

EAST NORRITON TOWNSHIP

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2012

INTRODUCTORY SECTION

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EAST NORRITON TOWNSHIP
2501 Stanbridge Street
East Norriton, PA 19401-1616

April 2, 2013

To the Citizens of East Norriton Township:

State law requires that all general-purpose local governments publish a complete set of financial statements. Pursuant to that requirement, we hereby issue the annual financial report of East Norriton Township for the year ended December 31, 2012.

This report consists of management's representations concerning the finances of East Norriton Township. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of East Norriton Township has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of East Norriton Township's financial statements. Because the cost of internal controls should not outweigh their benefits, East Norriton Township's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

East Norriton Township's financial statements have been audited by Maillie, Falconiero & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of East Norriton Township for the year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that East Norriton Township's financial statements for the year ended December 31, 2012, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

GAAP require 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. East Norriton Township's MD&A can be found immediately following the report of the independent auditors.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which East Norriton Township operates.

To the Citizens of East Norriton Township

Acknowledgments

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Board of Supervisors for their unfailing support for maintaining the highest standards of professionalism in the management of East Norriton Township's finances.

Respectfully submitted,

Donald D. Delamater
Township Manager

(Date)

Eric Traub
Finance Director

(Date)

FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Supervisors
East Norriton Township
East Norriton, Pennsylvania

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

Management's Responsibility for the Financial Statements

East Norriton 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.

To the Board of Supervisors
East Norriton Township
East Norriton, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Norriton 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).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 7 through 15, budgetary comparison schedule on page 50, pension plan funding progress on pages 51 and 52 and postemployment benefits other than pension funding progress on page 53 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

The introductory 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 Q to the financial statements, for the year ended December 31, 2012, East Norriton Township adopted new accounting guidance, implementing 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.

Maillie Falconiero + Company, LLP

Oaks, Pennsylvania
April 2, 2013

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

This section of East Norriton Township's annual financial report presents its discussion and analysis of the Township's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the Township's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

East Norriton Township receives the majority of its operating revenues from Act 511 Taxes (Earned Income, Business Privilege, Local Services, and Real Estate Transfer Taxes) and Real Estate Taxes. Earned Income and Local Services Taxes each met budgeted projections, but were both down slightly versus 2011 results. Business Privilege Taxes rose considerably to their highest level since the Great Recession; however, some of the additional revenue were 2011 payments so we expect much of the 2012 increase to be one-time revenue. The Real Estate Transfer Tax was down over 50 percent versus 2011 due to the lack of larger commercial sales in 2012. The Township continued to have a strong Real Estate Tax collection rate in excess of 97%. In addition, the Township received a significant increase in Delinquent Real Estate Taxes since a new firm took over that responsibility. While the local economy has been improving, the Township did opt to use existing General Fund reserves and defer capital expenditures in 2012 so that money could be transferred from the Capital Reserve Fund to the General Fund in order to balance the 2012 budget.

The Township consistently receives a significant amount of revenues each year in the form of Pennsylvania State grants. These annual revenues are Liquid Fuels Grant, Pension State Aid Grant, Recycling Performance Grant and the Fireman's Relief Fund Grant. Also in 2012, the Township continued to receive funding from the School Resource Officer Grant program.

Under the regulations of Act 209, the Township continues to receive funds from the Traffic Impact Fees which are assessed to new developments in the Township. These funds are used to upgrade/improve the various intersections and roadways throughout the Township to accommodate the increasing volume of traffic which these new developments generate.

Under the Township's Subdivision and Land Development Code, a Parks and Recreation Fee is required from developers. When a property goes through the development process, the developer is required to provide to the Township 10% of usable land for Parks and Recreation purposes. If the developer is not able to provide the land or the Township is agreeable to a fee in lieu of land, the Code requires that 10% of the raw value of the entire property be funded to the Township. These funds may only be used for Parks and Recreation capital purposes. Some projects in 2012 that utilized these funds include upgrades to the Stanbridge Street Park, completion of DeSage Park, and the development of Barrington Park.

Also under the Township's Subdivision and Land Development Code, a Sanitary Sewer Connection Fee (\$920 for residential developments and \$1,107 for non-residential developments) is required for all new connections to the Township's public sanitary sewer system. These funds are authorized by State legislation and may only be used for capital improvements to the sanitary sewer system. In order to maximize the value of these fees, the Township occasionally negotiates the payment of these fees in lieu of developers performing sanitary sewer projects for the Township.

