net of accumulated depreciation	58,140,910	6,802,298	64,943,208
TOTAL ASSETS	<u>104,328,641</u>	<u>17,243,049</u>	<u>121,571,690</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	83,448	108,343	191,791
LIABILITIES			
Other liabilities	2,548,104	279,492	2,827,596
Long-term liabilities	37,463,706	2,514,911	39,978,617
TOTAL LIABILITIES	<u>40,011,810</u>	<u>2,794,403</u>	<u>42,806,213</u>
NET POSITION			
Net investment in capital assets	15,644,269	4,395,730	20,039,999
Restricted	6,563,350	-	6,563,350
Unrestricted	42,192,660	10,161,259	52,353,919
TOTAL NET POSITION	<u>\$ 64,400,279</u>	<u>\$ 14,556,989</u>	<u>\$ 78,957,268</u>

UPPER MERION TOWNSHIP**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)***Year Ended December 31, 2012*

Table 2
Condensed Statement of Net Position
December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
ASSETS			
Cash and investments	\$ 27,734,810	\$ 8,442,509	\$ 36,177,319
Other assets	13,071,644	1,918,544	14,990,188
Capital assets, net of accumulated depreciation	57,542,065	6,728,121	64,270,186
TOTAL ASSETS	<u>98,348,519</u>	<u>17,089,174</u>	<u>115,437,693</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	<u>87,840</u>	<u>135,428</u>	<u>223,268</u>
LIABILITIES			
Other liabilities	2,308,984	251,486	2,560,470
Long-term liabilities	27,302,497	3,103,639	30,406,136
TOTAL LIABILITIES	<u>29,611,481</u>	<u>3,355,125</u>	<u>32,966,606</u>
NET POSITION			
Net investment in capital assets	30,841,168	3,166,839	34,008,007
Restricted	5,931,599	-	5,931,599
Unrestricted	<u>32,052,111</u>	<u>10,702,638</u>	<u>42,754,749</u>
TOTAL NET POSITION	<u>\$ 68,824,878</u>	<u>\$ 13,869,477</u>	<u>\$ 82,694,355</u>

Analysis as of December 31, 2012, shows that cash and investments represent 34.2% of Upper Merion Township's total governmental assets, an increase of 28.8% over 2011. Of this amount, \$1,478,845 is reserved for capital equipment replacement (e.g., police vehicles, trucks and plows, etc.). Since the Township relies heavily on the business and mercantile taxes, which generate over 40% of operating revenues (General Fund), a Revenue Stabilization Fund of \$2,000,000 is committed for operating expenses in the event that business tax revenues experience a sharp decline. The Township has also assigned \$1,519,174 that reflects possible contractual obligations of police and management personnel.

By far the largest portion of the Township's governmental assets, 55.7%, reflects its investment in capital assets (e.g., land, buildings, streets, recreation equipment). The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending.

Assets in the business-type activities column reflect the Township's investment in its sewer system as well as the investment in the municipal building. The Township operates and maintains two waste treatment plants, 12 pumping stations and 123 miles of sewer lines. The \$8.4 million in cash and investments allows for future investment in the sewer facilities. The investment in the municipal building dates back to the original acquisition and construction in 1966 with a new construction and renovation project completed in 1988.

Accumulated depreciation reflects 32% of total capital assets for governmental activities and 56.7% of total capital assets for business-type activities. The low percentage rates reflect the Township's continued commitment to provide services through effective and efficient use of resources.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Governmental Activities

The Township generates governmental revenues, which include the General Fund, from a variety of sources. Total revenue, excluding transfers and gains on sale of assets, for governmental activities for fiscal 2012 was \$28,583,577. Revenues by source are presented in Table 3.

Business privilege tax revenue is the largest source of Governmental Fund revenues and accounts for 23.8% of total revenues. Property tax revenue is the second largest source, accounting for 21.2% of total revenues. In the past, property tax revenue generated the most of all Governmental Fund revenues, but the impact of property assessment appeals has eroded away at this revenue source.

For fiscal 2012, the Township's Board of Supervisors was desirous of reducing the real estate tax burden on a property owner's primary residential dwelling. In conjunction with Pennsylvania's Homeowner Property Tax Relief Act (Act 72), a Homestead Tax Exclusion Program was continued by the Township. This program reduces the taxable assessment for qualified homesteads by \$72,500.

For fiscal 2012, total revenue decreased by approximately 1.4% and can be attributed primarily to a decrease in charges for services for commercial building permits. The Township also had received a number of grants for capital purposes during the course of 2011 and was not anticipated nor realized in the 2012 revenue stream.

However, 2012 revenue did realize a new source from casino gaming. The Valley Forge Casino began operation in late March of 2012. With this casino, the Township will see a new steady source of income from slot machine and table games. Three quarters of revenue in 2012 generated \$943,522.

Business privilege and mercantile tax is based on the gross sales of retail, manufacturing and services business and is up 9.9% from 2011 and reveals an increase in consumer spending and business commerce. This revenue source accounts for over 37% of governmental activities revenues. Due to the economic effect on this tax and its volatile nature, the Township keeps a very watchful eye on collections during the year. Even though consumer spending has shown signs of improvement, the Township remains aware that it could take years for the revenue to return to pre-recession levels.

Investment income has leveled off to approximately \$62,000, and reflects relatively no change from 2011. The low interest rate environment has made this source of revenue a non-factor in regard to total revenue. Prior to the economic meltdown and the reduction of interest rates, interest income generated approximately \$1.5M at its highest in 2007 (with approximately the same investable balance as today).

Between 2006 and 2011, the Township's annualized assessed property valuation declined by 1.3% due to a combination of successful tax appeals and falling market values with a level off of appeals by 2012. Full valuation growth averaged 9.2% annually from 2004 to 2008 before declining by 5.2% in 2009, a further 5.2% in 2010 and a nominal 0.1% in 2011 as the Township absorbed the effects of the nationwide recession through property value declines. One other item of note is the transfer tax. This tax is calculated on the sales price of property, and revenue has declined since 2007 due to the slump in housing sales. The Township does not expect to see pre-recession revenue levels for some years to come. See the section under "Economic Factors" for more discussion on the transfer tax.

The Township's governmental program, which includes the General Fund, consists of seven operating departments to include police, public works, safety and codes enforcement, library, parks and recreation, information technology and administration. Total expenses for fiscal 2012 were \$33,393,755. Expenses by source are presented in Table 3.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

To combat falling revenues, the Township instituted a set of operating measures designed to reduce expenses but ensure that residents and customers will continue to be offered excellent services. A hiring freeze was instituted. Staff members have been reduced by over 20 positions due to early retirements, terminations and attrition.

Some other measures implemented include the elimination of snowplowing and winter maintenance services in the Township's parks, elimination of path lighting for the winter months and ending upkeep of unused areas of two of the larger Township parks. All other controllable operating expenses were basically frozen at 2010 levels.

From a comparison of the Net Position, Ending, and comparing ending balances of \$64M to \$68.8M; one could infer that the Township's overall financial position from governmental activities declined in 2012 compared to that of 2011. However, because the Township settled some outstanding litigation that amounted to approximately \$4.4M (\$1M paid in 2012 from the Insurance Reserve) the expense, as well as the remaining liability of approximately \$3.4M, was recorded as a liability and that will be repaid out of future revenues. From a cash and investments perspective, 2012 was up 28.8% and total revenue held at 2011 levels. Fund balance was not drawn down, as was planned in the 2012 budget for operations. Instead, the Township's fund balance for the General Fund (operating) increased by \$424,690. From an operational perspective, 2012 is the third consecutive year for increase in fund balance as compared to the draw down by over \$1.2M in 2009. The total expenses for 2012 were 19.6% more than the 2011 total and are reflective of the settlement for litigation. From an operational perspective, expenses for 2012 increased by approximately 4% and are reflective of the contractual increase for wages. All other expenses were basically held at 2010 levels or less. The Township's continued conservative budgeting, ample reserve levels and strong financial management were able to continue to mitigate the effects of still weakened revenues stemming from the somewhat continued effects of the economic downturn.

Business-Type Activities

Business-type activities comprise the Township's sewer system and the Township's General Authority. Total revenue from this activity is \$6,715,518. Charges for services account for \$6,701,423 or 99.8% of revenue. Total expenses were \$5,597,124.

The Sewer revenue fund portion of charges for services consists of \$6,050,268. This is the revenue derived from the sewer system rate payers. There was an increase to sewer rental rates of \$2.00/quarter for 2012 to be set aside to fund future capital maintenance projects. Expenses to operate the system total \$5,306,331.

The General Authority revenue portion is derived from an annual rental fee paid by the Township that is equal to the debt service for the bond issue used to construct the municipal building. For 2012, the amount was \$651,155.

From an overall financial position compared to 2011, the Sewer Revenue Fund is financially and operationally holding its own at the current time. Total current assets, which include cash, investments, prepaid expenses and receivables, have remained at basically the same level in 2012 (\$10,374,112) as it was in 2011 (\$10,503,153). Revenues for 2012, as shown above, increased compared to those of 2011 (\$5,658,177) due mainly to the 4% increase of the sewer rates. Expenses for 2012, as shown above, compared to 2011 (\$5,431,537) represents a decrease by approximately 2% and are reflective of expense reductions in some treatment costs, utilities and overtime.

UPPER MERION TOWNSHIP**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)***Year Ended December 31, 2012*

Table 3
Changes in Net Position
Year Ended December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
REVENUES			
Program revenues			
Charges for services	\$ 4,676,939	\$ 6,701,423	\$ 11,378,362
Operating/capital grants and contributions	3,124,435	-	3,124,435
General revenues			
Property taxes	6,046,920	-	6,046,920
Amusement taxes	20,091	-	20,091
Business privilege taxes	6,815,837	-	6,815,837
Local services taxes	2,066,388	-	2,066,388
Mercantile taxes	3,895,578	-	3,895,578
Transfer taxes	920,382	-	920,382
Public utilities taxes	24,995	-	24,995
Investment income	62,186	14,095	76,281
Contributions	40,339	-	40,339
Miscellaneous	889,487	-	889,487
TOTAL REVENUES	<u>28,583,577</u>	<u>6,715,518</u>	<u>35,299,095</u>
EXPENSES			
Operating	6,388,940	208,919	6,597,859
General government	7,831,183	-	7,831,183
Police, health and public safety	10,921,064	-	10,921,064
Roads	2,855,280	-	2,855,280
Parks	2,564,044	-	2,564,044
Police and employee pension cost	997,505	-	997,505
Planning and code enforcement	1,123,458	-	1,123,458
Interest on long-term debt	712,281	81,874	794,155
Sewer	-	5,306,331	5,306,331
TOTAL EXPENSES	<u>33,393,755</u>	<u>5,597,124</u>	<u>38,990,879</u>
CHANGE IN NET POSITION BEFORE TRANSFERS AND LOSS ON DISPOSAL OF ASSETS	(4,810,178)	1,118,394	(3,691,784)
TRANSFERS	430,882	(430,882)	-
LOSS ON DISPOSAL OF ASSETS	<u>(45,303)</u>	<u>-</u>	<u>(45,303)</u>
CHANGE IN NET POSITION	(4,424,599)	687,512	(3,737,087)
NET POSITION, BEGINNING, as restated	<u>68,824,878</u>	<u>13,869,477</u>	<u>82,694,355</u>
NET POSITION, ENDING	<u>\$ 64,400,279</u>	<u>\$ 14,556,989</u>	<u>\$ 78,957,268</u>

UPPER MERION TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended December 31, 2012

Table 4
Changes in Net Position
Year Ended December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
REVENUES			
Program revenues			
Charges for services	\$ 5,358,660	\$ 6,306,163	\$ 11,664,823
Operating/capital grants and contributions	4,208,764	-	4,208,764
General revenues			
Property taxes	5,941,268	-	5,941,268
Amusement taxes	28,804	-	28,804
Business privilege taxes	6,012,959	-	6,012,959
Emergency and municipal services taxes	2,096,614	-	2,096,614
Mercantile taxes	3,729,490	-	3,729,490
Transfer taxes	550,384	-	550,384
Public utilities taxes	25,514	-	25,514
Investment income	62,852	15,900	78,752
Contributions	54,634	-	54,634
Miscellaneous	918,659	-	918,659
	<u>28,988,602</u>	<u>6,322,063</u>	<u>35,310,665</u>
EXPENSES			
Operating	6,247,906	211,187	6,459,093
General government	2,806,364	-	2,806,364
Police, health and public safety	10,861,407	-	10,861,407
Roads	2,879,183	-	2,879,183
Parks	2,295,422	-	2,295,422
Police and employee pension cost	1,033,717	-	1,033,717
Planning and code enforcement	1,244,002	-	1,244,002
Interest on long-term debt	551,681	104,021	655,702
Sewer	-	5,431,537	5,431,537
	<u>27,919,682</u>	<u>5,746,745</u>	<u>33,666,427</u>
CHANGE IN NET POSITION BEFORE TRANSFERS AND GAIN ON DISPOSAL OF ASSETS	1,068,920	575,318	1,644,238
TRANSFERS	500,570	(500,570)	-
GAIN ON DISPOSAL OF ASSETS	162,288	-	162,288
CHANGE IN NET POSITION	1,731,778	74,748	1,806,526
NET POSITION, BEGINNING, restated	<u>67,093,100</u>	<u>13,794,729</u>	<u>80,887,829</u>
NET POSITION, ENDING	<u>\$ 68,824,878</u>	<u>\$ 13,869,477</u>	<u>\$ 82,694,355</u>

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

FINANCIAL ANALYSIS OF THE TOWNSHIP FUNDS

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The 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 may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2012, the Township's Governmental Funds reported combined ending balances of \$34,372,087, an increase of \$7,361,779 as compared to the prior year. Approximately \$115K (less than 1%) is nonspendable because it is in a nonspendable form as a prepaid item or a loan receivable. Approximately 44.1%, or \$15,148,803, is restricted and includes amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation and include amounts for debt service and liquid fuels. The committed amount, which is approximately 5.8%, or \$2,000,000, is for a specific purpose imposed by the Township's Governing Body, the Board of Supervisors, for revenue stabilization of the business and mercantile tax collection. The assigned categories of fund balance account for approximately 33.2% or \$11,392,961. Assigned categories include amounts for next year's budget, contractual commitments, equipment replacement, capital projects and property/liability insurance contingency. Finally, the remainder of fund balance, approximately 16.6%, or \$5,714,943, is unassigned and includes all amounts not contained in the other classification. This amount is technically available for any purpose. It is the policy of the Township to retain a minimum of 15% of the subsequent year operating budget in the unassigned category. The following paragraphs denote the more specific underlying reasons for the changes in fund balance.

The **General Fund** is the chief operating fund of Upper Merion Township. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,714,943, while total fund balance reached \$14,541,982. The total fund balance of the General Fund decreased by \$477,680 (exclusive of prepaid items) in fiscal year 2012 as a result of the cash settlement payment made in regard to the Golf Course litigation. However, fund balance was not drawn down, as was planned in the 2012 budget for operations. Instead, the Township's operating activities for 2012 show an excess of revenues over expenditures of \$424,690.

The **Fire Apparatus Fund** has a total fund balance as of December 31, 2012, of \$3,680,490, of which \$3,591,806 is reserved for expenses of fire and rescue apparatus and equipment for the King of Prussia, Swedeland and Swedesburg Volunteer Fire Companies and the Lafayette Ambulance Squad. This fund also provides for the annual allocation to the volunteer firefighter's pension fund as well as expense for medical examinations. The remaining balance is nonspendable for long-term loans receivable. Revenue for this funding source is derived from a .096 mill tax on real estate. Apparatus purchases are determined from a vehicle replacement schedule developed by the Township's Fire and Rescue Services Citizen Board, but purchases must be approved by the Township's Board of Supervisors. This balance fluctuates, from year to year, based primarily on equipment purchased.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

The **Capital Acquisition Fund** has a total fund balance of \$4,393,676, all of which is reserved for capital improvements or other unique expenditures which are not normal operating or maintenance-type expenditures reportable within the General Fund or Other Governmental Funds. Various projects were initiated and/or completed through this fund during fiscal 2012. The year's major capital additions are highlighted in subsequent pages of this analysis. This balance fluctuates, from year to year, based on the initiatives of the Governing Body, Township Staff as well as funding sources.

The **General Obligation Fund** has a total fund balance of \$8,585,453, all of which is reserved for capital improvements or other unique expenditures which are not normal operating or maintenance-type expenditures reportable within the General Fund or Other Governmental Funds. This fund reports a major increase of approximately \$8M due to issuance of new general obligation bonds in 2012 and is the main reason why the total fund balances increased from \$26M in 2011 to \$34M in 2012.

Other Governmental Funds are maintained to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Other Governmental Funds include State Liquid Fuels, UMT Foundation, Municipal Building, Debt Service, Capital Tax, Park Capital and Open Space. The major revenue sources for these funds are the real estate tax revenue, subsidies from the Commonwealth of Pennsylvania and any contributions or donations from private sources. The total fund balance as of December 31, 2012, is \$3,170,486, an increase from fiscal 2011 due to a reduction of street resurfacing projects for 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments fall into two categories--transfers or supplemental appropriations--and can only be made after April 1 of the budget year in accordance with the Pennsylvania Second Class Township Code. Transfers made between budget line items (objects) and supplemental appropriations are a result of additional unanticipated revenues. The following is a brief summary of budget amendments between the original budget and the final amended budget for fiscal 2012:

- \$9,000 increase to part-time wages in the Library Department for an increase due to reference desk coverage and outreach services previously paid from an endowment.
- \$28,000 increase to overtime in the Public Works Department due to emergency response call-outs due to Hurricane Sandy.
- \$27,900 increase to uniform expenses in the Police Department for (4) new hires and replacement of (2) existing positions.
- \$6,000 increase to vehicle maintenance expense in the Public Works Department due to additional vehicle repair costs.

Significant budgetary variances between final amended budget and actual results are as follows:

- \$470,382 increase in real estate transfer tax due to unexpected sales activity of a few commercial properties during the year.
- \$718,766 increase in business privilege tax due to an increase in commercial commerce of service businesses.
- \$141,597 decrease in park/recreation program fees, but with a corresponding reduction of \$159,154 of program expenses.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

- Police salaries show a (\$460,533) increase in salaries---this is due to the off-duty traffic duties that are performed for local businesses during the course of the calendar year. These services are then billed out on a rate per hour basis and are recognized back into the operating account under reimbursements in the operating account.
- \$849,349 increase in general expenses due to a piece of the settlement of the litigation regarding the Valley Forge Golf Course. Due to the same settlement, there is an increase in professional fees of \$379,922 due to an increase in the litigation cost to settle.
- \$292,511 decrease in insurance expense due to continued participation in the Delaware Valley Health Trust pooled health program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Upper Merion Township's investment in capital assets for its governmental and business-type activities as of December 31, 2012 and 2011, totals \$64,943,208 and \$64,270,186, respectively (net of accumulated depreciation). Township investment in capital assets includes land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements and infrastructure (see Table 5). Infrastructure includes roads, bridges, stormwater and sewer lines and traffic signals.

This year's major additions included:

Buffer zone video recording and software equipment	\$	100,088
Vehicle and motorized equipment purchases for public safety and general government		141,906
Component replacements and upgrades for sewer treatment plants		218,788
Acquisition of former Gold's Gym building		1,501,525
Sewer line replacement and upgrades		593,224
Balligomingo Road parking lot construction		124,753
PECO/Hansen access right-of-way		935,000

Property, plant, system infrastructure and equipment of the primary government, as well as the component units, are depreciated using the straight-line method. However, for road and street infrastructure, the Township elected to use the modified approach.

The Township has fallen below its street condition policy as of December 31, 2012. Due to tough economic times and reduced available revenues, street resurfacing projects were eliminated from past years budgets. For 2012, The Township budgeted approximately \$1.5M for street resurfacing in order to bring the maintenance level back up to required condition level. During 2012, the Township hired a consulting engineer to assess the Township's street and road condition. A detailed report was prepared to determine what levels of maintenance were necessary. Bidding for the resurfacing projects was completed and awarded, at approximately \$1.1M, during the fall of 2012. At this time, weather conditions were no longer favorable for paving. This work for the 2012 program is expected to begin in the spring of 2013 and be completed by early summer 2013. At that point, the Township will commence with its paving program for 2013.

The modified approach is described in more detail in the required supplementary information to the financial statements.