EAST NORRITON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

The Township continues to provide health insurance coverage to our full-time employees through the Delaware Valley Health Insurance Trust (DVHIT). Township employees have a choice of coverages, which include an HMO or two different PPO health insurance plans. All employees who choose to be covered under the lower deductible PPO plan must pay the difference between the HMO and the lower deductible PPO premium rates. This is estimated to have saved the Township about \$125,000 in 2012.

Also, the Township continued its program to reimburse in lieu of an employee and family being covered under the Township's health and dental insurance coverage. In 2012, the Township saved about \$151,000 (reimbursement costs vs. potential insurance premium costs).

East Norriton Township provided all non-uniformed employees with a 4% wage increase in 2012. As part of the police contract, all sworn police personnel also received a 4% increase in 2012. The police employee contributions to the Police Pension Plan were 5%, and the non-uniformed employees' contributions to the Employee Pension Plan were also 5%.

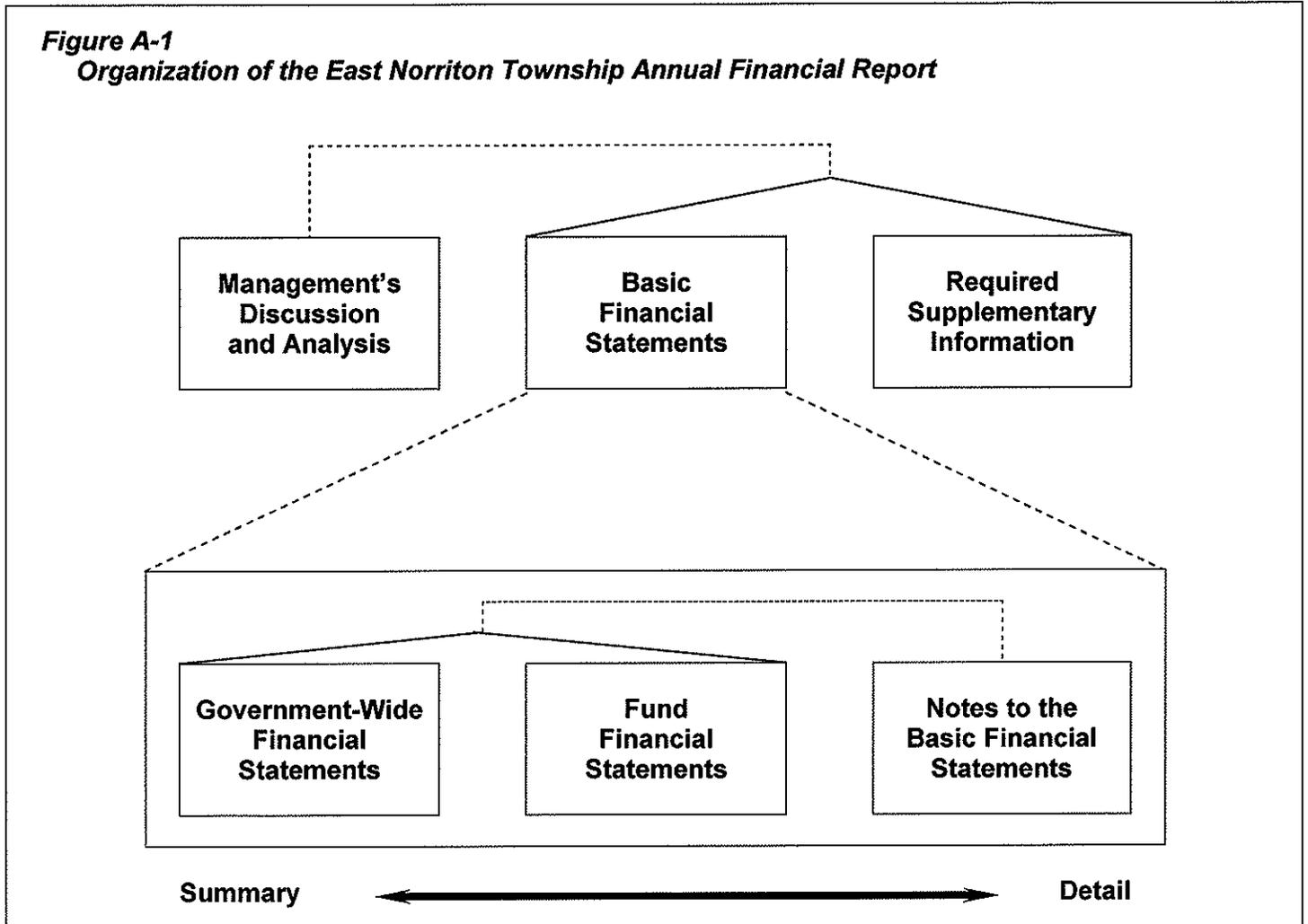
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide statements.
- The Governmental Funds statements tell how basic services, such as public safety and highways and streets, were financed in the short term as well as what remains for future spending.
- Proprietary Fund statements offer short- and long-term financial information about the activities the Township operates like businesses, such as sewer operations.
- Fiduciary Funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others.

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Township's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



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

Figure A-2 summarizes the major features of the Township's financial statements, including the portion of the Township's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire Township (except Fiduciary Funds)	The activities of the Township that are not proprietary or fiduciary	Activities the Township operates similar to private businesses: Sewer Revenue Account	Instances in which the Township administers resources on behalf of someone else, such as pension plans
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Government-Wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net position and how it has changed. Net position--the difference between the Township's assets and liabilities--is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Township's overall health, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of highways and other infrastructures.

In the government-wide financial statements, the Township's activities are divided into two categories:

- **Governmental Activities:** Most of the Township's basic services are included here, such as general government, public safety and public services.
- **Business-Type Activities:** The Township charges fees to help it cover the costs of certain services it provides. The Township's Sewer Revenue Fund is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds, focusing on its most significant or "major" funds--not the Township as a whole. Funds are accounting devices the Township uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The Township establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The Township has three kinds of funds:

- **Governmental Funds:** Most of the Township's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information explains the relationship (or differences) between them.

EAST NORRITON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2012

- Proprietary Fund:** Services for which the Township charges a fee are generally reported in the Proprietary Fund. The Proprietary Fund is reported in the same way as the government-wide statements. The Township's Enterprise Fund (one type of Proprietary Fund) is the same as its business-type activities but provides more detail and additional information, such as cash flows.
- Fiduciary Funds:** The Township is the trustee, or fiduciary, for assets that belong to others, such as the pension plans. The Township is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Township excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Over the past several years, the Township's assessed valuation has increased slightly on an annual basis. The increases in assessed valuation have helped keep Real Estate Tax revenues relatively stable. In addition, as in prior years, the Township again achieved a Real Estate Tax collection rate in excess of 97% in 2012.

Figure A-3
Condensed Statements of Net Position (In Thousands of Dollars)

	Governmental Activities		Business-Type Activities		Total Township		Total Percentage Change 2011 - 2012
	2011	2012	2011	2012	2011	2012	
Current and other assets	\$ 4,727	\$ 3,865	\$ 2,523	\$ 1,574	\$ 7,250	\$ 5,439	-24.98%
Capital assets, net	10,468	10,616	1,568	1,694	12,036	12,310	2.28%
TOTAL ASSETS	15,195	14,481	4,091	3,268	19,286	17,749	-7.97%
Deferred charge on refunding	-	35	-	-	-	35	100.00%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	15,195	14,516	4,091	3,268	19,286	17,784	-7.79%
Long-term debt outstanding	4,725	4,169	142	54	4,867	4,223	-13.23%
Other liabilities	551	468	23	49	574	517	-9.93%
TOTAL LIABILITIES	5,276	4,637	165	103	5,441	4,740	-12.88%
Net position							
Net investment in capital assets	5,842	6,555	800	1,640	6,642	8,195	23.38%
Restricted	1,247	800	-	-	1,247	800	-35.85%
Unrestricted	2,830	2,524	3,126	1,525	5,956	4,049	-32.02%
TOTAL NET POSITION	\$ 9,919	\$ 9,879	\$ 3,926	\$ 3,165	\$ 13,845	\$ 13,044	-5.79%

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

Figure A-4
Changes in Net Position from Operating Results (In Thousands of Dollars)

	Governmental Activities		Business-Type Activities		Total Township		Total Percentage Change
	2011	2012	2011	2012	2011	2012	2011 - 2012
REVENUES							
Program revenues							
Charges for services	\$ 54	\$ 82	\$ 2,935	\$ 2,804	\$ 2,989	\$ 2,886	-3.45%
Operating grants and contributions	595	298	123	-	718	298	-58.50%
General revenues							
Taxes	6,358	6,100	-	-	6,358	6,100	-4.06%
Other	1,940	1,602	8	6	1,948	1,608	-17.45%
TOTAL REVENUES	<u>8,947</u>	<u>8,082</u>	<u>3,066</u>	<u>2,810</u>	<u>12,013</u>	<u>10,892</u>	-9.33%
EXPENSES							
General government	1,441	1,325	-	-	1,441	1,325	-8.05%
Public safety	3,722	3,753	-	-	3,722	3,753	0.83%
Health and sanitation	7	-	-	-	7	-	-100.00%
Highways and streets	1,039	1,047	-	-	1,039	1,047	0.77%
Culture and recreation	563	560	-	-	563	560	-0.53%
Miscellaneous	2,224	2,037	-	-	2,224	2,037	-8.41%
Interest expense	139	170	5	2	144	172	19.44%
Depreciation	-	-	206	131	206	131	-36.41%
Operating expenses	-	-	2,001	2,669	2,001	2,669	33.38%
Transfers	(785)	(769)	785	769	-	-	0.00%
	<u>8,350</u>	<u>8,123</u>	<u>2,997</u>	<u>3,571</u>	<u>11,347</u>	<u>11,694</u>	3.06%
CHANGE IN NET POSITION	<u>\$ 597</u>	<u>\$ (41)</u>	<u>\$ 69</u>	<u>\$ (761)</u>	<u>\$ 666</u>	<u>\$ (802)</u>	-220.42%