UPPER MERION TOWNSHIP**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)***Year Ended December 31, 2012*

Table 5
Capital Assets at Year-End
(Net of Depreciation)
Year Ended December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
CAPITAL ASSETS NOT BEING DEPRECIATED			
Land	\$ 20,612,920	\$ -	\$ 20,612,920
Infrastructure	12,770,076	-	12,770,076
Construction in progress	38,251	-	38,251
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>33,421,247</u>	<u>-</u>	<u>33,421,247</u>
CAPITAL ASSETS BEING DEPRECIATED			
Library collection	309,715	-	309,715
Land improvements	6,352,098	-	6,352,098
Buildings and improvements	3,897,523	3,993,571	7,891,094
Furniture and equipment	1,196,274	923,697	2,119,971
Automobiles and trucks	2,203,390	-	2,203,390
Infrastructure	10,760,663	1,885,030	12,645,693
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>24,719,663</u>	<u>6,802,298</u>	<u>31,521,961</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 58,140,910</u>	<u>\$ 6,802,298</u>	<u>\$ 64,943,208</u>

Additional information on the Township's capital assets can be found in Notes A and E to the financial statements.

Debt

At year-end, the Township had \$36,355,474 in outstanding debt compared to \$30,060,800 last year for the primary government. The debt due within one year for governmental activities is \$3,651,550 (including \$60,000 for a negotiated settlement) and \$590,000 for business-type activities. Also, debt (notes payable) from the Township's component units totals \$6,915,000 for the Municipal Utility Authority and \$3,500,000 for the Transportation Authority.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Table 6
Outstanding Debt at Year-End
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 33,180,000	\$ 26,240,000
Notes payable	<u>735,474</u>	<u>810,800</u>
	<u>33,915,474</u>	<u>27,050,800</u>
 BUSINESS-TYPE ACTIVITIES		
Notes payable	2,440,000	3,010,000
 COMPONENT UNITS		
Notes payable	<u>10,415,000</u>	<u>8,525,000</u>
	<u>\$ 46,770,474</u>	<u>\$ 38,585,800</u>

Additional information on Upper Merion Township's debt can be found in Notes F and H to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

The economic growth in the Township has been driven in large part by business development and retail sales.

Collections of business gross receipts/mercantile taxes are a good indicator of local economic conditions. For 2012, the Township's collection of these taxes was \$10,711,415, which is an increase of 9.9% from 2011. From the onset of the recession, this tax has decreased over 14% and the reduction of this revenue source has had a negative impact to the Township's operations. Since this tax accounts for over 40% of the Township's operating revenue, monitoring of these collections will be extremely important for future years as we progress through the recovery.

Despite the lack of significant growth in population over the past decade, development has continued. During 2012, 285 use and occupancy permits were issued and were down by approximately 5.3% from 2010 and a total of 19% since the onset of the recession. Commercial activity is continuing to increase with the plans for a new 200,000 sq. ft. medical facility for the Children's Hospital of Philadelphia, the opening of the Valley Forge Casino facility and other redevelopment of existing properties like the proposed Target store on the site of the Valley Forge Shopping Center and the proposal of a new WAWA/Chick-fil-A on the site of the former PETCO property. Also, sales of existing commercial properties (10) increased and bolstered the revenue for the real estate transfer tax in the amount of \$351,105.

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Housing still remains a center of uncertainty. Home sales continue to be stagnating with a continued downward pressure on prices. According to the most widely followed home price index, S&P/Case Shiller, home prices have returned to 2002 levels and median home prices have dropped more than 30% from the highs of 2006. This market has a direct impact on the Township's collection of property transfer tax. Revenues from this sector have decreased by approximately 59% from the high of 2007. Collections of total transfer tax were up from 2011. However, as mentioned above, sales of commercial properties are the reason for the increase. Housing sales within the Township remain at the same levels as 2011.

However, the Township's financial outlook is beginning to stabilize. With increases in business taxes, a holding of permit revenues, and the new gaming revenue source; reserve levels have remained strong for the last three years. The Township's intent is to keep reserve levels strong for the foreseeable future given our conservative budgeting practices. Assessed values are stabilizing from the onslaught of appeals and should begin to show some growth due to the renewed development activity.

The following economic strengths and challenges have been identified as follows.

Strengths:

- Sizable tax base with above average wealth levels.
- Satisfactory financial flexibility due to ample reserves.
- Favorable location given proximity to nearby Philadelphia.

Challenges:

- Mature tax base with limited developable land remaining.
- Slower recurring revenue growth following recession.

As shown in the data below, Upper Merion Township is slightly wealthier than Montgomery County as a whole. Both Montgomery County and Upper Merion Township are substantially wealthier than the Commonwealth of Pennsylvania and the nation. The factors that create this wealth, such as higher educational achievement and an abundance of higher paying technical and service jobs, continue to be the area's strong points.

	<u>Upper Merion Township</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Per capita income	\$ 38,780	\$ 40,076	\$ 27,049	\$ 27,334
Median family income	\$ 72,357	\$ 76,380	\$ 50,398	\$ 51,914
Percentage of population below poverty level	4.1%	5.6%	12.4%	13.8%

Source: U.S. Census Bureau (2010 Census)

UPPER MERION TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

Next Year's Budget

The 2013 budget continues to be a conservative spending plan; and, as per the Board of Supervisor's budget guidelines, it contains an increase of 2.28% over the 2012 adopted budget. As the Township progresses through 2013, this budget will require management by the Board and staff to ensure that the Township can live within this spending plan. In 2013, the Township will continue to monitor revenue projections and make conservative financial decisions to ensure that all revenues will be collected and expenditures monitored. The Township will continue to provide a level of service that at least equals in value the taxes paid by the average property owner.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the funds it receives and disburses. If you have questions about this report or to request additional financial information (to include component units), please contact the Director of Finance and Administration at 175 West Valley Forge Road, King of Prussia, PA 19406.

UPPER MERION TOWNSHIP
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Municipal Utility Authority	Transportation Authority
ASSETS					
Cash and cash equivalents	\$ 12,124,149	\$ 4,366,222	\$ 16,490,371	\$ 2,151,188	\$ 15
Investments	23,587,625	4,059,551	27,647,176	7,232,402	5,709,575
Receivables, net	1,072,803	1,928,057	3,000,860	-	506,805
Note receivable	9,355,000	-	9,355,000	-	-
Internal balances	5,789	(5,789)	-	-	-
Due from Transportation Authority	15,669	-	15,669	-	-
Due from Municipal Utility Authority	-	68,331	68,331	-	-
Prepaid expenses	26,696	24,379	51,075	-	-
Capital assets					
Library books	3,336,800	-	3,336,800	-	-
Land	20,612,920	-	20,612,920	-	-
Land improvements	12,479,807	8,145	12,487,952	-	-
Buildings and improvements	6,943,389	10,730,647	17,674,036	53,593,048	-
Furniture and equipment	4,444,719	1,814,284	6,259,003	-	-
Automobiles and trucks	9,538,626	481,465	10,020,091	-	-
Infrastructure	28,199,082	2,695,279	30,894,361	-	-
Construction in progress	38,251	-	38,251	-	-
Accumulated depreciation	(27,452,684)	(8,927,522)	(36,380,206)	(33,513,459)	-
TOTAL ASSETS	<u>104,328,641</u>	<u>17,243,049</u>	<u>121,571,690</u>	<u>29,463,179</u>	<u>6,216,395</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on refunding	83,448	108,343	191,791	285,207	-
LIABILITIES					
Due to primary government	-	-	-	68,331	15,669
Accounts payable	1,226,848	187,653	1,414,501	6,765	372,678
Accrued salaries and benefits	1,145,729	72,290	1,218,019	-	-
Accrued interest	170,527	19,549	190,076	55,408	19,322
Unearned revenue	5,000	-	5,000	-	-
Long-term liabilities					
Portion due or payable within one year					
Bonds and notes payable	3,591,550	590,000	4,181,550	1,670,000	325,178
Settlement payable	60,000	-	60,000	-	-
Portion due or payable after one year					
Bonds and notes payable	30,403,086	1,924,911	32,327,997	5,456,335	3,174,822
Settlement payable	3,409,070	-	3,409,070	-	-
TOTAL LIABILITIES	<u>40,011,810</u>	<u>2,794,403</u>	<u>42,806,213</u>	<u>7,256,839</u>	<u>3,907,669</u>
NET POSITION					
Net investment in capital assets	15,644,269	4,395,730	20,039,999	13,238,461	-
Restricted for					
Debt service	1,340,125	-	1,340,125	-	-
Capital projects	3,591,806	-	3,591,806	-	-
Liquid fuels	1,631,419	-	1,631,419	-	-
Unrestricted	42,192,660	10,161,259	52,353,919	9,253,086	2,308,726
TOTAL NET POSITION	<u>\$ 64,400,279</u>	<u>\$ 14,556,989</u>	<u>\$ 78,957,268</u>	<u>\$ 22,491,547</u>	<u>\$ 2,308,726</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Totals	Municipal Utility Authority	Transportation Authority
PRIMARY GOVERNMENT									
Governmental activities									
Operating	\$ 6,388,940	\$ 3,274,514	\$ 1,030,168	\$ -	\$ (2,084,258)	\$ -	\$ (2,084,258)	\$ -	\$ -
General government	7,831,183	-	-	-	(7,831,183)	-	(7,831,183)	-	-
Police, health and public safety	10,921,064	506,140	11,981	-	(10,402,943)	-	(10,402,943)	-	-
Roads	2,855,280	87,682	955,502	-	(1,812,096)	-	(1,812,096)	-	-
Parks	2,564,044	808,603	-	-	(1,755,441)	-	(1,755,441)	-	-
Police and employee pension cost	997,505	-	1,126,784	-	129,279	-	129,279	-	-
Planning and code enforcement	1,123,458	-	-	-	(1,123,458)	-	(1,123,458)	-	-
Interest on long-term debt	712,281	-	-	-	(712,281)	-	(712,281)	-	-
TOTAL GOVERNMENTAL ACTIVITIES	33,393,755	4,676,939	3,124,435	-	(25,592,381)	-	(25,592,381)	-	-
Business-type activities									
Sewer	5,306,331	6,050,268	-	-	-	743,937	743,937	-	-
General Authority	290,793	651,155	-	-	-	360,362	360,362	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	5,597,124	6,701,423	-	-	-	1,104,299	1,104,299	-	-
TOTAL PRIMARY GOVERNMENT	\$ 38,990,879	\$ 11,378,362	\$ 3,124,435	\$ -	(25,592,381)	1,104,299	(24,488,082)	-	-
COMPONENT UNITS									
Municipal Utility Authority	\$ 1,544,915	\$ 1,986,370	\$ -	\$ 840,489	-	-	-	1,281,944	-
Transportation Authority	3,722,663	946,537	-	-	-	-	-	-	(2,776,126)
TOTAL COMPONENT UNITS	\$ 5,267,578	\$ 2,932,907	\$ -	\$ 840,489	-	-	-	1,281,944	(2,776,126)
GENERAL REVENUES									
Property taxes, levied for general purposes					6,046,920	-	6,046,920	-	-
Amusement taxes					20,091	-	20,091	-	-
Business privilege taxes					6,815,837	-	6,815,837	-	-
Local services taxes					2,066,388	-	2,066,388	-	-
Mercantile taxes					3,895,578	-	3,895,578	-	-
Transfer taxes					920,382	-	920,382	-	-
Public utilities taxes					24,995	-	24,995	-	-
Investment income					62,186	14,095	76,281	32,816	17,837
Contributions					40,339	-	40,339	-	-
Miscellaneous					889,487	-	889,487	-	-
Loss on sale of assets					(45,303)	-	(45,303)	-	-
TRANSFERS					430,882	(430,882)	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					21,167,782	(416,787)	20,750,995	32,816	17,837
CHANGE IN NET POSITION					(4,424,599)	687,512	(3,737,087)	1,314,760	(2,758,289)
NET POSITION AT BEGINNING OF YEAR, restated					68,824,878	13,869,477	82,694,355	21,176,787	5,067,015
NET POSITION AT END OF YEAR					\$ 64,400,279	\$ 14,556,989	\$ 78,957,268	\$ 22,491,547	\$ 2,308,726

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General Fund</u>	<u>Fire Apparatus Fund</u>	<u>Capital Acquisition Fund</u>	<u>General Obligation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 12,094,181	\$ -	\$ 29,968	\$ -	\$ -	\$ 12,124,149
Investments	3,563,142	3,590,872	4,487,977	8,585,453	3,360,181	23,587,625
Taxes receivable, net	143,228	4,233	-	-	13,279	160,740
Due from component unit	15,669	-	-	-	-	15,669
Due from other fund	5,789	28	-	-	106	5,923
Other receivables	791,397	89,035	31,631	-	-	912,063
Prepaid items	26,696	-	-	-	-	26,696
TOTAL ASSETS	\$ 16,640,102	\$ 3,684,168	\$ 4,549,576	\$ 8,585,453	\$ 3,373,566	\$ 36,832,865
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Due to other funds	\$ 134	\$ -	\$ -	\$ -	\$ -	\$ 134
Accounts payable	879,413	-	155,900	-	191,535	1,226,848
Accrued salaries and benefits	1,145,729	-	-	-	-	1,145,729
Unearned revenue, other	5,000	-	-	-	-	5,000
TOTAL LIABILITIES	2,030,276	-	155,900	-	191,535	2,377,711
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue, property taxes	67,844	3,678	-	-	11,545	83,067
FUND BALANCES						
Nonspendable						
Prepaid items	26,696	-	-	-	-	26,696
Long-term loans receivable	-	88,684	-	-	-	88,684
Restricted for						
Debt service	-	-	-	-	1,340,125	1,340,125
Capital projects	-	3,591,806	-	8,585,453	-	12,177,259
Liquid fuels	-	-	-	-	1,631,419	1,631,419
Committed to revenue stabilization	2,000,000	-	-	-	-	2,000,000
Assigned to						
Subsequent year's budget	1,602,324	-	-	-	-	1,602,324
Contractual commitments	1,519,174	-	-	-	-	1,519,174
Equipment replacement	1,478,845	-	-	-	-	1,478,845
Capital projects	1,200,000	-	4,393,676	-	198,942	5,792,618
Property and liability insurance	1,000,000	-	-	-	-	1,000,000
Unassigned	5,714,943	-	-	-	-	5,714,943
TOTAL FUND BALANCES	14,541,982	3,680,490	4,393,676	8,585,453	3,170,486	34,372,087
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 16,640,102	\$ 3,684,168	\$ 4,549,576	\$ 8,585,453	\$ 3,373,566	\$ 36,832,865

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES

December 31, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 34,372,087
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Library books	3,336,800
Land	20,612,920
Land improvements	12,479,807
Buildings and improvements	6,943,389
Furniture and equipment	4,444,719
Automobiles and trucks	9,538,626
Infrastructure	28,199,082
Construction in progress	38,251
Accumulated depreciation	(27,452,684)
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the governmental activities on the statement of net position.</p>	
	9,355,000
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(170,527)
Bonds and notes payable	(33,915,474)
Settlement payable	(3,469,070)
Bond discounts and premiums	(79,162)
Deferred amount on refunding	83,448
<p>Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>83,067</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 64,400,279</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2012

	<u>General Fund</u>	<u>Fire Apparatus Fund</u>	<u>Capital Acquisition Fund</u>	<u>General Obligation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 18,514,302	\$ 316,069	\$ -	\$ -	\$ 1,546,145	\$ 20,376,516
Grants	2,184,828	-	381,463	-	-	2,566,291
Fines	329,929	-	-	-	-	329,929
Investment income	51,923	4,762	2,181	1,580	1,740	62,186
Permits and fees	2,944,162	-	-	-	-	2,944,162
Reimbursements	826,776	-	-	-	-	826,776
Parks and recreation	808,603	-	-	-	-	808,603
Contributions	-	-	128,021	-	-	128,021
Miscellaneous	355,208	-	51,893	-	162,173	569,274
TOTAL REVENUES	<u>26,015,731</u>	<u>320,831</u>	<u>563,558</u>	<u>1,580</u>	<u>1,710,058</u>	<u>28,611,758</u>
EXPENDITURES						
Current						
Operating	5,509,368	-	-	-	651,155	6,160,523
General government	3,899,360	-	-	-	-	3,899,360
Police, health and public safety	9,891,097	-	-	-	-	9,891,097
Roads	1,753,094	-	-	-	99,468	1,852,562
Parks	2,398,874	-	-	-	-	2,398,874
Police and employee pension cost	997,505	-	-	-	-	997,505
Planning and code enforcement	1,108,970	-	-	-	-	1,108,970
Refund of prior year revenues	32,773	2,067	-	-	8,634	43,474
Debt service						
Interest	-	-	-	-	617,047	617,047
Principal	-	-	-	-	955,326	955,326
Bond issue costs	-	-	-	110,370	-	110,370
Capital outlay	-	-	3,668,663	-	-	3,668,663
TOTAL EXPENDITURES	<u>25,591,041</u>	<u>2,067</u>	<u>3,668,663</u>	<u>110,370</u>	<u>2,331,630</u>	<u>31,703,771</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARD	<u>\$ 424,690</u>	<u>\$ 318,764</u>	<u>\$ (3,105,105)</u>	<u>\$ (108,790)</u>	<u>\$ (621,572)</u>	<u>\$ (3,092,013)</u>

UPPER MERION TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2012

	<u>General Fund</u>	<u>Fire Apparatus Fund</u>	<u>Capital Acquisition Fund</u>	<u>General Obligation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARDED	\$ 424,690	\$ 318,764	\$ (3,105,105)	\$ (108,790)	\$ (621,572)	\$ (3,092,013)
OTHER FINANCING SOURCES (USES)						
Bond issuance	-	-	-	10,000,000	-	10,000,000
Bond discount	-	-	-	(21,566)	-	(21,566)
Proceeds from sale of capital assets	17,476	27,000	-	-	-	44,476
Transfers in	244,271	-	2,544,465	-	1,164,951	3,953,687
Transfers out	<u>(1,464,242)</u>	<u>(62,154)</u>	<u>(40,238)</u>	<u>(1,720,546)</u>	<u>(235,625)</u>	<u>(3,522,805)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,202,495)</u>	<u>(35,154)</u>	<u>2,504,227</u>	<u>8,257,888</u>	<u>929,326</u>	<u>10,453,792</u>
NET CHANGE IN FUND BALANCES	(777,805)	283,610	(600,878)	8,149,098	307,754	7,361,779
FUND BALANCES AT BEGINNING OF YEAR, as restated	<u>15,319,787</u>	<u>3,396,880</u>	<u>4,994,554</u>	<u>436,355</u>	<u>2,862,732</u>	<u>27,010,308</u>
FUND BALANCES AT END OF YEAR	<u>\$ 14,541,982</u>	<u>\$ 3,680,490</u>	<u>\$ 4,393,676</u>	<u>\$ 8,585,453</u>	<u>\$ 3,170,486</u>	<u>\$ 34,372,087</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ 7,361,779

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$3,365,844) exceed depreciation (\$2,677,220) in the current period.

688,624

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net position.

(89,779)

Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year.

(28,181)

Governmental Funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.

(2,180,000)

Borrowing of long-term debt is a revenue in the Governmental Funds but increases long-term liabilities in the statement of net position.

(10,000,000)

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.

3,135,326

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.

Settlement expense

(3,349,070)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net position. Also, Governmental Funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position. This is the net effect of these differences in the treatment of long-term debt and related items.

48,143

SUBTOTAL ADJUSTMENTS FORWARD

\$ (11,774,937)

UPPER MERION TOWNSHIP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	<u>Enterprise Funds</u>		<u>Total Proprietary Funds</u>
	<u>Sewer Revenue Fund</u>	<u>General Authority</u>	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,293,794	\$ 72,428	\$ 4,366,222
Investments	4,059,551	-	4,059,551
Receivables	1,928,057	-	1,928,057
Due from Municipal Utility Authority	68,331	-	68,331
Prepaid expenses	24,379	-	24,379
TOTAL CURRENT ASSETS	<u>10,374,112</u>	<u>72,428</u>	<u>10,446,540</u>
CAPITAL ASSETS			
Property and equipment	7,657,652	8,072,168	15,729,820
Accumulated depreciation	<u>(4,211,657)</u>	<u>(4,715,865)</u>	<u>(8,927,522)</u>
TOTAL CAPITAL ASSETS	<u>3,445,995</u>	<u>3,356,303</u>	<u>6,802,298</u>
TOTAL ASSETS	<u>13,820,107</u>	<u>3,428,731</u>	<u>17,248,838</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	108,343	108,343
LIABILITIES			
CURRENT LIABILITIES			
Due to other fund	5,678	111	5,789
Accounts payable	187,653	-	187,653
Accrued salaries and benefits	72,290	-	72,290
Accrued interest payable	-	19,549	19,549
Current portion of note payable	-	590,000	590,000
TOTAL CURRENT LIABILITIES	265,621	609,660	875,281
NONCURRENT LIABILITIES			
Note payable, less current portion	-	1,924,911	1,924,911
TOTAL LIABILITIES	<u>265,621</u>	<u>2,534,571</u>	<u>2,800,192</u>
NET POSITION			
Net investment in capital assets	3,445,995	949,735	4,395,730
Unrestricted	10,108,491	52,768	10,161,259
TOTAL NET POSITION	<u>\$ 13,554,486</u>	<u>\$ 1,002,503</u>	<u>\$ 14,556,989</u>

See accompanying notes to the basic financial statements.

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

	Enterprise Funds		Total Proprietary Funds
	Sewer Revenue Fund	General Authority	
OPERATING REVENUES			
Charges for services	\$ 5,956,163	\$ -	\$ 5,956,163
Lease payments	-	651,155	651,155
Penalties	77,513	-	77,513
Other	16,592	-	16,592
TOTAL OPERATING REVENUES	<u>6,050,268</u>	<u>651,155</u>	<u>6,701,423</u>
OPERATING EXPENSES			
Administrative	786,506	-	786,506
Accounting	-	3,500	3,500
Trout Run treatment plant	1,302,381	-	1,302,381
Pumping stations	1,317,244	-	1,317,244
Matsunk treatment plant	1,210,322	-	1,210,322
Contingencies	150,846	-	150,846
Miscellaneous	-	440	440
Depreciation	539,032	204,979	744,011
TOTAL OPERATING EXPENSES	<u>5,306,331</u>	<u>208,919</u>	<u>5,515,250</u>
OPERATING INCOME	<u>743,937</u>	<u>442,236</u>	<u>1,186,173</u>
NONOPERATING REVENUES (EXPENSES)			
Earnings on investments	14,068	27	14,095
Interest expense	-	(81,874)	(81,874)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>14,068</u>	<u>(81,847)</u>	<u>(67,779)</u>
INCOME BEFORE INTERFUND TRANSFERS	<u>758,005</u>	<u>360,389</u>	<u>1,118,394</u>
INTERFUND TRANSFERS	<u>(430,882)</u>	<u>-</u>	<u>(430,882)</u>
CHANGE IN NET POSITION	<u>327,123</u>	<u>360,389</u>	<u>687,512</u>
NET POSITION AT BEGINNING OF YEAR, restated	<u>13,227,363</u>	<u>642,114</u>	<u>13,869,477</u>
NET POSITION AT END OF YEAR	<u>\$ 13,554,486</u>	<u>\$ 1,002,503</u>	<u>\$ 14,556,989</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2012

	Enterprise Funds		Total Proprietary Funds
	Sewer Revenue Fund	General Authority	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 5,908,828	\$ 651,155	\$ 6,559,983
Payments to employees	(1,663,968)	-	(1,663,968)
Payments to suppliers	(2,810,140)	(3,940)	(2,814,080)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,434,720</u>	<u>647,215</u>	<u>2,081,935</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(430,882)	-	(430,882)
Due to other funds	(212,652)	111	(212,541)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(643,534)</u>	<u>111</u>	<u>(643,423)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, construction and improvements of capital assets	(818,188)	-	(818,188)
Principal paid on capital debt	-	(570,000)	(570,000)
Interest paid	-	(81,155)	(81,155)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(818,188)</u>	<u>(651,155)</u>	<u>(1,469,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of investments	223,733	-	223,733
Earnings on investments	14,068	27	14,095
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>237,801</u>	<u>27</u>	<u>237,828</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	210,799	(3,802)	206,997
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,082,995</u>	<u>76,230</u>	<u>4,159,225</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,293,794</u>	<u>\$ 72,428</u>	<u>\$ 4,366,222</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 743,937	\$ 442,236	\$ 1,186,173
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	539,032	204,979	744,011
(Increase) decrease in			
Receivables	(141,440)	-	(141,440)
Due from Municipal Utility Authority	17,798	-	17,798
Prepaid expenses	239,749	-	239,749
Increase in			
Accounts payable	25,963	-	25,963
Accrued salaries and benefits	9,681	-	9,681
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,434,720</u>	<u>\$ 647,215</u>	<u>\$ 2,081,935</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 694,479
Investments, at fair value		
Corporate bonds	13,581,212	-
Equity stocks and options	30,234,157	-
Money market funds	4,218,600	-
Mutual funds	4,005,853	-
Receivables		
Accrued income	158,799	-
Municipal contribution	239,087	-
Interest due on municipal contribution	<u>19,127</u>	<u>-</u>
TOTAL ASSETS	<u>52,456,835</u>	<u>\$ 694,479</u>
LIABILITIES		
Other current liabilities	-	\$ 694,479
Accrued investment expenses	<u>9,558</u>	<u>-</u>
TOTAL LIABILITIES	<u>9,558</u>	<u>\$ 694,479</u>
NET POSITION		
Held in trust for employee benefits	<u>\$ 52,447,277</u>	

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS***Year Ended December 31, 2012*

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 264,218
Employee	462,223
Commonwealth	822,505
TOTAL CONTRIBUTIONS	<u>1,548,946</u>
Investment income	
Net appreciation in fair value of investments	4,638,208
Interest income	728,949
Dividend income	354,171
Accrued interest paid	<u>(27,594)</u>
TOTAL INVESTMENT INCOME	<u>5,693,734</u>
Investment expenses	<u>(212,286)</u>
INVESTMENT INCOME, net	<u>5,481,448</u>
Other income	
Miscellaneous receipts	29
Loan repayments from members	<u>21,419</u>
TOTAL OTHER INCOME	<u>21,448</u>
TOTAL ADDITIONS	<u>7,051,842</u>
DEDUCTIONS	
Pension payments	2,463,985
Administrative expenses	8,500
Refund of members' contributions	<u>13,199</u>
TOTAL DEDUCTIONS	<u>2,485,684</u>
CHANGE IN NET POSITION	4,566,158
NET POSITION AT BEGINNING OF YEAR	<u>47,881,119</u>
NET POSITION AT END OF YEAR	<u>\$ 52,447,277</u>

See accompanying notes to the basic financial statements.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

Upper Merion Township (the "Township") is governed by an elected five-member board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units. The component units discussed below are included in the Township's reporting entity because of the significance of their operational or financial relationships with the Township.

Component Units

The criteria for including organizations as component units within the Township's reporting entity set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* are:

1. The organizations are legally separate (can sue and be sued in their own name).
2. The Township appoints a voting majority of the organizations' boards.
3. The Township is able to impose its will on the organizations.
4. The organizations have the potential to impose a financial benefit/burden on the Township.
5. There is a fiscal dependency by the organizations on the Township.
6. The organizations could not be included as a part of another reporting entity.
7. The organizations' governing bodies are not substantively the same as the primary government.
8. The organizations do not provide services entirely to the primary government.

Blended Component Unit - Upper Merion General Authority (the "General Authority") is a separate legal entity created in June 1986 to plan, finance, construct, renovate and maintain public use facilities in the Township. The General Authority provides financing services entirely to the primary government, and the General Authority's total debt outstanding is to be repaid entirely with resources from the primary government. The General Authority charges the Township an annual rental fee, which is equal to the debt service for the bond issue used to construct the building. A five-member board, appointed by the Township's Board of Supervisors, governs the General Authority. The General Authority is reported as an Enterprise Fund and issues separate audited financial statements which may be obtained from the Township Finance Director.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Discretely Presented Component Units - Upper Merion Municipal Utility Authority (the "Municipal Utility Authority") is a separate legal entity created in August 1986 to plan, finance and construct the sewer plant and system for public use in the Township. The major function of the Municipal Utility Authority is to provide financing for capital construction of the Township's sewage collection and treatment facilities. A five-member board, appointed by the Township's Board of Supervisors, governs the Municipal Utility Authority. The Township has the responsibility for daily operations through a leaseback arrangement with the Municipal Utility Authority. The Authority developed a program of advance payments for individuals, developers and businesses to purchase non-allocated and future capacity in the sanitary sewer system. The program was launched due to the need to construct and upgrade sewage treatment capacity. The program is called Upper Merion Sewer Access Rights (UMSAR) and is the primary revenue source for the Municipal Utility Authority. The primary government will provide additional subsidies to support the Municipal Utility Authority when it experiences operating deficits that are not financed by other means. The component unit issues separate audited financial statements which may be obtained from the Township Finance Director.

Upper Merion Transportation Authority (the "Transportation Authority") is a separate legal entity created in 1985 to acquire, plan, construct and maintain highways, parkways, traffic distribution centers, parking lots and garages for the Township. The program identifies and prioritizes current highway and intersection flow problems and establishes a starting point for future improvements. The program also provides a mechanism and source of revenue to fund various local improvements and reduces dependence on uncertain and untimely federal and state funding. A five-member board, appointed by the Township's Board of Supervisors, governs the Transportation Authority. The Transportation Authority has the potential to impose a financial benefit/burden on the Township because of its role in maintaining and operating all roadways and related facilities. The component unit issues separate audited financial statements which may be obtained from the Township Finance Director.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government and its component units, except for the Fiduciary Fund. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Township and for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township. Expenses reported for functional activities include allocated indirect expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The Township reports the following major Governmental Funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. The principal activities accounted for in the General Fund are general government, public safety, public services and recreation. Those activities are funded principally by property taxes, state shared taxes and grants from other governmental units. The General Fund includes the library operations.

The *Fire Apparatus Fund* (a Special Revenue Fund) is used to account for the proceeds derived from a .096 mill tax on real estate that are restricted to expenditures for specified purposes. This fund accounts principally for capital improvement activity.

The *Capital Acquisition Fund* (a Capital Project Fund) is used to account for major outlays for capital assets and improvements.

The *General Obligation Fund* (a Capital Project Fund) is used to account for new bond issue proceeds.

The Township reports the following major Proprietary Funds:

The *Sewer Revenue Fund* accounts for the activities of the sewage treatment plant, sewage pumping stations and collection systems.

The *General Authority* is a blended component unit of the Township. It was created to plan, finance, construct, renovate and maintain public use facilities in the Township. The component unit's total debt outstanding is expected to be repaid entirely with resources of the primary government through a lease arrangement.

Additionally, the Township reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds account principally for the parks and recreation capital improvement activity and disposition of state liquid fuels highway aid funding. Included in these funds are the State Highway Aid Fund and the UMT Foundation Fund.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Included in these funds are the Municipal Building Fund, the Debt Service Fund, the Capital Tax Fund and the Park Capital Fund.

The *Capital Project Fund* includes the Open Space Fund.

The *Pension Trust Funds* account for activities of the Police and Non-Uniform Pension Plans, which accumulate resources for pension benefit payments to qualified employees.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The *Agency Fund* accounts for assets held by the Township in a trustee capacity or as an agent on behalf of others. The Agency Fund includes funds deposited by developers for legal, engineering and other fees incurred on behalf of specific land development projects; funds deposited for placement of temporary signs in Township right-of-ways; funds deposited in regard to the protest of taxes paid on real property pending an assessment appeal; and funds placed in account for improvements to the library by the Friends Association. The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. The Agency Fund is accounted for using the accrual basis of accounting.

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The *Proprietary Fund* distinguishes 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 Sewer Revenue Fund are charges to customers for sales and services. Operating expenses of the Sewer Revenue Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Township and its component units to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

During 1998, the Township adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires the Township and its component units to record investments at fair value. The government and external investment pools operate in accordance with appropriate state laws and regulations.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

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. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Building improvements	20
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5
Library books	5

The Township has elected to use the modified approach to account for maintenance of its street system. Generally accepted accounting principles allow a government to forego reporting depreciation in connection with networks or subsystems of infrastructure assets, provided that the Township has made a commitment to maintain those particular networks or subsystems at a predetermined condition level of its choosing and has established an asset management system that is adequate for that purpose.

Compensated Absences

It is the Township's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements. A uniformed command officer is permitted to convert 25% of his annual unused compensatory time into payroll. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Type 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

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

Real Estate Tax Calendar and Reserve

The original tax duplicate is received by the Township and given to the tax collector for mailing by February 15. The discount period extends through April 15, followed by the flat period through June 15 and ends with the penalty period after June 15. The penalty is 10%. Any unpaid taxes at the end of the year are required to be lienied by January 16 with the county.

Receivables and Payables

External transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
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All trade and property tax receivables, including those for sewer, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide and Proprietary Funds statements of net position. 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 net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Restricted Net Position

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first and then unrestricted resources as they are needed. Administrative expenses are paid with the use of unrestricted resources.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Fund Balance

Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are prepaid items and long-term loans receivables.
- ***Restricted*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation. Fund balance types of this category include amounts for debt service and liquid fuels.
- ***Committed*** - Amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the highest level of decision-making authority and do not lapse at year-end. The Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Fund balance of this type is the Revenue Stabilization Fund. Since the Township relies heavily upon revenues from the business/mercantile tax, which is very volatile to economic conditions, the Revenue Stabilization Fund has been set up by the Board of Supervisors to provide for any fluctuations to this revenue source due to adverse economic conditions. The Revenue Stabilization Fund would be used to supplement current budgeted revenues if the projection were to decrease by 15% and there were no other funds available in assigned or unassigned fund balance.
- ***Assigned*** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Township Manager and/or Township Finance Director. Fund balance of this type includes amounts for subsequent year's budget, contractual commitments, equipment replacement, capital projects and property/liability insurance reserve.
- ***Unassigned*** - Amounts not contained in other classifications. Unassigned fund balance includes the residual classifications for the General Fund. Unassigned amounts are technically available for any purpose. It is the policy of the Township (based on the Government Finance Officers Association Best Practice) to retain a minimum 15% of the subsequent year operating budget in the unassigned category.

The details of the fund balances are included in the Governmental Funds balance sheet (page 23). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE B CASH AND INVESTMENTS

Deposits - Primary Government

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. As of December 31, 2012, \$16,937,974 of the Township's bank balance of \$17,187,974 was exposed to custodial credit risk as follows:

Uninsured and collateralized by securities held by pledging financial institution	\$ <u>16,937,974</u>
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Deposits - Component Units

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Authorities' deposits may not be returned to them. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. As of December 31, 2012, \$1,901,188 of the component unit bank balances of \$2,151,203 were exposed to custodial credit risk.

Uninsured and collateralized by securities held by pledging financial institution	\$ <u>1,901,188</u>
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Investments

The primary government and component units' investments consist of deposits with financial institutions and U.S. Government and agency securities.

As of December 31, 2012, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 27,251,027	\$ 27,251,027
Certificates of deposit	<u>496,000</u>	<u>496,000</u>
	27,747,027	\$ <u>27,747,027</u>
Outstanding checks drawn on state investment pools	<u>(99,851)</u>	
	\$ <u>27,647,176</u>	

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

As of December 31, 2012, the component units had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 6,655,790	\$ 6,655,790
Certificates of deposit	<u>6,286,957</u>	<u>6,286,957</u>
	12,942,747	\$ <u>12,942,747</u>
Outstanding checks drawn on state investment pools	<u>(770)</u>	
	<u>\$ 12,941,977</u>	

As of December 31, 2012, the Pension Trust Funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than One Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More than 10 Years</u>
Corporate bonds	\$ 13,581,212	\$ 2,059,534	\$ 5,868,626	\$ 3,204,898	\$ 2,448,154
Equity stocks and options	30,234,157	30,234,157	-	-	-
Money market funds	4,218,600	4,218,600	-	-	-
Mutual funds	<u>4,005,853</u>	<u>4,005,853</u>	-	-	-
	<u>\$ 52,039,822</u>	<u>\$ 40,518,144</u>	<u>\$ 5,868,626</u>	<u>\$ 3,204,898</u>	<u>\$ 2,448,154</u>

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. The primary government and component units' investment policy limits investment maturities to remain sufficiently liquid to meet all operating requirements that are reasonably anticipated as a means of managing its exposure to fair value losses arising from increasing interest rates. Except where specifically indicated above, or with the approval of the Investment Committee, maturities of investment instruments will be limited to a period of two to five years. For the General Fund and other operating funds, maturities will not exceed one year. The Police and Non-Uniformed Pension Plans do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair values losses arising from increasing interest rates.

Statutory Restrictions - Investments of the primary government's funds covered by this policy will be made in a manner consistent with the restrictions imposed by the Second Class Township Code and Local Government Unit Debt Act.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Investments - Investments of the primary government and component units' funds covered by this policy are limited to the following investment instruments:

1. U.S. Treasury bills.
2. Treasury bonds or notes with maturities of less than two years.
3. Fully insured or collateralized CDs at commercial banks and savings and loans that have been approved as Township depositories by the Investment Committee with maturities of less than one year.
4. Investment pools offered by the Commonwealth of Pennsylvania or other entities, which have been approved by the Commonwealth of Pennsylvania for investment by Second Class Townships.
5. Investment instruments offered by the Pennsylvania Local Government Investment Trust (PLGIT).
6. Repurchase agreements with a term of less than five days fully collateralized (minimum 102% of principal at market value) by U.S. Treasury securities.
7. Certain short-term obligations of U.S. Government agencies as approved by the Investment Committee.

Safekeeping and Custody - To protect against potential fraud and embezzlement, whenever practical, the investment assets of the primary government will be secured through third-party custody and safekeeping procedures. Bearer instruments will be held only through third-party institutions.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Only debt issues that meet or exceed a credit rating of A from Standard & Poor's and/or an A rating from Moody's may be purchased by the primary government. As of December 31, 2012, the primary government's investment in the state investment pool was rated AAAM by Standard & Poor's. At December 31, 2012, \$1,392,193 (10.25%), \$4,615,385 (33.98%), \$6,143,492 (45.24%), \$393,750 (2.90%), \$338,250 (2.49%) and \$118,000 (.87%) of the Police Pension Plan corporate bonds were rated, AA, A, BAA, BA, B and CA, respectively, by Morningstar, and \$580,142 (4.27%) of the corporate bonds from the Non-Uniformed Pension Plan were unrated. The Police and Non-Uniform Pension Plans do not have formal policies that limit investments to ratings issued by nationally recognized statistical rating organizations.

Although not registered with the Securities and Exchange Commission and not subject to formal regulatory oversight, the state investment pool is subject to an independent annual audit. The fair value in the external investment pool is equivalent to the value of the pool shares.

Concentration of Credit Risk - Investment in any one type of investment instrument or with any one financial institution is limited to the amount and/or percentages specified by the Investment Committee. There were no investments greater than 5% in any one single issuer that would be considered a concentration of credit risk.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Escrow Cash Deposits and Investments

The Township acts in a custodial capacity with respect to monies deposited with it for the employee scholarship program; funds deposited by developers for legal, engineering and other fees incurred on behalf of specific land development projects; funds deposited for placement of temporary signs in Township right-of-ways; funds deposited in regard to the protest of taxes paid on real property pending an assessment appeal; and funds placed in account for improvements to the library by the Friends Association. Any unused deposits are returned to the payer upon completion of the projects or settlement of the protest. None of the monies received from or expended are recorded in the revenues and expenses of the Township. At December 31, 2012, \$694,479 represents the balance of these monies held in escrow.

NOTE C RECEIVABLES

Receivables are comprised of the following:

	Primary Government						Totals	Transportation Authority
	Governmental Funds					Proprietary Fund		
	General Fund	Fire Apparatus Fund	Capital Acquisition Fund	Other Governmental Funds	Total Governmental Funds	Sewer Revenue Fund		
Real estate taxes	\$ 143,228	\$ 4,233	\$ -	\$ 13,279	\$ 160,740	\$ -	\$ 160,740	\$ -
Other taxes and fees	647,212	-	-	-	647,212	-	647,212	-
Grants	-	-	31,631	-	31,631	-	31,631	499,925
Sewer receivable	-	-	-	-	-	1,928,057	1,928,057	-
Loan receivable	-	88,684	-	-	88,684	-	88,684	-
Cable television	144,185	-	-	-	144,185	-	144,185	-
Interest	-	351	-	-	351	-	351	6,880
	<u>\$ 934,625</u>	<u>\$ 93,268</u>	<u>\$ 31,631</u>	<u>\$ 13,279</u>	<u>\$ 1,072,803</u>	<u>\$ 1,928,057</u>	<u>\$ 3,000,860</u>	<u>\$ 506,805</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Note Receivable

On December 15, 2009, the Township authorized the purchase of General Obligation Bonds, Series A of 2009, for the purpose of providing funds to currently refund the Guaranteed Lease Revenue Bonds, Series of 2003, and Guaranteed Sewer Revenue Bonds, Series of 2003, and pay the costs of issuing and insuring the bonds on behalf of the General and Municipal Utility Authorities. The Authorities are required to make payments to the Township equal to the debt service of the Series A of 2009 Bonds. The annual payments due to the Township from each respective Authority are as follows:

<u>Year Ending December 31,</u>	<u>Municipal Utility Authority</u>		<u>General Authority</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,670,000	\$ 165,397	\$ 590,000	\$ 58,355
2014	1,705,000	131,997	600,000	46,555
2015	1,745,000	93,635	615,000	33,055
2016	1,795,000	41,285	635,000	14,605
	<u>\$ 6,915,000</u>	<u>\$ 432,314</u>	<u>\$ 2,440,000</u>	<u>\$ 152,570</u>

NOTE D INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2012, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Revenue Fund	\$ 5,678
General Fund	General Authority	111
Fire Apparatus Fund	General Fund	28
Other Governmental Funds	General Fund	106
		<u>\$ 5,923</u>

Due to/from primary government and component units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Transportation Authority	\$ 15,669
Sewer Revenue Fund	Municipal Utility Authority	68,331
		<u>\$ 84,000</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Capital Acquisition Fund</u>	<u>Other Governmental Funds</u>	
General Fund	\$ -	\$ 339,529	\$ 1,124,713	\$ 1,464,242
Fire Apparatus Fund	40,000	22,154	-	62,154
Capital Acquisition Fund	-	-	40,238	40,238
General Obligation Fund	-	1,720,546	-	1,720,546
Other Governmental Funds	-	235,625	-	235,625
Sewer Revenue Fund	<u>204,271</u>	<u>226,611</u>	<u>-</u>	<u>430,882</u>
	<u>\$ 244,271</u>	<u>\$ 2,544,465</u>	<u>\$ 1,164,951</u>	<u>\$ 3,953,687</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the Debt Service Fund to establish mandatory reserve accounts and (3) move unrestricted General Fund revenues to finance various programs that the Township must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE E CAPITAL ASSETS

In accordance with GASB Statement No. 34, the Township has reported all capital assets, including infrastructure, in the government-wide statement of net position. The Township elected to use the "modified approach" as defined by GASB Statement No. 34 for infrastructure reporting for its pavement system. As a result, no accumulated depreciation or depreciation expense has been recorded for this system. A more detailed discussion of the "modified approach" is presented in the required supplementary information section of this report. All other capital assets, including other infrastructure systems, were reported using the basic approach, whereby accumulated depreciation and depreciation expense have been recorded.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2012, was as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 19,677,920	\$ 935,000	\$ -	\$ 20,612,920
Infrastructure	12,770,076	-	-	12,770,076
Construction in progress	-	38,251	-	38,251
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	32,447,996	973,251	-	33,421,247
Capital assets being depreciated				
Library books	3,754,852	-	(418,052)	3,336,800
Land improvements	12,425,433	54,374	-	12,479,807
Buildings and improvements	5,345,070	1,598,319	-	6,943,389
Furniture and equipment	4,003,165	441,554	-	4,444,719
Automobiles and trucks	9,718,139	141,906	(321,419)	9,538,626
Infrastructure	15,272,566	156,440	-	15,429,006
TOTAL CAPITAL ASSETS BEING DEPRECIATED	50,519,225	2,392,593	(739,471)	52,172,347
Accumulated depreciation				
Library books	(3,353,873)	(91,264)	418,052	(3,027,085)
Land improvements	(5,419,142)	(708,567)	-	(6,127,709)
Buildings and improvements	(2,667,056)	(378,810)	-	(3,045,866)
Furniture and equipment	(2,919,687)	(328,758)	-	(3,248,445)
Automobiles and trucks	(6,857,437)	(709,439)	231,640	(7,335,236)
Infrastructure	(4,207,961)	(460,382)	-	(4,668,343)
TOTAL ACCUMULATED DEPRECIATION	(25,425,156)	(2,677,220)	649,692	(27,452,684)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	25,094,069	(284,627)	(89,779)	24,719,663
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	\$ 57,542,065	\$ 688,624	\$ (89,779)	\$ 58,140,910
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Land improvements	\$ 8,145	\$ -	\$ -	\$ 8,145
Buildings and improvements	10,724,471	6,176	-	10,730,647
Furniture and equipment	1,595,496	218,788	-	1,814,284
Automobiles and trucks	481,465	-	-	481,465
Infrastructure	2,102,055	593,224	-	2,695,279
TOTAL CAPITAL ASSETS BEING DEPRECIATED	14,911,632	818,188	-	15,729,820
Accumulated depreciation				
Land improvements	(7,874)	(271)	-	(8,145)
Buildings and improvements	(6,373,658)	(363,418)	-	(6,737,076)
Furniture and equipment	(667,476)	(223,111)	-	(890,587)
Automobiles and trucks	(481,465)	-	-	(481,465)
Infrastructure	(653,038)	(157,211)	-	(810,249)
TOTAL ACCUMULATED DEPRECIATION	(8,183,511)	(744,011)	-	(8,927,522)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	\$ 6,728,121	\$ 74,177	\$ -	\$ 6,802,298

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Discretely Presented Component Units

Capital asset activity for the Municipal Utility Authority for the year ended December 31, 2012, was as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and improvements	\$ 52,734,180	\$ 858,868	\$ -	\$ 53,593,048
Accumulated depreciation	<u>(32,377,871)</u>	<u>(1,135,588)</u>	<u>-</u>	<u>(33,513,459)</u>
CAPITAL ASSETS BEING DEPRECIATED, net	\$ <u>20,356,309</u>	\$ <u>(276,720)</u>	\$ <u>-</u>	\$ <u>20,079,589</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES	
Operating	\$ 123,880
General government	507,907
Police, health and public safety	925,589
Roads	975,429
Parks	140,664
Planning and code enforcement	<u>3,751</u>
	\$ <u>2,677,220</u>
BUSINESS-TYPE ACTIVITIES	
Sewer	\$ 539,032
General Authority	<u>204,979</u>
	\$ <u>744,011</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE F BONDED DEBT AND NOTES PAYABLE

Bonded debt and note payable of the primary government at December 31, 2012, are comprised of the following:

General Obligation Bonds, Series of 2009, \$6,590,000 due in annual principal installments ranging from \$160,000 to \$965,000 through December 1, 2023, interest rate is variable from 2.50% to 4.125%	\$ 6,225,000
General Obligation Bonds, Series A of 2009, \$15,800,000 due in annual principal installments ranging from \$2,090,000 to \$2,430,000 through September 1, 2016, interest rate is variable from 2.00% to 4.00%	9,355,000
General Obligation Bonds, Series of 2010, \$4,155,000 due in annual principal installments ranging from \$450,000 to \$770,000 through November 1, 2016, interest rate is variable from 1.25% to 4.00%	2,995,000
General Obligation Bonds, Series of 2011, \$4,610,000 due in annual principal installments ranging from \$5,000 to \$315,000 through December 1, 2031, interest rate is variable from 1.00% to 3.65%	4,605,000
General Obligation Bonds, Series of 2012, \$10,000,000 due in annual principal installments ranging from \$185,000 to \$695,000 through December 1, 2032, interest rate is variable from 1.00% to 4.00%	10,000,000
Note payable, \$4,125,000 due in annual principal installments ranging from \$570,000 to \$635,000 through September 1, 2016, interest rate is variable from 2.00% to 4.00%	2,440,000
Note payable, \$810,000 due in annual principal installments ranging from \$75,326 to \$87,087 through November 7, 2021, interest rate is fixed at 1.625%	<u>735,474</u>
	<u>\$ 36,355,474</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The annual requirements to amortize all debt outstanding of the primary government as of December 31, 2012, including interest payments, are as follows:

Year Ending December 31,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 3,591,550	\$ 927,700	\$ 590,000	\$ 58,355
2014	3,672,794	858,156	600,000	46,555
2015	3,764,058	770,030	615,000	33,055
2016	3,875,343	655,050	635,000	14,605
2017	1,651,649	568,404	-	-
2018 to 2022	8,890,080	2,108,115	-	-
2023 to 2027	4,790,000	1,018,113	-	-
2028 to 2032	3,680,000	350,903	-	-
	<u>\$ 33,915,474</u>	<u>\$ 7,256,471</u>	<u>\$ 2,440,000</u>	<u>\$ 152,570</u>

Bank loans and notes payable of the discretely presented component units at December 31, 2012, are comprised of the following:

Municipal Utility Authority

Note payable, \$11,675,000 due in annual principal installments ranging from \$1,605,000 to \$1,795,000 through September 1, 2016, interest rate is variable from 2.00% to 4.00% \$ 6,915,000

Transportation Authority

Bank loan agreement with Pennsylvania Infrastructure Bank, \$3,500,000 due in annual principal installments ranging from \$325,178 to \$375,944 through August 29, 2022, interest payable at 1.625% \$ 3,500,000

The annual requirements to amortize all debt outstanding of the discretely presented component units as of December 31, 2012, including interest payments, are as follows:

Year Ending December 31,	Municipal Utility Authority		Transportation Authority	
	Principal	Interest	Principal	Interest
2013	\$ 1,670,000	\$ 165,397	\$ 325,178	\$ 56,875
2014	1,705,000	131,997	330,463	51,591
2015	1,745,000	93,635	335,833	46,221
2016	1,795,000	41,285	341,178	40,875
2017	-	-	346,834	35,219
2018 to 2022	-	-	1,820,514	89,753
	<u>\$ 6,915,000</u>	<u>\$ 432,314</u>	<u>\$ 3,500,000</u>	<u>\$ 320,534</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE G SETTLEMENTS PAYABLE

During 2004, the Township agreed to settle two outstanding lawsuits. The following is a summary of the annual payments required based on the agreement reached:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ <u>60,000</u>	\$ <u>3,600</u>

During 2012, the Township agreed to settle an outstanding lawsuit with the Hankin Family Partnership (Hankin) and Realen Valley Forge Greenes Associates (Realen). Upon consideration of the agreement, Hankin shall receive a lump sum payment of \$13,000,000, of which \$1,000,000 is to be paid by the Township and \$12,000,000 is to be paid by Realen. The Township paid \$1,000,000 to Hankin in 2012. Of the \$12,000,000 settlement contribution due from Realen, the amount of \$3,409,070 is considered a prepayment against fees, taxes and other charges due to the Township that Realen will incur as it develops the property. Such fees, taxes and charges include the Township's share of transfer fees associated with the sale of any portion of the property, the Township's share of any business privilege tax, real estate tax, or other recurring tax the Township would otherwise receive from any buildings located on the property and one-half of each construction permit fee imposed by the Township in connection with issuance of permits for construction on the property. As any of the foregoing fees become due, Realen shall be entitled to utilize the prepayment until such time as the total prepayment equals \$3,409,070. To the extent a balance of unpaid prepayment amount exists at each anniversary of Realen's payment of the settlement contribution, the then-unpaid balance of the prepayment amount shall be increased by 5% without additional contribution from Realen. In summary, as a result of the Hankin Family Partnership and Realen Valley Forge Greenes Associates settlement, the Township incurred \$4,409,070 of settlement liability in 2012, of which \$1,000,000 has been paid. The outstanding balance at December 31, 2012, is \$3,409,070, none of which has been considered to be current as there are no specific repayment terms under the agreement.

Municipal Utility Authority

In addition to the above terms, the Municipal Utility Authority entered into a settlement agreement with Realen. Under the terms of the settlement agreement, the Authority has waived its right to collect the last payment of \$1,473,740 that was due to be collected in 2013 against the remaining balance of the tapping fee for the initial reserved capacity, as defined in the Sewer Agreement between Realen and the Authority dated March 18, 2008, and the tapping fee for the initial reserved capacity shall be deemed paid in full. In addition, the Authority agreed to reserve and allocate to Realen an additional 47,000 gallons per day of capacity, in addition to the Initial Reserved Capacity, without charging Realen, which may be utilized by Realen for sewage collection, conveyance and treatment capacity at the property. This is considered to represent a current value of approximately \$1,117,190, and the tapping fee for such 47,000 gallons per day shall be deemed paid in full.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE H CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes in long-term liabilities occurred:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental activities					
General Obligation Bonds					
Series of 2009	\$ 6,390,000	\$ -	\$ (165,000)	\$ 6,225,000	\$ 160,000
Series A of 2009	11,535,000	-	(2,180,000)	9,355,000	2,260,000
Series of 2010	3,705,000	-	(710,000)	2,995,000	735,000
Series of 2011	4,610,000	-	(5,000)	4,605,000	175,000
Series of 2012	-	10,000,000	-	10,000,000	185,000
Note payable	810,800	-	(75,326)	735,474	76,550
Deferred amounts					
Issuance discount	(37,455)	(21,566)	4,028	(54,993)	-
Issuance premium	169,152	-	(34,997)	134,155	-
TOTAL BONDS AND NOTE	<u>27,182,497</u>	<u>9,978,434</u>	<u>(3,166,295)</u>	<u>33,994,636</u>	<u>3,591,550</u>
Settlement payable	<u>120,000</u>	<u>4,409,070</u>	<u>(1,060,000)</u>	<u>3,469,070</u>	<u>60,000</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 27,302,497</u>	<u>\$ 14,387,504</u>	<u>\$ (4,226,295)</u>	<u>\$ 37,463,706</u>	<u>\$ 3,651,550</u>
Business-type activities					
Note payable	\$ 3,010,000	\$ -	\$ (570,000)	\$ 2,440,000	\$ 590,000
Deferred amounts					
Issuance premium	<u>93,639</u>	<u>-</u>	<u>(18,728)</u>	<u>74,911</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 3,103,639</u>	<u>\$ -</u>	<u>\$ (588,728)</u>	<u>\$ 2,514,911</u>	<u>\$ 590,000</u>

On April 19, 2012, the Township authorized the purchase of General Obligation Bonds, Series of 2012, for the purpose of financing capital projects and paying the costs of issuing the bonds.

There were no compensated absences to be accrued as of December 31, 2012 and 2011.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DISCRETELY PRESENTED COMPONENT UNITS					
Municipal Utility Authority					
Note payable	\$ 8,525,000	\$ -	\$ (1,610,000)	\$ 6,915,000	\$ 1,670,000
Deferred amounts					
Issuance premium	<u>264,169</u>	<u>-</u>	<u>(52,834)</u>	<u>211,335</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 8,789,169</u>	<u>\$ -</u>	<u>\$ (1,662,834)</u>	<u>\$ 7,126,335</u>	<u>\$ 1,670,000</u>
Transportation Authority					
PA Infrastructure Bank Loan	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ 325,178</u>

NOTE I DEFEASED DEBT

In the current year, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the Township's financial statements.

As of December 31, 2012, the Township has defeased debt outstanding of \$4,295,000.

NOTE J LAND IMPROVEMENT ESCROW

The Township specifies building and land improvement requirements as a condition to the issuance of building permits. These escrows represent funds from independent builders that are returned upon the completion of required improvements to various properties within the Township. The escrow balance is maintained in the cash accounts of the Township.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE K PENSION PLANS

The Township has a contributory, single-employer defined benefit pension and retirement plan covering police employees. Effective January 1, 1991, the non-uniform defined benefit plan was converted to a defined contribution plan.

Non-Uniform Pension Plan (Defined Contribution)

The Upper Merion Township Non-Uniform Pension Plan covers all full-time non-uniform employees under age 65 who have completed six months of service and agree to make contributions. The plan provisions are adopted and amended by the governing body of the Township. The Township contributes 6% of monthly compensation to the plan. Participants are required to contribute 3% of their monthly compensation to the plan. Benefits vest after seven years of service. The plan is administered by ICMA Retirement Corp. Contributions to the plan for 2012 were \$447,112 (Township) and \$229,915 (employees). Total annual covered payroll for 2012 was \$7,522,320.

Police Pension Plan (Defined Benefit)

General - The Upper Merion Township Police Pension Plan is a single-employer, defined benefit pension plan covering the Upper Merion Township full-time police officers. The plan is controlled by the provisions of Ordinance 96-645, dated March 7, 1997, and adopted pursuant to Act 600. The plan is administered by PNC Bank. Plan provisions are adopted and amended by the governing body of the Township.

Benefit Provisions - The plan provides vesting, retirement, survivor and disability benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the municipality. Benefits are 100% vested after 12 years of credited service. Employees who retire at or after age 50 with 25 years of service are entitled to annual retirement benefits in an amount equal to 50% of the average earnings of the three-year period preceding retirement, termination, or disability.

Plan Membership - Membership of the plan consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

Active employees	56
Retirees and beneficiaries currently receiving benefits	39
Terminated employees entitled to benefits but not yet receiving them	<u>2</u>
TOTAL MEMBERSHIP	<u><u>97</u></u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Funding Policy

Valuation date	January 1, 2011
Actuarial cost method.....	Entry age
Amortization method	Level dollar closed
Remaining amortization period	10 years
Funding of administrative costs	Investment earnings
Post-retirement benefit increases	Benefits are adjusted according to the Consumer Price Index (all items Philadelphia average); a maximum amount of 3%; increases must be approved by the Board of Supervisors
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return.....	8%
Projected salary increases.....	5%
Inflation rate.....	3%
Contribution rates	
Municipal	15.87%
Plan members	4.00%

Financial Reporting - A separate stand-alone financial statement is issued on the Police Pension Plan, which can be obtained from the Township's Finance Department.

Contributions - Act 205 requires that annual contributions to the plan be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Annual Pension Cost - Current year annual pension costs are shown in the three-year trend information. Annual required contributions were made to the plan, and there is no net pension obligation.

Trend Information

<u>Fiscal</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
2010	\$ 459,242	100%	N/A
2011	525,450	100%	N/A
2012	639,611	100%	N/A

Funded Status and Funding Progress - As of January 1, 2011, the most recent actuarial valuation date, the plan was 101.5% funded. The actuarial accrued liability for benefits was \$41.3 million and the actuarial value of assets was \$41.9 million, resulting in an unfunded actuarial accrued asset (UAAL) of \$.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.2 million, and the ratio of the UAAL to the covered payroll was 11.6%.

Reserves - There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. There are no long-term contracts for contributions.

Investments that Represent 5% or More of Net Position Available for Benefits - There are no investments that represent 5% or more of net position available for benefits.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE L COMBINING SCHEDULES OF FIDUCIARY FUNDS

The following is a combining schedule of fiduciary net position for the Pension Trust Funds:

	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Investments, at fair value			
Corporate bonds	\$ 13,001,070	\$ 580,142	\$ 13,581,212
Equity stocks and options	24,975,841	5,258,316	30,234,157
Money market funds	851,729	3,366,871	4,218,600
Mutual funds	-	4,005,853	4,005,853
Receivables			
Accrued income	158,799	-	158,799
Municipal contribution	239,087	-	239,087
Interest due on municipal contribution	19,127	-	19,127
TOTAL ASSETS	<u>39,245,653</u>	<u>13,211,182</u>	<u>52,456,835</u>
LIABILITIES			
Accrued investment expenses	<u>9,558</u>	<u>-</u>	<u>9,558</u>
NET POSITION			
Held in trust for pension benefits	<u>\$ 39,236,095</u>	<u>\$ 13,211,182</u>	<u>\$ 52,447,277</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The following is a combining schedule of changes in fiduciary net position for the Pension Trust Funds:

	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>	<u>Total Fiduciary Funds</u>
ADDITIONS			
Contributions			
Employer	\$ 239,087	\$ 25,131	\$ 264,218
Employee	232,308	229,915	462,223
Commonwealth	400,524	421,981	822,505
TOTAL CONTRIBUTIONS	<u>871,919</u>	<u>677,027</u>	<u>1,548,946</u>
Investment income			
Net appreciation in fair value of investments	3,375,761	1,262,447	4,638,208
Interest income	728,949	-	728,949
Dividend income	354,171	-	354,171
Accrued interest paid	(27,594)	-	(27,594)
TOTAL INVESTMENT INCOME	<u>4,431,287</u>	<u>1,262,447</u>	<u>5,693,734</u>
Investment expenses	(211,907)	(379)	(212,286)
INVESTMENT INCOME, net	<u>4,219,380</u>	<u>1,262,068</u>	<u>5,481,448</u>
Other income			
Miscellaneous receipts	29	-	29
Loan repayments from members	-	21,419	21,419
TOTAL OTHER INCOME	<u>29</u>	<u>21,419</u>	<u>21,448</u>
TOTAL ADDITIONS	<u>5,091,328</u>	<u>1,960,514</u>	<u>7,051,842</u>
DEDUCTIONS			
Benefit payments	2,137,502	326,483	2,463,985
Administrative expenses	8,500	-	8,500
Refund of members' contributions	13,199	-	13,199
TOTAL DEDUCTIONS	<u>2,159,201</u>	<u>326,483</u>	<u>2,485,684</u>
CHANGE IN NET POSITION	2,932,127	1,634,031	4,566,158
NET POSITION AT BEGINNING OF YEAR	<u>36,303,968</u>	<u>11,577,151</u>	<u>47,881,119</u>
NET POSITION AT END OF YEAR	<u>\$ 39,236,095</u>	<u>\$ 13,211,182</u>	<u>\$ 52,447,277</u>

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE M DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Township employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE N SEWER ACCESS RIGHTS

Sewer access rights consist of advance payments made to the Upper Merion Municipal Utility Authority to purchase reserve capacity in the sewage system. Income is recognized as occupancy permits are approved.

NOTE O COMMITMENTS AND CONTINGENCIES

Litigation

During the year, the Township settled an ongoing legal claim; see Note G for the terms of the agreement reached. In addition, the Township is party to litigation involving various Township matters. Based on the opinion of its legal counsel, the Township officials feel that the outcome of any lawsuits will not have a material effect on the financial condition of the Township.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Authority Agreement

The Transportation Authority has entered into an agreement to participate in a Federal Aid Highway Program for various transportation studies. Under the terms of the reimbursement agreement, the Transportation Authority agreed to participate in the studies. The estimated project costs and estimated maximum reimbursement from federal funds are as follows:

	<u>Totals</u>	<u>Share of Costs</u>					
		<u>Federal</u>		<u>State and County</u>		<u>Authority</u>	
TRANSPORTATION STUDY							
I-76 Improvements; Henderson Road and Widening Project 066411-A	\$ 2,642,866	\$ 2,114,293	80%	\$ 528,573	20%	\$ -	0%
I-76 Improvements; Henderson Road and Widening Project 064024-A	400,000	320,000	80%	80,000	20%	-	0%
Multi-Use Trail Bridge Project 164046	750,000	750,000	100%	-	0%	-	0%
Multi-Use Trail Bridge Project 164046-A	450,000	450,000	100%	-	0%	-	0%
Church Road Bridge 064130-A	580,450	464,360	80%	104,481	18%	11,609	2%
North Gulph Road/PA Section 2NG Project 164228	1,250,000	1,000,000	80%	250,000	20%	-	0%

The total costs of the projects incurred through December 31, 2012, were \$5,143,976.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Leases and Management Agreements

The Township leases certain facilities from the General Authority through 2016 with annual rental payments to the General Authority equal to the debt service on the bonded debt. The future rental payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 648,355
2014	646,555
2015	648,055
2016	<u>649,605</u>
	<u>\$ 2,592,570</u>

During 1986, the Municipal Utility Authority entered into a management agreement with the Township to manage and operate the Matsunk Sewer Treatment Plant and connection lines and to perform other functions on behalf of the Municipal Utility Authority. The Township will provide funding for debt service requirements as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 1,835,397
2014	1,836,997
2015	1,838,635
2016	<u>1,836,285</u>
	<u>\$ 7,347,314</u>

NOTE P CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Township to a concentration of credit risk consist principally of cash and receivables. Township deposits with financial institutions in excess of insurance coverage are secured in accordance with Act 72 of the Commonwealth of Pennsylvania.

Receivables are generated throughout Montgomery County, and the Township usually requires no collateral.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE Q RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Township to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE R POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Township provides medical, prescription and dental insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by the Township Supervisors and can be amended by the Township through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the Township's General Fund.

Funding Policy

The Township negotiates the contribution percentage between the Township and employees through union contracts and its personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Township currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Township.

During 2009, the Township began managing its liability for retiree health care benefits by increasing the contributions paid by retirees and their spouses to a level that is actuarially expected to cover their claims and expenses. This approach eliminated the implicit liability for any age subsidy. The Township will no longer be subsidizing retiree health care costs, which eliminates any financial liability for the retiree health care benefits. With the liability for retiree health care benefits at zero, the net OPEB obligation is also zero.

NOTE S SUBSEQUENT EVENTS

In January 2013, the Township issued General Obligation Bonds, Series of 2013, in the amount of \$6,405,000 for the purpose of advance refunding the Township's General Obligation Bonds, Series of 2009, and to pay for the costs of issuing the 2013 Bonds.

UPPER MERION TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE T CHANGE IN ACCOUNTING PRINCIPLE

The Township implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective January 1, 2012. As a result of implementation, the General Authority, due to its financial dependency on the primary government, is now reported as a blended component unit and included on the Proprietary Funds statement of net position. Also, as a result of implementation, the Township has restated net position at the beginning of the year for the business-type activities in the government-wide financial statements. The restatement is needed to include the beginning net position of the General Authority. Net position increased \$642,114 in the business-type activities.

The Township also implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2012. As a result of implementation, the Township has restated net position at the beginning of the year for the governmental activities in the government-wide financial statements. The restatement is needed to expense bond issue costs that were previously required to be capitalized prior to adoption of the new pronouncements.

The Township has adjusted beginning net position for the governmental activities by \$393,760 from \$69,119,212 to \$68,725,452 (restated amount disclosed excludes restatement for prior period adjustment, see Note U). As a result, the 2011 interest expense increased by \$40,022, which decreased the 2011 change in net position by \$40,022. There was also \$353,738 of previously unamortized bond issuance related costs considered to be written off as a result of the new accounting principle prior to 2011.

The General Authority has adjusted net position from \$718,859 to \$642,114. As a result, the 2011 amortization expense decreased by \$7,581, interest expense decreased by \$7,769 and the change in net position increased by \$15,350 in 2011. There was also \$92,095 of previously unamortized bond issuance related costs considered to be written off as a result of the new accounting principle prior to 2011.

The Municipal Utility Authority has adjusted net position from \$21,394,496 to \$21,176,787. As a result, the 2011 amortization expense decreased by \$21,387, interest expense decreased by \$22,155 and the change in net position increased by \$43,542 in 2011. There was also \$261,251 of previously unamortized bond issuance related costs considered to be written off as a result of the new accounting principle prior to 2011.

NOTE U PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to correct the loan receivable balance due from the Fireman's Relief Association on the Fire Apparatus Fund. As a result of the adjustment, the beginning fund balance of the Fire Apparatus Fund increased \$99,426 in the Governmental Funds, which represented the interest income portion of the loan repayments previously applied against the outstanding loan balance.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER MERION TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Real estate taxes				
Current	\$ 4,909,652	\$ 4,909,652	\$ 4,829,902	\$ (79,750)
Prior	11,000	11,000	-	(11,000)
Delinquent	50,000	50,000	89,189	39,189
Delinquent 511 taxes	551,250	551,250	657,071	105,821
Real estate taxes, interim	26,000	26,000	58,078	32,078
Real estate transfer tax	450,000	450,000	920,382	470,382
Amusement tax	31,000	31,000	20,091	(10,909)
Local services tax	1,813,862	1,813,862	1,860,250	46,388
Mercantile tax	3,800,000	3,800,000	3,895,578	95,578
Utilities tax	25,500	25,500	24,995	(505)
Business privilege tax	5,440,000	5,440,000	6,158,766	718,766
Grants	1,867,069	1,867,069	2,184,828	317,759
Fines	342,274	355,908	329,929	(25,979)
Investment income	50,900	50,900	51,923	1,023
Permits and fees	2,911,450	2,911,450	2,944,162	32,712
Reimbursements	781,000	781,000	826,776	45,776
Parks and recreation	950,200	950,200	808,603	(141,597)
Miscellaneous	375,780	375,780	355,208	(20,572)
	<u>24,386,937</u>	<u>24,400,571</u>	<u>26,015,731</u>	<u>1,615,160</u>
TOTAL FORWARD				
EXPENDITURES				
Operating				
Library	1,773,895	1,787,529	1,753,361	34,168
Insurance	3,355,703	3,355,703	3,063,192	292,511
Payroll taxes	614,287	614,287	640,583	(26,296)
Engineering expenses	38,000	38,000	52,232	(14,232)
TOTAL OPERATING	<u>5,781,885</u>	<u>5,795,519</u>	<u>5,509,368</u>	<u>286,151</u>
General government				
Salaries	1,411,670	1,411,670	1,507,236	(95,566)
Office expenses and supplies	192,691	194,406	164,685	29,721
Capital outlay	14,250	14,250	9,664	4,586
Repairs and maintenance	44,986	45,486	40,084	5,402
Travel expenses and seminars	31,917	31,917	35,430	(3,513)
Professional fees	364,060	361,845	741,767	(379,922)
Utilities	15,592	15,592	13,072	2,520
General expenses	538,073	538,073	1,387,422	(849,349)
TOTAL GENERAL GOVERNMENT	<u>2,613,239</u>	<u>2,613,239</u>	<u>3,899,360</u>	<u>(1,286,121)</u>
SUBTOTAL FORWARD	<u>\$ 8,395,124</u>	<u>\$ 8,408,758</u>	<u>\$ 9,408,728</u>	<u>\$ (999,970)</u>

UPPER MERION TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
SUBTOTAL FORWARDED	\$ 8,395,124	\$ 8,408,758	\$ 9,408,728	\$ (999,970)
Police, health and public safety				
Salaries	7,408,790	7,380,890	7,841,423	(460,533)
Materials and supplies	287,591	315,491	329,662	(14,171)
Repairs and maintenance	648,494	648,494	607,672	40,822
Fire expenses	1,060,478	1,060,478	905,763	154,715
Capital outlay	26,369	26,369	22,213	4,156
Utilities	106,344	106,344	94,915	11,429
Miscellaneous expenses	93,046	93,046	89,449	3,597
TOTAL POLICE, HEALTH AND PUBLIC SAFETY	9,631,112	9,631,112	9,891,097	(259,985)
Roads and parks				
Roads				
Salaries	141,311	141,311	106,014	35,297
Materials and supplies	116,000	116,000	118,314	(2,314)
Repairs and maintenance	1,114,992	1,125,992	1,136,778	(10,786)
General expenses	151,845	151,845	137,347	14,498
Street lighting	91,000	91,000	86,365	4,635
Snow removal	220,000	209,000	153,715	55,285
New tools and machinery	16,810	16,810	14,561	2,249
TOTAL ROADS	1,851,958	1,851,958	1,753,094	98,864
Parks				
Salaries	587,686	587,686	620,256	(32,570)
Materials and supplies	130,450	130,450	126,240	4,210
Repairs and maintenance	45,956	55,956	61,553	(5,597)
General administrative	180,510	170,510	182,219	(11,709)
Recreation expenses	1,542,181	1,542,181	1,383,027	159,154
Capital outlay	24,806	24,806	25,579	(773)
TOTAL PARKS	2,511,589	2,511,589	2,398,874	112,715
TOTAL ROADS AND PARKS	4,363,547	4,363,547	4,151,968	211,579
Police and employee pension cost				
Employee pension cost	351,830	351,830	362,538	(10,708)
Foreign Casualty Insurance Tax Grant				
Police pension cost	540,880	540,880	574,678	(33,798)
Employee pension cost	75,788	75,788	60,289	15,499
TOTAL POLICE AND EMPLOYEE PENSION COST	968,498	968,498	997,505	(29,007)
Planning and code enforcement				
Salaries	921,755	921,755	903,456	18,299
Materials and supplies	32,250	32,250	26,392	5,858
Repairs and maintenance	131,324	131,324	120,298	11,026
General administrative	104,049	104,049	58,824	45,225
TOTAL PLANNING AND CODE ENFORCEMENT	1,189,378	1,189,378	1,108,970	80,408
Refund of prior year revenues	-	-	32,773	(32,773)
TOTAL FORWARD	\$ 24,547,659	\$ 24,561,293	\$ 25,591,041	\$ (1,029,748)

UPPER MERION TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
TOTAL FORWARDED	\$ 24,386,937	\$ 24,400,571	\$ 26,015,731	\$ 1,615,160
EXPENDITURES				
TOTAL FORWARDED	<u>24,547,659</u>	<u>24,561,293</u>	<u>25,591,041</u>	<u>(1,029,748)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(160,722)</u>	<u>(160,722)</u>	<u>424,690</u>	<u>585,412</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	17,476	17,476
Interfund transfers in	100,000	100,000	244,271	144,271
Interfund transfers out	<u>(1,036,211)</u>	<u>(1,036,211)</u>	<u>(1,464,242)</u>	<u>(428,031)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(936,211)</u>	<u>(936,211)</u>	<u>(1,202,495)</u>	<u>(266,284)</u>
NET CHANGE IN FUND BALANCE	(1,096,933)	(1,096,933)	(777,805)	319,128
FUND BALANCE AT BEGINNING OF YEAR	<u>15,319,787</u>	<u>15,319,787</u>	<u>15,319,787</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 14,222,854</u>	<u>\$ 14,222,854</u>	<u>\$ 14,541,982</u>	<u>\$ 319,128</u>

See accompanying notes to the budgetary comparison schedule.

UPPER MERION TOWNSHIP
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2012

NOTE A BUDGET POLICY

The Board of Supervisors annually adopts the budget for the General Fund of the Township. The legal level of budgetary control is by object. Transfers less than \$3,000 between objects within a department can be made with the approval of the Township Manager. Transfers of amounts greater than \$3,000 and transfers between departments must be approved by the Board of Supervisors. Management may not amend the budget without approval of the governing body. Revisions to the budget were made throughout the year. The Board of Supervisors may increase the amount of any object in the budget through supplemental appropriation contingent on available revenues. Uncommitted appropriations lapse at year-end. Supplementary budgetary appropriations were not considered material. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE B GENERAL FUND

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is used to account for the bulk of the day-to-day operations of the Township, including police services, parks and recreation, codes enforcement, public works and administration. Revenues are derived primarily from taxes levied under the Local Tax Enabling Act (Act 511), property taxes and fees for service. For reporting purposes, the operation of the library is also included in the General Fund.

UPPER MERION TOWNSHIP
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2012

NOTE C EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2012, expenditures exceeded appropriations in the following General Fund object levels (the legal level of budgetary control):

OPERATING		
Payroll taxes	\$	26,296
Engineering expenses		14,232
GENERAL GOVERNMENT		
Salaries	\$	95,566
Travel expenses and seminars		3,513
Professional fees		379,922
General expenses		849,349
POLICE, HEALTH AND PUBLIC SAFETY		
Salaries	\$	460,533
Materials and supplies		14,171
ROADS AND PARKS		
Roads		
Materials and supplies	\$	2,314
Repairs and maintenance		10,786
Parks		
Salaries	\$	32,570
Repairs and maintenance		5,597
General administrative		11,709
Capital outlay		773
POLICE AND EMPLOYEE PENSION COST		
Employee pension cost	\$	10,708
Police pension cost		33,798

These excess expenditures were funded by reimbursable revenue and available fund balance in the General Fund.

UPPER MERION TOWNSHIP
TREND DATA ON INFRASTRUCTURE CONDITION
Year Ended December 31, 2012

The Township has elected to use the modified approach to account for maintenance of its street system. The Township annually inspects its streets and uses the Local Transportation Assistance Program (LTAP) criteria to assess the condition of the system. The streets are rated on their life expectancy before milling and overlay work is needed. The rating is the probable number of years remaining before resurfacing work is needed. The Township's streets as a whole are given an overall rating, indicating the average condition of all streets operated by the Township. The assessment of condition is made by visual and mechanical tests designed to reveal any condition that would reduce highway-user benefits below the maximum level of service. The Township's policy is to maintain the street condition at a level of 6.75 or better. The results of the inspection were:

<u>Evaluation Period</u>	<u>Rating</u>
2008	6.86
2009	6.82
2010	6.87
2011	5.91
2012	4.90

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

	<u>Budget</u>	<u>Actual</u>
2008	\$ 811,208	\$ 852,191
2009	592,300	382,911
2010	571,840	-
2011	540,160	2,625
2012	1,552,668	102,072

The Township has fallen below its street condition policy as of December 31, 2012. Due to tough economic times and reduced available revenues, street resurfacing projects were eliminated from past years' budgets. For 2012, the Township budgeted approximately \$1.5M for street resurfacing in order to bring the maintenance level back up to required condition level. During 2012, the Township hired a consulting engineer to assess the Township's street and road condition. A detailed report was prepared to determine what levels of maintenance were necessary. Bidding for the resurfacing projects was completed and awarded, at approximately \$1.1M, during the fall of 2012. At this time, weather conditions were no longer favorable for paving. This work for the 2012 program is expected to begin in the spring of 2013 and be completed by early summer 2013. At that point, the Township will commence with its paving program for 2013.

UPPER MERION TOWNSHIP
PENSION PLAN FUNDING PROGRESS
Year Ended December 31, 2012

DEFINED BENEFIT RETIREMENT PLAN

Schedule of Funding Progress

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed is as follows:

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Excess (Deficiency) of Assets Over AAL (a)-(b)	(d) Funded Ratio (a)/(b)	(e) Annual Covered Payroll	(f) Excess (Deficiency) of Assets Over AAL as a Percentage of Annual Covered Payroll (c)/(e)
2007	\$ 34,807,460	\$ 31,856,409	\$ 2,951,051	109.3%	\$ 4,692,398	62.9%
2009	37,455,129	35,792,022	1,663,107	104.6%	5,163,019	32.2%
2011	41,942,975	41,337,668	605,307	101.5%	5,214,132	11.6%

Determination of contribution requirements:

EmployerActuarially determined 15.87% of covered payroll
Plan members.....4.00%

SUPPLEMENTARY INFORMATION SECTION

UPPER MERION TOWNSHIP

DESCRIPTION OF FUNDS

Year Ended December 31, 2012

LIBRARY FUND

For financial statement reporting, operations of the library are combined with the General Fund. A dedicated real estate tax millage of .508 mills accounts for 80% of library operations revenue.

UPPER MERION TOWNSHIP

BALANCE SHEET

LIBRARY OPERATIONS

(Combined with the General Fund)

December 31, 2012

ASSETS

Cash	\$	86,587
Investments		310,889
Taxes receivable, net		<u>22,470</u>

TOTAL ASSETS **\$** 419,946

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to other funds	\$	43,148
Accounts payable		17,451
Accrued salaries and benefits		28,449
Deferred revenue		<u>24,535</u>

TOTAL LIABILITIES 113,583

FUND BALANCE

Unreserved		<u>306,363</u>
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TOTAL LIABILITIES AND FUND BALANCE **\$** 419,946

UPPER MERION TOWNSHIP
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
LIBRARY OPERATIONS
 (Combined with the General Fund)
 Year Ended December 31, 2012

REVENUES		
Taxes		\$ 1,672,926
Grants		83,646
Fines and fees		39,599
Investment income		<u>1,142</u>
TOTAL REVENUES		<u>1,797,313</u>
EXPENDITURES		
Direct		
Salaries and wages		962,908
Books, periodicals and audio visual		200,185
Maintenance		268,378
Utilities		36,546
Telephone		1,745
Travel		1,503
Supplies		37,239
Advertising		6,063
Equipment rental		3,652
Refund of prior year revenues		9,552
Other		<u>16,127</u>
TOTAL DIRECT		<u>1,543,898</u>
Indirect		
Payroll taxes and benefits		<u>254,543</u>
TOTAL EXPENDITURES		<u>1,798,441</u>
NET CHANGE IN FUND BALANCE		(1,128)
FUND BALANCE AT BEGINNING OF YEAR		<u>307,491</u>
FUND BALANCE AT END OF YEAR		<u><u>\$ 306,363</u></u>

UPPER MERION TOWNSHIP
DESCRIPTION OF FUNDS
OTHER GOVERNMENTAL FUNDS
Year Ended December 31, 2012

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenues that are legally restricted to expenditures for specified purposes.

State Highway Aid Fund

This fund is used to account for the Township's share of the Commonwealth of Pennsylvania's Liquid Fuels Tax Grant. All revenues from this source are used for the maintenance and reconstruction of Township roads in accordance with Pennsylvania Department of Transportation regulations.

UMT Foundation Fund

This fund is used to account for revenues for charitable and educational purposes as defined in Section 501 (c)(3) of the Internal Revenue Code. The purpose is to secure resources from individuals, corporations, community organizations and foundations to be distributed to support programs for the benefit of the citizens of Upper Merion Township.

DEBT SERVICE FUNDS

Debt Service Funds are used for the accumulation of resources for and payment of general obligation bond principal and interest from governmental resources.

Municipal Building Fund

Revenues of this fund are generated from a .205 mill tax on Township real estate. These revenues are used to make annual lease payments to the General Authority for the Township building. These payments are used to retire the General Authority guaranteed lease revenues debt issued for the Township building expansion in 1993.

Debt Service Fund

This fund is used to accumulate funds to pay principal and interest on general obligation debt.

Capital Tax Fund

The revenues of this fund were generated from a mill tax on Township real estate in prior years. These revenues are used to fund capital projects.

Park Capital Fund

The revenues of this fund were generated from a mill tax on Township real estate in prior years. These revenues are used to fund capital projects.

UPPER MERION TOWNSHIP
DESCRIPTION OF FUNDS
OTHER GOVERNMENTAL FUNDS
Year Ended December 31, 2012

CAPITAL PROJECT FUND

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major fixed assets of a relatively permanent nature.

Open Space Fund

The Open Space Fund accounts for financial resources used in the acquisition and preservation of open space. Revenues of this fund are generated from a .095 mill tax on Township real estate.

UPPER MERION TOWNSHIP
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
December 31, 2012

	Special Revenue Funds		Debt Service Funds				Capital Project Fund	Total Other Governmental Funds
	State Highway Aid Fund	UMT Foundation Fund	Municipal Building Fund	Debt Service Fund	Capital Tax Fund	Park Capital Fund	Open Space Fund	
ASSETS								
Investments	\$ 1,708,730	\$ 124,537	\$ 873,502	\$ -	\$ 337,462	\$ 127,917	\$ 188,033	\$ 3,360,181
Taxes receivable, net	-	-	9,074	-	-	-	4,205	13,279
Due from other funds	-	20	59	-	-	-	27	106
TOTAL ASSETS	\$ 1,708,730	\$ 124,557	\$ 882,635	\$ -	\$ 337,462	\$ 127,917	\$ 192,265	\$ 3,373,566
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 77,311	\$ 114,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 191,535
Accrued salaries and benefits	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	77,311	114,224	-	-	-	-	-	191,535
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue, property taxes	-	-	7,889	-	-	-	3,656	11,545
FUND BALANCES								
Restricted for								
Debt service	-	-	874,746	-	337,462	127,917	-	1,340,125
Liquid fuels	1,631,419	-	-	-	-	-	-	1,631,419
Assigned to capital projects	-	10,333	-	-	-	-	188,609	198,942
TOTAL FUND BALANCES	1,631,419	10,333	874,746	-	337,462	127,917	188,609	3,170,486
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
	\$ 1,708,730	\$ 124,557	\$ 882,635	\$ -	\$ 337,462	\$ 127,917	\$ 192,265	\$ 3,373,566

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

	Special Revenue Funds		Debt Service Funds				Capital Project Fund	Total Other Governmental Funds
	State Highway Aid Fund	UMT Foundation Fund	Municipal Building Fund	Debt Service Fund	Capital Tax Fund	Park Capital Fund	Open Space Fund	
REVENUES								
Taxes	\$ 558,144	\$ -	\$ 675,152	\$ -	\$ -	\$ -	\$ 312,849	\$ 1,546,145
Investment income	686	-	588	-	305	89	72	1,740
Miscellaneous	-	-	-	161,190	-	983	-	162,173
TOTAL REVENUES	558,830	-	675,740	161,190	305	1,072	312,921	1,710,058
EXPENDITURES								
Current								
Operating	-	-	651,155	-	-	-	-	651,155
Roads	99,468	-	-	-	-	-	-	99,468
Refund of prior year revenues	-	-	4,067	-	1,825	921	1,821	8,634
Debt service								
Interest	-	-	-	375,815	-	-	241,232	617,047
Principal	-	-	-	950,326	-	-	5,000	955,326
TOTAL EXPENDITURES	99,468	-	655,222	1,326,141	1,825	921	248,053	2,331,630
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	459,362	-	20,518	(1,164,951)	(1,520)	151	64,868	(621,572)
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	1,164,951	-	-	-	1,164,951
Transfers out	-	-	-	-	(219,933)	(15,692)	-	(235,625)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	1,164,951	(219,933)	(15,692)	-	929,326
NET CHANGE IN FUND BALANCES	459,362	-	20,518	-	(221,453)	(15,541)	64,868	307,754
FUND BALANCES AT BEGINNING OF YEAR	1,172,057	10,333	854,228	-	558,915	143,458	123,741	2,862,732
FUND BALANCES AT END OF YEAR	\$ 1,631,419	\$ 10,333	\$ 874,746	\$ -	\$ 337,462	\$ 127,917	\$ 188,609	\$ 3,170,486

UPPER MERION TOWNSHIP

DESCRIPTION OF FUND

AGENCY FUND

Year Ended December 31, 2012

The Agency Fund is used to account for short-term custodial collections on resources on behalf of another individual, entity, or government.

UPPER MERION TOWNSHIP

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

December 31, 2012

	Agency Escrow Fund			
	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
ASSETS				
Cash and cash equivalents	\$ <u>826,560</u>	\$ <u>242,019</u>	\$ <u>(374,100)</u>	\$ <u>694,479</u>
LIABILITIES				
Other current liabilities	\$ <u>826,560</u>	\$ <u>242,019</u>	\$ <u>(374,100)</u>	\$ <u>694,479</u>

STATISTICAL SECTION

(Unaudited)

This part of the Township of Upper Merion's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Township's overall financial health. This information has not been audited by the independent auditor.

<u>Category</u>	<u>Table #'s</u>
Financial Trends These tables contain trend information that may assist the reader in assessing the Township's current financial performance by placing it in historical perspective.	1 - 6
Revenue Capacity These tables contain information that may assist the reader in assessing the Township's most significant local revenue sources: property tax & the business/mercantile tax.	7 - 12
Debt Capacity These tables present information that may assist the reader in analyzing the affordability of the Township's current levels of outstanding debt and the Township's ability to issue additional debt in the future.	13 - 17
Economic and Demographic Information These tables offer economic and demographic indicators that are commonly used for financial analysis and that may assist the reader to understand the environment that the Township's financial activities operate in.	18 - 19
Operating Information These tables contain service and infrastructure data to assist the reader in understanding how the information in the Township's financial statements relates to the services the Township provides and the activities it performs.	20 - 22

Sources: Unless otherwise noted, the information in these tables is derived from the annual audited financial statements for the relevant year. The Township implemented GASB Statement No. 34 in fiscal year 2002; tables presenting government-wide information include information beginning in that year.

UPPER MERION TOWNSHIP

Net Position By Category (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental Activities										
Net investment in capital assets	\$40,805	\$38,990	\$40,884	\$38,286	37,680	40,302	26,870	28,838	\$30,841	\$15,644
Restricted	0	0	0	0	0	0	0	0	5,932	6,563
Unrestricted	<u>19,227</u>	<u>19,177</u>	<u>18,081</u>	<u>23,910</u>	<u>30,100</u>	<u>27,896</u>	<u>40,723</u>	<u>38,509</u>	<u>32,346</u>	<u>42,193</u>
Total governmental activities net position	<u>\$60,032</u>	<u>\$58,167</u>	<u>\$58,965</u>	<u>\$62,196</u>	<u>\$67,780</u>	<u>\$68,198</u>	<u>\$67,593</u>	<u>\$67,347</u>	<u>\$69,119</u>	<u>\$64,400</u>
Business-Type Activities										
Net investment in capital assets	\$1,952	\$2,026	\$2,013	\$2,322	\$2,578	\$3,194	\$2,971	\$2,952	\$3,167	\$4,396
Restricted	0	0	0	0	0	0	0	0	0	0
Unrestricted	<u>9,450</u>	<u>9,054</u>	<u>9,575</u>	<u>10,275</u>	<u>10,298</u>	<u>9,924</u>	<u>10,153</u>	<u>10,533</u>	<u>10,060</u>	<u>10,161</u>
Total business-type activities net position	<u>\$11,402</u>	<u>\$11,080</u>	<u>\$11,588</u>	<u>\$12,597</u>	<u>\$12,876</u>	<u>\$13,118</u>	<u>\$13,124</u>	<u>\$13,485</u>	<u>\$13,227</u>	<u>\$14,557</u>
Primary Government										
Net investment in capital assets	\$42,757	\$41,016	\$42,897	\$40,608	\$40,257	\$43,495	\$29,842	\$31,791	\$34,008	\$20,040
Restricted	0	0	0	0	0	0	0	0	\$5,932	\$6,563
Unrestricted	<u>28,677</u>	<u>28,231</u>	<u>27,656</u>	<u>34,185</u>	<u>40,399</u>	<u>37,821</u>	<u>50,875</u>	<u>49,041</u>	<u>42,406</u>	<u>52,354</u>
Total primary government net position	<u>\$71,434</u>	<u>\$69,247</u>	<u>\$70,553</u>	<u>\$74,793</u>	<u>\$80,656</u>	<u>\$81,316</u>	<u>\$80,717</u>	<u>\$80,832</u>	<u>\$82,346</u>	<u>\$78,957</u>

Notes:

- (1) Accounting standards require that net position is to be reported in three components in the financial statements: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are considered restricted when (1) an external party, such as the state or federal government, places a restriction on how the resources may be used, or (2) legislation is enacted by the Township.

TABLE 2

UPPER MERION TOWNSHIP

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts in thousands)

Expenses	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities:										
Operating	\$5,285	\$6,220	\$6,118	\$6,648	\$6,912	\$6,206	\$6,139	\$6,022	\$6,247	\$6,389
General government	2,773	2,479	2,625	2,675	2,585	2,980	2,882	2,728	2,805	7,831
Police, health and public safety	7,505	7,970	8,367	8,790	8,914	9,718	9,452	10,074	10,861	10,921
Roads	2,188	2,422	2,805	2,949	3,278	3,527	3,205	2,901	2,879	2,855
Parks	1,952	2,230	2,325	2,560	2,451	2,705	2,340	2,164	2,295	2,564
Police and employee pension cost	338	641	729	773	817	855	909	916	1,034	998
Planning and code enforcement	888	945	1,020	1,085	1,163	1,209	1,155	1,084	1,244	1,124
Interest on long-term debt	380	515	680	645	719	704	675	555	511	712
Capital outlay (1)	<u>595</u>	<u>0</u>								
Total governmental activities expenses	<u>21,904</u>	<u>23,422</u>	<u>24,669</u>	<u>26,125</u>	<u>26,839</u>	<u>27,904</u>	<u>26,757</u>	<u>26,444</u>	<u>27,876</u>	<u>33,394</u>
Business-type activities:										
Sewer	4,613	4,966	4,934	5,022	5,106	5,029	5,250	5,204	5,432	5,306
General Authority (4)	<u>0</u>	<u>291</u>								
Total business-type activities expenses	<u>4,613</u>	<u>4,966</u>	<u>4,934</u>	<u>5,022</u>	<u>5,106</u>	<u>5,029</u>	<u>5,250</u>	<u>5,204</u>	<u>5,432</u>	<u>5,597</u>
Total primary government expenses	<u>\$26,517</u>	<u>\$28,388</u>	<u>\$29,603</u>	<u>\$31,147</u>	<u>\$31,945</u>	<u>\$32,933</u>	<u>\$32,007</u>	<u>\$31,648</u>	<u>\$33,308</u>	<u>\$38,991</u>
Program Revenues										
Governmental activities:										
Charges for services:										
Operating	\$2,277	\$2,154	\$2,454	\$2,868	\$2,708	\$2,815	\$2,281	\$3,011	\$3,970	\$3,274
Police, health and public safety	739	597	557	551	595	526	583	507	589	506
Parks/Roads	828	852	890	899	928	969	878	752	798	896
Operating grants and contributions	1,190	1,603	1,454	2,230	2,220	2,139	2,053	2,366	4,208	3,124
Capital grants and contributions	<u>0</u>	<u>110</u>	<u>0</u>							
Total governmental activities program revenues	<u>5,034</u>	<u>5,316</u>	<u>5,355</u>	<u>6,548</u>	<u>6,451</u>	<u>6,449</u>	<u>5,795</u>	<u>6,636</u>	<u>9,565</u>	<u>7,800</u>
Business-type activities:										
Charges for services:										
Sewer	4,333	4,953	5,391	5,834	5,172	5,445	5,709	5,742	5,658	6,050
General Authority (4)	0	0	0	0	0	0	0	0	0	652
Operating grants and contributions	0	0	0	92	0	0	0	0	0	0
Capital grants and contributions	<u>0</u>									
Total business-type activities program revenues	<u>4,333</u>	<u>4,953</u>	<u>5,391</u>	<u>5,926</u>	<u>5,172</u>	<u>5,445</u>	<u>5,709</u>	<u>5,742</u>	<u>5,658</u>	<u>6,702</u>
Total primary government program revenues	<u>\$9,367</u>	<u>\$10,269</u>	<u>\$10,746</u>	<u>\$12,474</u>	<u>\$11,623</u>	<u>\$11,894</u>	<u>\$11,504</u>	<u>\$12,378</u>	<u>\$15,223</u>	<u>\$14,502</u>
Net (expense)/revenue (2)										
Governmental Activities	(\$16,870)	(\$18,106)	(\$19,314)	(\$19,577)	(\$20,388)	(\$21,455)	(\$20,962)	(\$19,808)	(\$18,311)	(\$25,594)
Business-type activities	<u>(280)</u>	<u>(13)</u>	<u>457</u>	<u>904</u>	<u>66</u>	<u>416</u>	<u>458</u>	<u>538</u>	<u>226</u>	<u>226</u>
Total primary government net expense	<u>(\$17,150)</u>	<u>(\$18,119)</u>	<u>(\$18,857)</u>	<u>(\$18,673)</u>	<u>(\$20,322)</u>	<u>(\$21,039)</u>	<u>(\$20,504)</u>	<u>(\$19,270)</u>	<u>(\$18,085)</u>	<u>(\$25,368)</u>

General Revenues and Other Changes in Net Assets	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities:										
Taxes (3)										
Property taxes	\$6,041	\$6,003	\$6,940	\$6,027	\$6,224	\$6,225	\$6,241	\$6,301	\$5,941	\$6,047
Amusement, emerg. & mun. svc., opt., mercantile, business privilege, transfer and utilities taxes	8,641	9,938	11,267	14,200	16,110	13,394	12,168	11,910	12,444	13,743
Investment income	288	374	788	1,280	1,579	888	340	140	63	62
Contributions	84	170	83	90	979	49	61	50	54	40
Miscellaneous	1,803	792	816	818	809	824	964	812	918	889
Gain on sale of capital assets	0	0	0	50	25	65	23	127	162	0
Loss on disposal of assets	0	(311)	0	0	0	0	0	0	0	(45)
Transfers	374	425	218	342	244	427	560	222	500	431
Settlement Expense	0	(1,150)	0	0	0	0	0	0	0	0
Total governmental activities	<u>17,231</u>	<u>16,241</u>	<u>20,112</u>	<u>22,807</u>	<u>25,970</u>	<u>21,872</u>	<u>20,357</u>	<u>19,562</u>	<u>20,082</u>	<u>21,167</u>
Business-type activities:										
Investment income	104	115	269	446	458	255	105	45	16	14
Transfers	(374)	(425)	(218)	(342)	(244)	(426)	(560)	(222)	(500)	(431)
Total business-type activities	<u>(270)</u>	<u>(310)</u>	<u>51</u>	<u>104</u>	<u>214</u>	<u>(171)</u>	<u>(455)</u>	<u>(177)</u>	<u>(484)</u>	<u>(417)</u>
Total primary government	<u>\$16,961</u>	<u>\$15,931</u>	<u>\$20,163</u>	<u>\$22,911</u>	<u>\$26,184</u>	<u>\$21,701</u>	<u>\$19,902</u>	<u>\$19,385</u>	<u>\$19,598</u>	<u>\$20,750</u>
Change in Net Assets										
Governmental activities	\$361	(\$1,865)	\$798	\$3,230	\$5,582	\$417	(\$605)	(\$246)	\$1,771	(\$4,427)
Business-type activities	(550)	(323)	508	1,008	280	245	3	361	(258)	(191)
Total primary government	<u>(\$189)</u>	<u>(\$2,188)</u>	<u>\$1,306</u>	<u>\$4,238</u>	<u>\$5,862</u>	<u>\$662</u>	<u>(\$602)</u>	<u>\$115</u>	<u>\$1,513</u>	<u>(\$4,618)</u>

Notes:

(1) For 2003, Capital outlay category includes expense for non-capitalized assets.

(2) Net (expense) revenue is the difference between expenses and program revenues of a function or program. It indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in parenthesis indicate that expenses were greater than program revenues and therefore general revenues were needed to finance that function or program. Numbers without parenthesis indicate that program revenues were more than sufficient to cover expenses.

(3) 2006 reflects implementation of Homestead Real Estate Tax program.

(4) Change in presentation in 2012. Upper Merion General Authority blended into the Township Financial Statements as a business-type activity. Prior years presentation was as a component unit.

UPPER MERION TOWNSHIP

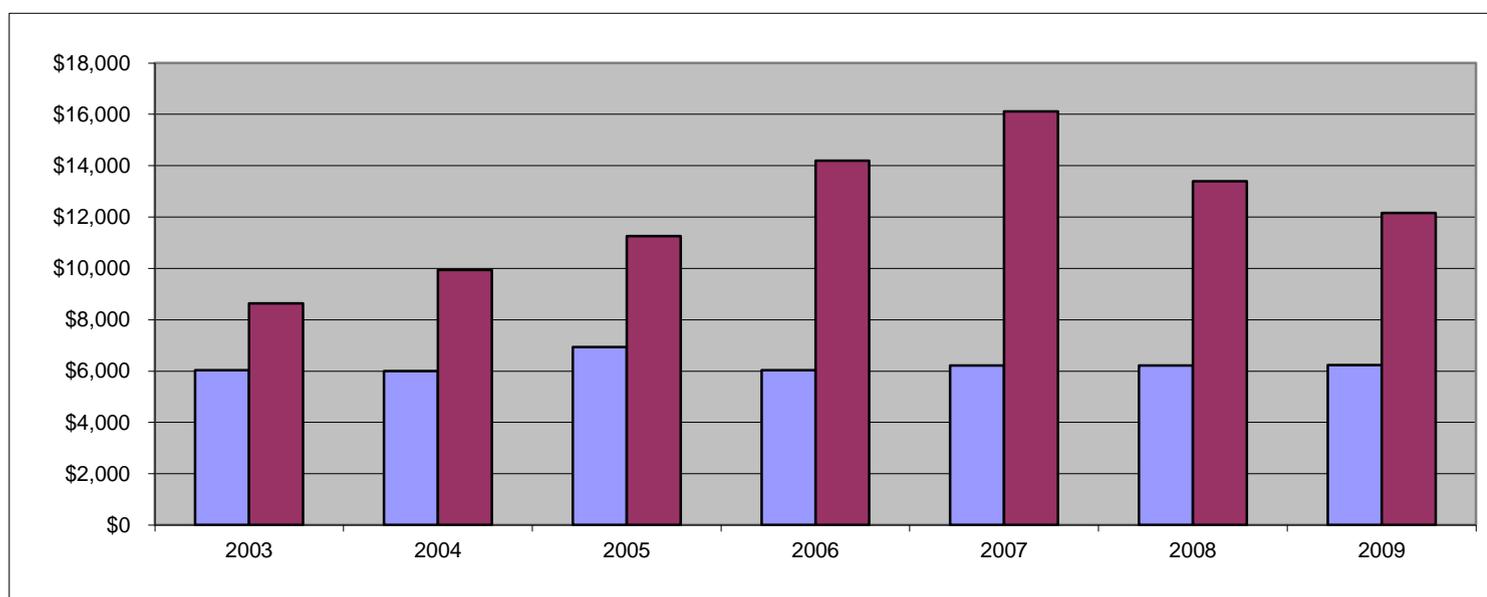
Governmental Activities Tax Revenues By Source

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts in thousands)

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Act 511 Taxes (1)</u>	<u>Total</u>
2003	\$6,041	\$8,640	\$14,681
2004	6,003	9,937	15,940
2005	6,940	11,267	18,207
2006 (2)	6,027	14,200	20,227
2007	6,224	16,110	22,334
2008	6,225	13,394	19,619
2009	6,241	12,167	18,408
2010	6,301	11,910	18,211
2011	5,941	12,443	18,384
2012	6,047	13,753	19,800



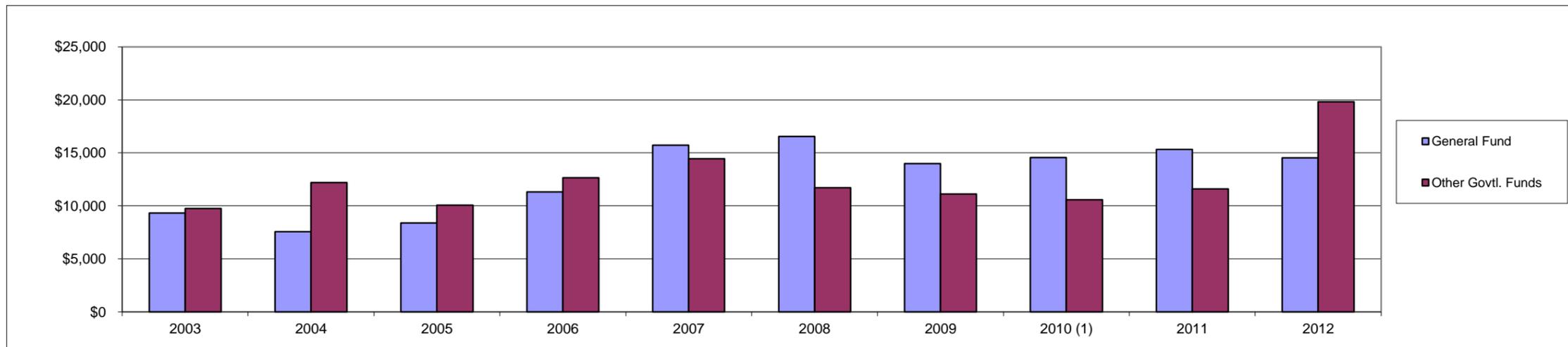
Notes:

(1) Act 511 taxes are as follows: amusement, emerg. & mun. svcs., occupational, mercantile, business privilege, delinquent 511, transfer and utilities.

(2) 2006 reflects implementation of Homestead Real Estate Tax program.

UPPER MERION TOWNSHIP
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (1)</u>	<u>2011</u>	<u>2012</u>
General Fund										
Reserved	\$6,004	\$4,208	\$4,713	\$7,451	\$9,301	\$10,607	\$8,842	\$0	\$0	\$0
Unreserved	3,315	3,356	3,692	3,861	6,420	5,939	5,156	0	0	0
Non spendable	0	0	0	0	0	0	0	\$302	\$326	\$27
Committed	0	0	0	0	0	0	0	2,000	2,000	2,000
Assigned	0	0	0	0	0	0	0	6,689	7,773	6,800
Unassigned	0	0	0	0	0	0	0	<u>5,557</u>	<u>5,220</u>	<u>5,715</u>
Total general fund	<u>\$9,319</u>	<u>\$7,564</u>	<u>\$8,405</u>	<u>\$11,312</u>	<u>\$15,721</u>	<u>\$16,546</u>	<u>\$13,998</u>	<u>\$14,548</u>	<u>\$15,319</u>	<u>\$14,542</u>
All other governmental funds										
Unreserved, reported in:										
Special revenue funds	5,568	4,329	4,785	4,284	4,208	3,991	3,782	0	0	0
General obligation fund	648	841	1,055	1,758	1,569	1,549	2,096	0	0	0
Capital acquisition fund	3,548	7,041	4,221	6,611	8,660	6,184	5,238	0	0	0
Non spendable, reported in:										
Special revenue funds	0	0	0	0	0	0	0	199	95	89
Restricted, reported in:										
General obligation fund	0	0	0	0	0	0	0	483	436	8,585
Special revenue funds	0	0	0	0	0	0	0	5,450	5,932	6,564
Assigned, reported in:										
Capital acquisition fund	0	0	0	0	0	0	0	4,311	4,995	4,394
Special revenue funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>150</u>	<u>133</u>	<u>198</u>
Total all other governmental funds	<u>\$9,764</u>	<u>\$12,211</u>	<u>\$10,061</u>	<u>\$12,653</u>	<u>\$14,437</u>	<u>\$11,724</u>	<u>\$11,116</u>	<u>\$10,593</u>	<u>\$11,591</u>	<u>\$19,830</u>
Total Fund Balances	\$19,083	\$19,775	\$18,466	\$23,965	\$30,158	\$28,270	\$25,114	\$25,141	\$26,910	\$34,372



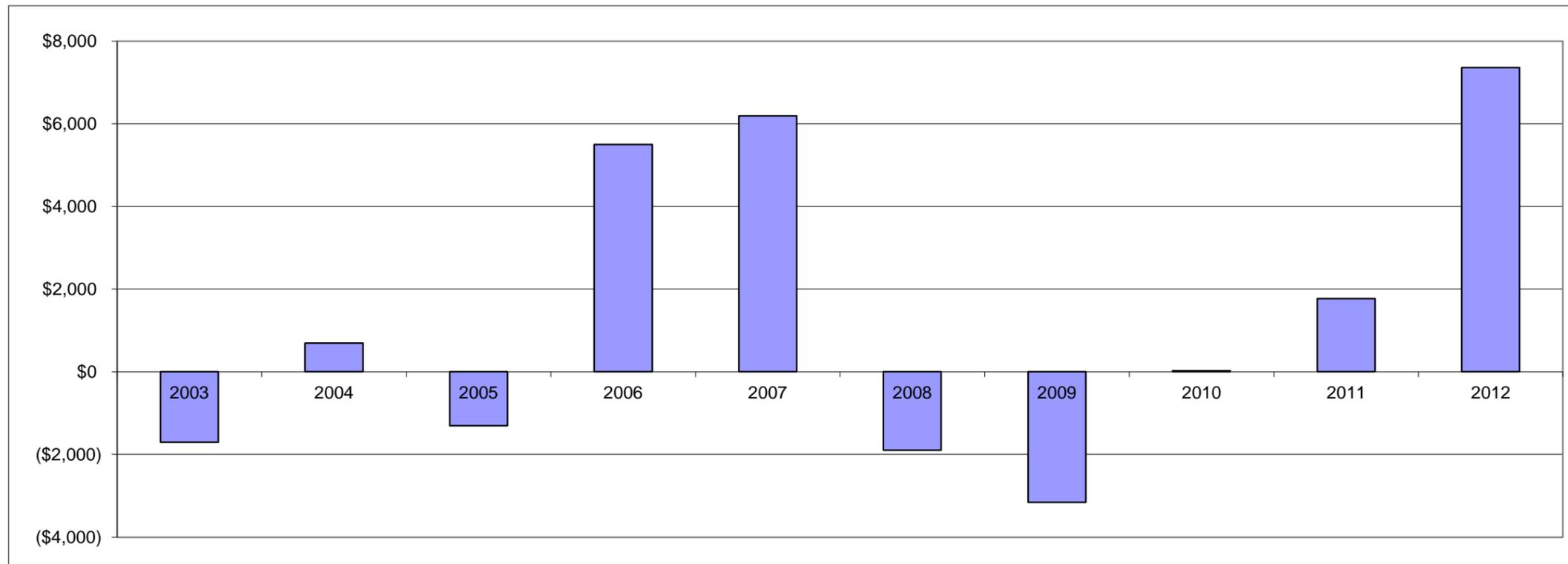
Notes:

(1) Implementation of GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishing new categories and definition revisions for reporting.

UPPER MERION TOWNSHIP
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts in thousands)

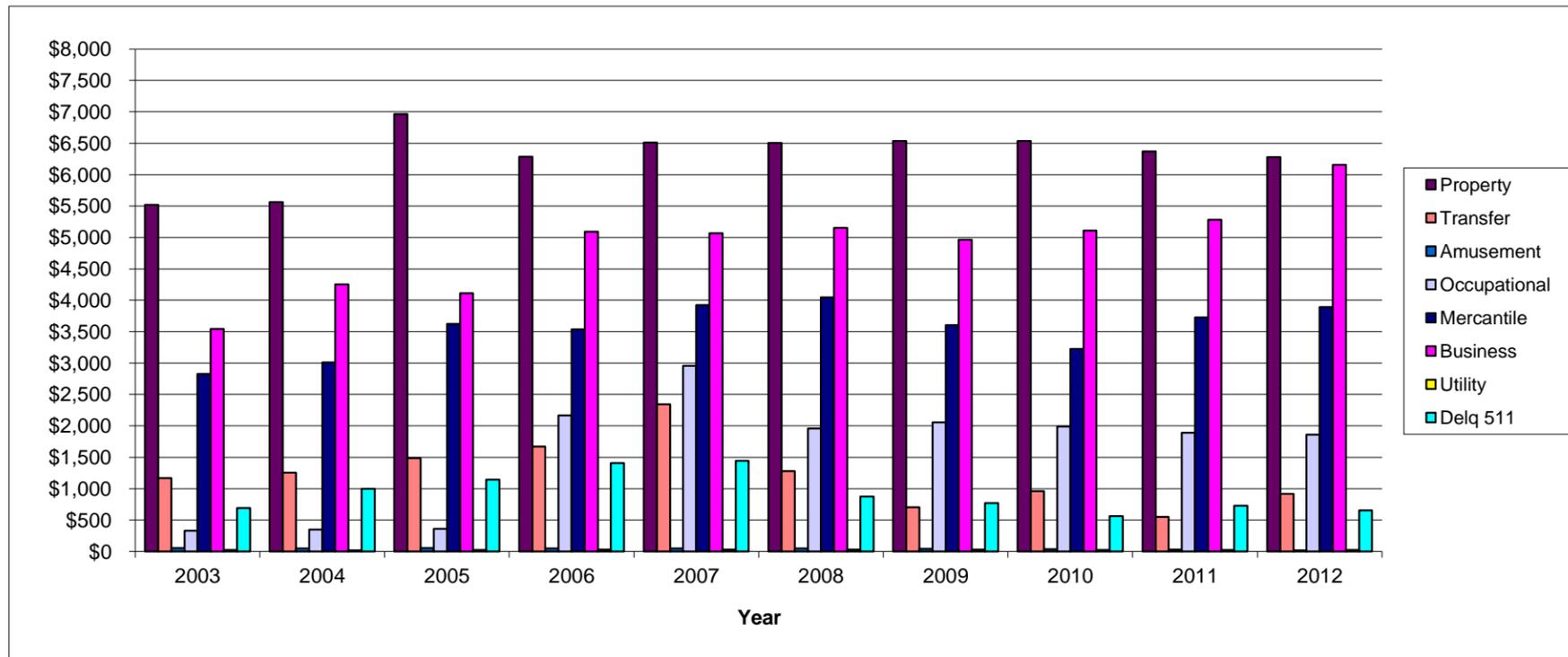
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues										
Taxes	\$14,600	\$15,946	\$18,233	\$20,723	\$22,833	\$20,164	\$18,943	\$18,775	\$19,173	\$20,377
Grants	1,190	1,603	1,453	1,741	1,714	1,575	1,514	1,844	3,680	2,566
Fines	818	359	387	415	426	367	332	325	330	330
Investment income	287	374	786	1,280	1,580	888	340	140	63	62
Permits and fees	1,459	1,795	2,068	2,453	2,282	2,448	1,948	2,686	3,640	2,944
Reimbursements	915	808	814	834	897	806	992	838	963	827
Parks and recreation	828	852	890	899	917	877	782	690	778	809
Contributions	84	170	83	90	85	143	135	93	76	128
Miscellaneous	<u>1,628</u>	<u>584</u>	<u>596</u>	<u>482</u>	<u>508</u>	<u>547</u>	<u>575</u>	<u>503</u>	<u>545</u>	<u>569</u>
Total revenues	<u>21,809</u>	<u>22,491</u>	<u>25,310</u>	<u>28,917</u>	<u>31,242</u>	<u>27,815</u>	<u>25,561</u>	<u>25,894</u>	<u>29,248</u>	<u>28,612</u>
Expenditures										
Operating	4,580	5,425	5,235	5,790	5,975	5,804	5,946	5,801	6,000	6,161
General government	2,578	2,149	2,376	2,446	2,205	2,415	2,503	2,303	2,366	3,899
Police, health, and public safety	7,035	7,302	7,505	7,862	8,060	8,362	8,660	9,061	9,670	9,891
Roads	1,705	1,839	2,045	2,005	2,306	2,389	2,175	1,865	1,832	1,853
Parks	1,948	2,199	2,265	2,499	2,413	2,551	2,354	2,138	2,240	2,398
Police and employee pension cost	337	640	729	773	817	855	908	916	1,034	998
Planning and code enforcement	876	914	974	1,036	1,119	1,120	1,149	1,059	1,208	1,109
Refund of Prior Year Revenues	0	0	0	0	0	0	0	0	282	43
Debt service										
Interest	382	494	610	545	721	700	662	206	517	617
Principal	872	880	717	673	692	867	864	140	795	955
Bond issue costs	0	131	74	101	0	0	82	65	74	110
Capital outlay	<u>3,576</u>	<u>6,440</u>	<u>4,560</u>	<u>5,142</u>	<u>1,969</u>	<u>5,142</u>	<u>4,136</u>	<u>1,915</u>	<u>3,010</u>	<u>3,669</u>
Total expenditures	<u>23,889</u>	<u>28,413</u>	<u>27,090</u>	<u>28,872</u>	<u>26,277</u>	<u>30,205</u>	<u>29,439</u>	<u>25,469</u>	<u>29,028</u>	<u>31,703</u>
Excess of revenues over (under) expenditures	(2,080)	(5,922)	(1,780)	45	4,965	(2,390)	(3,878)	425	220	(3,091)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Other financing sources (uses)										
Refund of Prior Year Revenues	0	0	(36)	0	0	0	0	0	0	0
Transfers in	4,692	7,063	7,825	5,117	5,267	5,642	6,354	2,046	2,884	3,954
Transfers out	(4,317)	(6,638)	(7,607)	(4,774)	(4,064)	(5,215)	(5,794)	(2,722)	(2,384)	(3,523)
General obligation bonds issued (proceeds)	0	6,500	7,105	5,000	0	0	15,800	4,155	0	0
General obligation bonds refunded	0	0	(6,815)	0	0	0	6,590	0	0	0
Sale of capital assets	0	0	0	109	25	65	58	203	162	44
Settlement expense	0	(310)	0	0	0	0	0	0	0	0
Debt service principal	0	0	0	0	0	0	(6,460)	(4,290)	0	0
Bond issuance	0	0	0	0	0	0	0	0	0	10,000
Payment to authorities	0	0	0	0	0	0	(15,783)	0	0	0
Bond discount	0	0	0	0	0	0	(43)	211	(1)	(22)
Note Issuance	0	0	0	0	0	0	0	0	810	0
Issuance of refunding bonds	0	0	0	0	0	0	0	0	4,610	0
Payment to refunded bond escrow agent	0	0	0	0	0	0	0	0	(4,532)	0
Total other financing sources (uses)	<u>375</u>	<u>6,615</u>	<u>472</u>	<u>5,452</u>	<u>1,228</u>	<u>492</u>	<u>722</u>	<u>(397)</u>	<u>1,549</u>	<u>10,453</u>
Net change in fund balances	<u>(\$1,705)</u>	<u>\$693</u>	<u>(\$1,308)</u>	<u>\$5,497</u>	<u>\$6,193</u>	<u>(\$1,898)</u>	<u>(\$3,156)</u>	<u>\$28</u>	<u>\$1,769</u>	<u>\$7,362</u>
Debt service as a percentage of total non-capital expenditures	6.2%	6.3%	5.9%	5.1%	5.8%	6.3%	6.0%	1.5%	5.0%	5.6%



UPPER MERION TOWNSHIP
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts in thousands)

Fiscal Year	Property Tax (1),(3),(4),(6)	Transfer Tax	Amusement Tax	Local Svc. Tax (5)	Mercantile Tax	Business Privilege Tax	Utility Tax	Delinquent Act 511 Taxes (2)	Total
2003	\$5,523	\$1,166	\$54	\$328	\$2,829	\$3,541	\$25	\$694	\$14,160
2004	5,560	1,255	48	351	3,013	4,254	19	996	15,496
2005	6,965	1,489	57	362	3,625	4,110	25	1,142	17,775
2006	6,285	1,672	46	2,164	3,539	5,090	29	1,408	20,233
2007	6,514	2,341	48	2,958	3,923	5,070	30	1,442	22,326
2008	6,505	1,279	47	1,957	4,048	5,155	30	876	19,897
2009	6,533	704	41	2,055	3,603	4,963	28	773	18,700
2010	6,537	959	39	1,991	3,224	5,110	26	561	18,447
2011	6,371	550	29	1,890	3,729	5,283	26	730	18,608
2012	6,281	920	20	1,860	3,895	6,159	25	657	19,817



Notes:

- (1) Includes current, prior, delinquent and interim collections for general, fire, library, capital, parks and municipal building millage.
- (2) Includes all delinquent collections for the amusement, emerg. & mun. svcs., occupational, mercantile and business privilege taxes.
- (3) 2005 reflects millage rate increase of 25%.
- (4) 2006 reflects implementation of Homestead Real Estate Tax program.
- (5) 2003-2005 reflects amounts for the occupational privilege tax. 2006, and forward, reflects amount for the local services tax.
- (6) 2007 reflects new millage rate for open space.

TABLE 7

UPPER MERION TOWNSHIP
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended 12/31	Residential Property	Vacant Property	Industrial Property	Commercial Property	Institutional Property	Utility Property	Government Property	Less: Tax Exempt Property	Total Taxable Assessed Value (1)	Total Direct Tax Millage Rate	Estimated Actual Taxable Value (2)	Assessed Value as a Percentage of Actual Value
2003	\$1,447,142,520	\$23,442,511	\$303,661,437	\$1,726,359,628	\$64,679,500	\$17,322,940	\$116,070,660	\$231,805,820	\$3,466,873,376	1.591	\$4,090,910,584	84.75%
2004	1,460,550,310	24,316,121	294,243,182	1,756,860,894	64,666,890	17,333,940	116,091,560	190,628,670	3,543,434,227	1.591	4,606,464,495	76.92%
2005	1,480,375,125	22,354,911	292,962,497	1,739,175,594	64,666,890	17,211,020	117,786,120	192,265,720	3,542,266,437	1.991	5,171,708,998	68.49%
2006	1,499,580,285	21,591,281	275,915,937	1,740,523,334	68,385,450	17,211,020	117,878,490	195,382,230	3,545,703,567	1.991	5,176,727,208	68.49%
2007	1,515,135,695	26,217,091	271,349,337	1,715,001,724	67,369,640	17,080,440	118,044,770	194,533,750	3,535,664,947	2.086	5,268,140,771	67.11%
2008	1,521,096,181	27,003,597	268,506,635	1,723,596,984	69,592,390	16,970,610	118,511,050	195,256,120	3,550,021,327	2.086	5,162,070,822	68.77%
2009	1,527,224,461	23,889,517	267,972,033	1,720,955,986	68,888,940	16,970,610	119,380,960	195,625,860	3,549,656,647	2.086	5,111,505,572	69.44%
2010	1,534,046,891	23,165,436	260,885,183	1,661,830,781	70,176,240	17,013,710	120,382,450	197,957,750	3,489,542,941	2.159	5,021,452,292	69.49%
2011	1,534,976,375	24,278,861	257,456,097	1,647,256,977	68,725,240	17,013,710	120,654,211	198,229,511	3,472,131,960	2.159	4,930,427,383	70.42%
2012	1,533,103,395	23,941,781	255,769,367	1,577,966,339	68,725,240	17,012,090	120,655,831	198,229,511	3,398,944,532	2.159	5,472,300,697	62.11%

Notes:

(1) Includes residential, vacant, industrial, commercial, and taxable institutional & utility properties.

(2) Common level ratio as compiled by the PA State Tax Equalization Board.

Sources: Montgomery County Board of Assessments, Pennsylvania State Tax Equalization Board and Upper Merion Township.

TABLE 8

UPPER MERION TOWNSHIP
Property Tax Rates
Direct and Overlapping (1) Governments
Last Ten Fiscal Years

Fiscal Year	Upper Merion Township								Overlapping Rates		Total Direct & Overlapping Rates
	General Fund	Library Fund	Fire Apparatus Fund	Capital Fund	Park Equipment Fund	Municipal Building Fund	Open Space Fund	Total Township Millage	County	School District	
2003	0.745	0.335	0.096	0.155	0.055	0.205	0.000	1.591	2.840	11.070	15.501
2004	0.745	0.335	0.096	0.155	0.055	0.205	0.000	1.591	2.840	11.740	16.171
2005	1.045	0.435	0.096	0.155	0.055	0.205	0.000	1.991	2.890	12.710	17.591
2006	1.045	0.435	0.096	0.155	0.055	0.205	0.000	1.991	2.890	13.480	18.361
2007	1.045	0.435	0.096	0.155	0.055	0.205	0.095	2.086	2.840	14.090	19.016
2008	1.045	0.435	0.096	0.155	0.055	0.205	0.095	2.086	2.695	14.640	19.421
2009	1.045	0.435	0.096	0.155	0.055	0.205	0.095	2.086	2.695	15.240	20.021
2010	1.255	0.508	0.096	0.000	0.000	0.205	0.095	2.159	2.695	15.930	20.784
2011	1.255	0.508	0.096	0.000	0.000	0.205	0.095	2.159	2.695	17.190	22.044
2012	1.255	0.508	0.096	0.000	0.000	0.205	0.095	2.159	2.695	17.490	22.344

Notes:

(1) Overlapping rates are those of local and county governments that apply to property owners within Upper Merion Township. Overlapping jurisdictions within Upper Merion Township boundaries include Montgomery County and the Upper Merion Area School District.

Sources: Upper Merion Township, Montgomery County and Upper Merion Area School District

UPPER MERION TOWNSHIP
Business Privilege & Mercantile Tax (1) Paid Filers by Type
Last Ten Fiscal Years

Fiscal Year	Business Privilege Tax Types					Mercantile Tax Types						Total All Types
	Service	Hotels	Commercial Rents	Residential Rents	Contractors	Retail Sales	Restaurant	Wholesale	Mixed	Transients (2)	Corp/Admin Offices (2)	
2003	847	13	191	152	1,601	448	90	55	31	90	60	3,578
2004	897	14	219	158	1,683	473	82	64	31	99	57	3,777
2005	953	14	241	161	1,973	476	100	50	28	107	58	4,161
2006	949	14	232	166	1,842	491	93	52	26	106	61	4,032
2007	988	13	245	163	1,562	475	86	55	27	129	61	3,804
2008	974	10	257	165	1,342	483	89	47	27	123	53	3,570
2009	978	11	247	172	1,533	484	88	46	23	164	59	3,805
2010	960	11	253	183	1,771	474	93	43	28	219	71	4,106
2011	985	12	263	190	1,666	475	96	41	25	232	73	4,058
2012	1,031	15	271	190	1,764	512	79	38	18	262	76	4,256

Notes:

(1) Business Privilege and Mercantile taxes are levied at 1.5 mills (\$1.50 per \$1,000) on gross receipts of retail (.05 mills for wholesale), service businesses and rental income.

(2) Reflects data for total filers not necessarily paid.

Source: Upper Merion Township Business Tax Collector

UPPER MERION TOWNSHIP

**Ranking of Top Ten Business Privilege & Mercantile Tax Payers (1)
December 31, 2012 and December 31, 2003**

December 31, 2012

<u>Name</u>	<u>Rank</u>
BNP Paribas Securities Corp.	1
BNY Mellon	2
Costco Wholesale	3
Execupharm Inc	4
GSI Commerce Solutions Inc.	5
King of Prussia Associates	6
Lockheed Martin Corp.	7
Neiman Marcus	8
Nordstrom	9
The SI Organization	10

Combined percentage, of the top ten businesses, account for 25.11% of total business privilege and mercantile taxes.

December 31, 2003

<u>Name</u>	<u>Rank</u>
Lockheed Martin Corp.	1
Omnicare Clinical Research	2
BNP Paribas Securities Corp.	3
Costco Wholesale	4
Nordstrom	5
Kravco Inc.	6
Neiman Marcus	7
Macys	8
Investment Advisors LLC	9
Bloomingdales	10

Combined percentage, of the top ten businesses, account for 24.01% of total business privilege and mercantile taxes.

Notes:

(1) Due to legal restrictions and confidentiality requirements, the Township cannot disclose the amount of tax paid or percentage total by individual taxpayer.

**Upper Merion Township
Property Tax Levies & Collections
and Business Privilege & Mercantile Tax Collections
Last Ten Fiscal Years**

Property Tax							Business & Mercantile Tax
Fiscal Year 12/31	Levied for the Fiscal Year (1),(3),(4),(5)	Collections for the Fiscal Year (1),(3),(4),(5)	Collections for the Fiscal Year as a % of Levy	Collections in Subsequent Years	Total Collections To Date	Total Collections To Date as a % of Levy (6)	Taxes Collected for the Fiscal Year (2)
2003	\$5,581,224	\$5,509,542	98.7%	\$84,731	\$5,594,273	100.2%	\$7,065,691
2004	5,637,604	5,593,373	99.2%	59,580	5,652,953	100.3%	8,264,090
2005	7,052,652	6,990,769	99.1%	80,563	7,071,332	100.3%	8,852,792
2006	6,117,675	6,068,845	99.2%	50,992	6,119,837	100.0%	10,009,749
2007	6,397,385	6,340,517	99.1%	48,328	6,388,845	99.9%	10,406,441
2008	6,379,528	6,324,852	99.1%	42,825	6,367,677	99.8%	10,401,882
2009	6,348,865	6,222,063	98.0%	74,879	6,296,942	99.2%	9,243,868
2010	6,421,230	6,363,060	99.1%	109,298	6,472,358	100.8%	8,806,670
2011	6,374,779	6,306,987	98.9%	50,601	6,357,588	99.7%	9,265,042
2012	6,210,952	6,147,865	99.0%	89,189	6,237,054	100.4%	10,633,495

Notes:

- (1) Includes all Township millages.
- (2) Includes current and delinquent collections for the Business Privilege and Mercantile taxes for current fiscal period.
- (3) 2005 reflects millage rate increase of 25%.
- (4) 2006 reflects reduction in property tax levied due to the Homestead Exclusion program.
- (5) 2007 reflects new millage rate for open space.
- (6) Can exceed 100% collection rate because subsequent year is unpredictable and amount is not factored into calculation in column 1.

Source: Upper Merion Township Real Estate Tax Collector, Montgomery County Tax Claim Bureau, Upper Merion Township Financial Statements

**Upper Merion Township
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	<u>Governmental Activities (1)</u>		<u>Business-Type Activities (1)</u>		Total Primary Government	Percentage of Median Household Income (4),(5)	Per Capita (4)
	General Obligation Bonds	Note Payable (2)	General Obligation Bonds (3)	Note Payable (2)			
2003	\$7,500,000	\$0	\$5,890,000	\$0	\$13,390,000	\$188	\$496
2004	14,560,895	0	5,570,000		20,130,895	\$275	\$746
2005	14,213,584	0	5,235,000		19,448,584	\$259	\$723
2006	18,542,055	0	4,880,000		23,422,055	\$304	\$873
2007	17,849,205	0	4,505,000		22,354,205	\$283	\$840
2008	16,999,235	0	4,160,000		21,159,235	\$262	\$798
2009	27,940,000	0	0	4,125,000	32,065,000	\$400	\$1,211
2010	25,405,000	0	0	3,555,000	28,960,000	\$362	\$1,020
2011	23,230,000	810,800	0	3,010,000	27,050,800	\$374	\$949
2012	33,180,000	735,474	0	2,440,000	36,355,474	\$480	\$1,274

Notes:

- (1) Details regarding the Township's outstanding debt can be found in the notes to the basic financial statements.
- (2) Note Payables are included to present a complete picture of debt outstanding due to the large amounts issued.
- (3) The GO Series of 2003 of variable rate debt (swap) was refunded in 2009 with a G.O. Note.
- (4) See Table 18 for population and median household income data.
- (5) Data expressed in dollar amounts.

Sources: U.S. Census Bureau, Delaware Valley Regional Planning Commission, Montgomery County Board of Assessments and Upper Merion Township Annual financial statements.

Upper Merion Township

**Computation of Direct and Overlapping (1) Debt
December 31, 2012**

Jurisdiction	Total Debt Outstanding	Percentage Applicable to the Township(2)	Amount Applicable to the Township
Direct Debt:			
Upper Merion Township: General Obligation Debt	\$36,355,474	100.0%	\$36,355,474
<i>Total Direct Debt</i>	\$36,355,474		\$36,355,474
Overlapping Debt:			
Upper Merion Area School District	63,075,000	85.9%	54,171,726
Montgomery County	417,254,000	5.8%	24,260,632
<i>Total Overlapping Debt</i>	480,329,000		78,432,358
Total Obligations.....			114,787,832

Notes:

(1) Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Township. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents/businesses of Upper Merion Township.

(2) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the County's and School District's taxable assessed value that is within the government's boundaries and dividing it by the County & School District's total taxable assessed value.

Sources: Upper Merion Township Financial Statements, Montgomery County and Upper Merion Area School District

Upper Merion Township

Computation of Borrowing Base (Unaudited) (1)

As of 12/31/12

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Revenues Received..... (From all Sources)	\$34,902,137	\$38,767,407	\$46,887,951
Deduct:			
Project Revenues, Receipts Assessments, Etc., Pledged for Self Liquidating Debt			
Lease Payments, etc.....	129,742	83,011	50,653
Interest on Moneys in Sinking Funds, Reserves and Other Funds and Interest on Bond Proceeds.....	883	154	1,580
Grants & Gifts-In-Aid.....	2,365,562	4,546,356	3,964,924
Non-Recurring Receipts.....	<u>3,315,662</u>	<u>3,915,748</u>	<u>2,973,246</u>
Subtotal Adjusted Revenues.....	\$29,090,288	\$30,222,138	\$39,897,548
Total Revenues Adjusted, Three Years Ended December 31, 2011.....			\$99,209,974
Borrowing Base = Total Revenues Adjusted (divided by 3)			\$33,069,991 (2)

Notes:

(1) Borrowing base calculation in accordance with Pennsylvania Local Government Unit Debt Act, Act 52 of 1978.

(2) Borrowing base is used to calculate legal debt margin (see Table 16).

Source: Upper Merion Township Financial Statements

Upper Merion Township
Computation of Legal Debt Margin
As of 12/31/12

	Net Electoral/ Nonelectoral Debt <u>(Borrowing Base x 250%)</u>	Net Electoral/ Nonelectoral Debt and Lease Rental Debt <u>(Borrowing Base x 350%)</u>
Gross Borrowing Capacity (1)	\$82,674,978.33	\$115,744,970
Electoral Debt		
General Obligation Bonds-Series of 2011	4,605,000	4,605,000
Non-Electoral Debt		
General Obligation Bonds-Series of 2009	6,225,000	6,225,000
General Obligation Bonds-Series of 2009A.....	9,355,000	9,355,000
General Obligation Bonds-Series of 2010.....	2,995,000	2,995,000
General Obligation Bonds-Series of 2012.....	10,000,000	10,000,000
Note Payable (PIB Allendale Road Bridge).....	735,474	735,474
Note Payable (PIB Henderson RD).....	2,440,000	2,440,000
 Remaining Borrowing Capacity.....	 <u>\$48,759,504</u>	 <u>\$81,829,496</u>

Notes:

(1) See calculation in Table 15.

Source: Upper Merion Township Financial Statements

UPPER MERION TOWNSHIP

**Legal Debt Margin Information
Last Ten Fiscal Years**
(amounts in thousands)

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit (1)	\$86,176	\$87,790	\$92,111	\$101,585	\$109,568	\$107,169	\$102,473	\$98,743	\$103,098	\$115,744
Total net debt applicable to limit	<u>15,530</u>	<u>20,665</u>	<u>19,813</u>	<u>23,607</u>	<u>22,354</u>	<u>21,109</u>	<u>32,065</u>	<u>28,960</u>	<u>27,050</u>	<u>36,355</u>
Legal debt margin	<u>\$70,646</u>	<u>\$67,125</u>	<u>\$72,298</u>	<u>\$77,978</u>	<u>\$87,214</u>	<u>\$86,060</u>	<u>\$70,408</u>	<u>\$69,783</u>	<u>\$76,048</u>	<u>\$79,389</u>
Total net debt applicable to limit as a percentage of debt limit	18.0%	23.5%	21.5%	23.2%	20.4%	19.7%	31.3%	29.3%	26.2%	31.4%

Notes:

(1) Debt limit based on calculations from information in table 16. All calculations are in accordance with the Pennsylvania Local Government Unit Debt Act, Act 52 of 1978.

UPPER MERION TOWNSHIP
Demographic and Economic Statistics (1)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (2)</u>	<u>Avg. Household Size</u>	<u>Median Age</u>	<u>% of Population with Bachelors Degree or Higher</u>	<u>Median Household Income</u>	<u>Unemployment Rate</u>	<u>Public School Enrollment</u>
2003	26,984	2.3	38.6	50.9%	71,355	4.0%	3,447
2004	27,000	2.2	38.6	51.3%	73,261	3.6%	3,459
2005	26,916	2.2	38.7	51.7%	75,167	3.2%	3,522
2006	26,817	2.2	38.8	52.3%	77,075	2.9%	3,590
2007	26,606	2.2	38.8	53.1%	78,983	2.8%	3,605
2008	26,513	2.2	38.9	53.8%	80,891	3.7%	3,694
2009	26,487	2.2	40.0	53.9%	80,077	5.8%	3,788
2010	28,390	2.3	39.4	60.1%	79,977	5.8%	3,791
2011	28,490	2.4	39.4	56.4%	72,357	5.5%	3,963
2012	28,544	2.3	39.8	52.6%	75,787	5.5%	4,000

Notes:

(1) Certain demographic/economic information such as total personal income and per capita personal income are not available for this jurisdiction or any neighboring jurisdictions.

(2) Population estimates based on the 2000 and 2010 U.S. Census data. All other years are estimated figures from the Delaware Valley Regional Planning Commission and U.S. Census Bureau. 2010 is official count from U.S. Census Bureau.

Sources: U.S. Census Bureau, Bureau of Labor Statistics, Delaware Valley Regional Planning Commission, PA Department of Education and Upper Merion Township Planning Division.

Table 19**Upper Merion Township****10 Largest Employers (Unaudited)
Current Year (1) and Nine Years Ago**

2012			2003		
<u>Business Name</u>	<u>Employees</u>	<u>% of Total Township Employment</u>	<u>Business Name</u>	<u>Employees</u>	<u>% of Total Township Employment</u>
1 Lockheed Martin	2,723	4.9%	1 Lockheed Martin	3,577	5.5%
2 GlaxoSmithKline	2,570	4.6%	2 GlaxoSmithKline	3,497	5.3%
3 Phila. Media Newspapers	1,099	2.0%	3 Phila. Newspapers Inc.	2,314	3.5%
4 Valley Forge Colonial LTD	818	1.5%	4 Robert Half	1,154	1.8%
5 BNY Mellon	739	1.3%	5 TYCO Healthcare	979	1.5%
6 GSI Commerce Solutions	737	1.3%	6 Nordstrom	862	1.3%
7 US Liability Insurance Co.	715	1.3%	7 Macys	829	1.3%
8 Yellow Book of PA	694	1.2%	8 Aetna	746	1.1%
9 First Quality Retail Svc LLC	653	1.2%	9 Careers Express Inc.	680	1.0%
10 Arkema	<u>641</u>	<u>1.2%</u>	10 PFPC Inc.	<u>679</u>	1.0%
Total	11,389	20.5%	Total	15,317	23.3%

Notes:

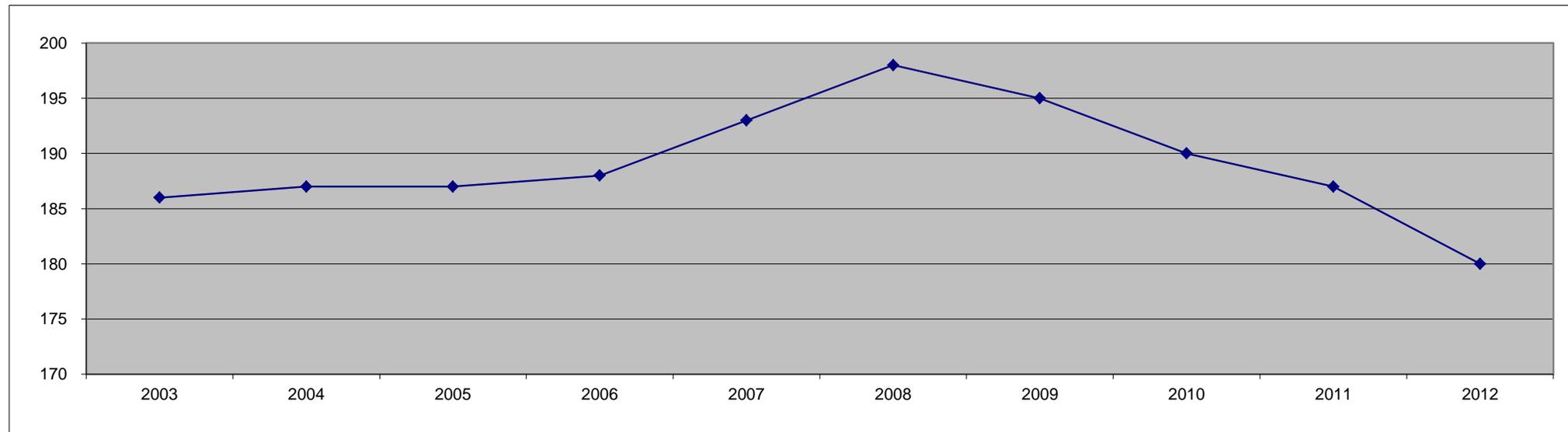
(1) \$12,000 income exemption beginning in 2008. Employee count reflects only those above the exemption and that actually filed/paid the tax.

Source: Upper Merion Township Business Tax Collector

UPPER MERION TOWNSHIP

**Full Time Township Employees by Function (1)
Last Ten Fiscal Years**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government (Admin. & I.T.)	19	19	19	20	23	24	24	23	23	23
Public Safety										
Police										
Officers	62	62	62	62	62	64	64	64	64	64
Civilians	22	22	22	22	21	21	21	20	19	18
Safety and Codes Enforcement	9	10	10	10	12	12	11	11	11	10
Public Works										
Administration	8	8	8	8	8	8	8	7	7	5
Planning	5	5	5	5	4	4	4	4	3	2
Transportation (includes equipment operators)	14	14	14	14	14	14	14	14	14	13
Park/Shade Tree	7	7	7	7	9	9	9	8	8	8
Building Maintenance	2	2	2	2	2	2	2	2	2	2
Vehicle Maintenance	3	3	3	3	3	3	3	3	3	3
Wastewater (Sewer)	21	21	21	21	22	24	22	21	20	20
Culture and Recreation										
Park & Recreation	2	2	2	2	2	2	2	2	2	2
Library	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>10</u>
Total	<u>186</u>	<u>187</u>	<u>187</u>	<u>188</u>	<u>193</u>	<u>198</u>	<u>195</u>	<u>190</u>	<u>187</u>	<u>180</u>



Notes:

(1) Employee data reflects data as approved 1/1 of each fiscal year budget.

Source: Township Finance Office

UPPER MERION TOWNSHIP

**Operating Indicators by Function
Last Ten Fiscal Years**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
Reception incoming calls	26,671	25,805	22,467	23,433	23,400	20,927	18,834	13,411	11,923	11,704
Tax returns received	8,340	8,624	8,904	9,169	9,204	9,684	10,602	10,515	11,217	11,303
Public meetings held	208	221	230	209	192	220	214	167	155	157
Public Safety										
<i>Police</i>										
Traffic citations	2,827	1,735	1,845	1,485	1,726	1,344	1,899	1,460	1,792	1,558
Traffic crash reports (accidents)	2,211	2,002	2,042	1,992	1,767	1,692	1,740	1,663	1,689	1,715
Retail theft	475	546	651	600	594	662	769	783	763	713
Alarms	3,409	3,543	3,247	3,213	3,083	2,889	2,420	2,543	2,526	2,510
<i>Safety and Codes Enforcement</i>										
Plan reviews	1,078	1,208	1,171	1,341	1,611	1,711	1,518	1,790	1,723	1,585
Permits	2,034	2,407	2,502	2,601	2,378	1,373	1,387	1,719	1,937	1,775
Public Works										
<i>Administration</i>										
Reception incoming calls	17,317	16,859	17,191	17,227	16,059	13,981	14,327	10,391	8,220	6,652
<i>Transportation</i>										
Tons of leaves collected	1,388	1,592	1,622	1,402	2,099	1,583	1,527	1,014	1,674	1,594
Street patching man hours	3,695	4,954	6,003	4,916	5,087	5,799	6,339	4,604	6,717	6,102
<i>Park/Shade Tree</i>										
Tons of material composted	2,585	2,995	2,797	3,370	3,140	4,629	3,378	4,215	4,694	4,506
<i>Building/Vehicle Maintenance</i>										
Vehicle damage repairs	71	74	63	58	47	23	10	11	10	1
<i>Wastewater (Sewer)</i>										
Gallons of wastewater treated (in millions)	2,627	2,557	2,439	2,311	2,406	2,105	2,038	2,208	2,284	1,974
Culture and Recreation										
<i>Park & Recreation</i>										
# of participants for all programs	9,323	9,371	7,663	7,434	6,323	7,764	6,317	6,444	6,119	5,503
<i>Library</i>										
Circulation for all materials	190,809	188,548	194,861	190,915	199,154	212,602	213,169	212,166	218,546	218,520

Source: Upper Merion Township December ytd departmental statistic reports.

UPPER MERION TOWNSHIP
Capital Asset and Infrastructure Statistics by Function
Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
Square footage occupied	5,913	5,913	5,913	5,913	5,913	5,913	5,913	5,913	5,913	5,913
Public Safety										
<i>Police</i>										
Square footage occupied	15,007	15,007	15,007	15,007	15,007	15,007	15,007	15,007	15,007	15,007
Stations	1	1	1	1	1	1	1	1	1	1
Sub-Stations	1	1	1	1	1	1	1	1	1	1
<i>Safety and Codes Enforcement</i>										
Volunteer Fire Companies	3	3	3	3	3	3	3	3	3	3
Inspection vehicles	7	8	8	8	8	8	7	6	6	6
Public Works										
<i>Administration</i>										
Square footage occupied	1,147	1,147	1,147	1,147	1,147	1,147	1,147	1,147	1,147	1,147
<i>Planning</i>										
Inspection vehicles	2	2	2	2	2	2	2	1	1	1
<i>Transportation</i>										
Total Miles of roads/streets	81.81	82.02	82.58	82.58	83.01	83.01	83.89	83.89	83.89	83.89
Traffic Signals	66	68	68	68	69	69	70	70	70	70
<i>Park/Shade Tree</i>										
Number of park maintenance equipment	13	15	16	16	16	16	16	17	17	17
<i>Wastewater (Sewer)</i>										
Treatment Plants	2	2	2	2	2	2	2	2	2	2
Pumping stations	11	11	11	11	12	12	12	12	12	12
Miles of sanitary sewer	121.85	122.24	123.62	123.62	123.62	123.62	123.62	123.62	123.62	123.62
Culture and Recreation										
<i>Park & Recreation</i>										
Park acreage	390.82	400.82	400.82	400.82	418.74	424.72	443.59	446.66	446.66	446.66
Parks	34	35	35	35	35	35	35	35	35	35
<i>Library</i>										
Number of materials in collection	129,385	122,703	127,171	132,535	130,761	129,831	135,378	139,432	141,077	143,054

Source: Various Township departments.