Business-Type Activities

East Norriton Township continues to be the owner and operator of the sanitary sewer collection system. In 2010, the Township negotiated a Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (PADEP). This agreement specified the methodology the Township will employ to repair the Germantown Pike force main and established milestone dates to complete the project. The Township neared completion of the Germantown Pike force main project in 2012.

The Township has also implemented an ongoing I&I program. The Township has been and will continue to inspect sewer laterals whenever a house is sold in the Township. The Township has also begun inspecting and televising the private sewer laterals for residential properties in other areas of the Township.

East Norriton Township continued its Road Improvement Program utilizing Liquid Fuels Grant revenues. In 2012, the Township resurfaced portions of Birchwood Drive, Arch Road, Manchester Road, Marion Avenue, Windsor Drive, Knoller Road and Potshop Lane. The Road Improvement Program will continue in the future, utilizing the annual Liquid Fuels funds from the Commonwealth of Pennsylvania.

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

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At the completion of each calendar year, an audit is performed on the financial statements of the Township to provide reasonable assurance that the financial statements do not contain any material misstatements. East Norriton Township provides the appropriate funding within the annual budget for various projects. The Board of Supervisors, which is the legislative body of local government, approved the 2012 Budget on December 13, 2011. The Board of Supervisors reviewed the revenues and expenditures throughout the year and approved the Township's Statements of Expenditures and the Treasurer's Report at each monthly public meeting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

East Norriton Township continued its Road Improvement Program utilizing Liquid Fuels Grant revenues.

Figure A-5
Capital Assets (Net of Depreciation, In Thousands of Dollars)

	Governmental Activities		Business-Type Activities		Total Township		Total Percentage Change 2011 - 2012
	2011	2012	2011	2012	2011	2012	
	Infrastructure	\$ 4,922	\$ 4,922	\$ -	\$ -	\$ 4,922	
Land and improvements	6,251	6,595	-	-	6,251	6,595	5.50%
Buildings and building improvements	2,436	2,436	206	206	2,642	2,642	0.00%
Equipment and machinery	2,207	2,323	7,738	7,995	9,945	10,318	3.75%
Automobiles and trucks	1,838	1,874	172	172	2,010	2,046	1.79%
Accumulated depreciation	<u>(7,186)</u>	<u>(7,534)</u>	<u>(6,548)</u>	<u>(6,679)</u>	<u>(13,734)</u>	<u>(14,213)</u>	-3.49%
TOTAL	\$ <u>10,468</u>	\$ <u>10,616</u>	\$ <u>1,568</u>	\$ <u>1,694</u>	\$ <u>12,036</u>	\$ <u>12,310</u>	2.28%

Long-Term Debt

Real Estate Tax and sewer utility billing revenues are utilized for repayment of long-term debt. In 2010, East Norriton Township refinanced its 2004 Bond Issue and experienced a one-time savings in 2010 of about \$100,000. In addition to refinancing, the Township also added about \$1,000,000 of additional debt for funding the Germantown Pike force main project. In 2005, the East Norriton-Plymouth-Whitpain Joint Sewer Authority issued an approximately \$15 million dollar Bond Issue for the upgrade and capital improvements of the Authority's treatment system. East Norriton Township is obligated to fund 1/3 of the annual bond payments to the Joint Sewer Authority, which is about \$365,000 per year.

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

Figure A-6
Outstanding Long-Term Debt (In Thousands of Dollars)

	Total Township		Total Percentage Change
	2011	2012	2011 - 2012
General obligation bonds/notes	\$ 4,077	\$ 3,558	-12.73%
Sewer revenue notes	142	54	-61.97%
Net OPEB obligation	-	20	100.00%
Capital leases	540	457	-15.37%
Compensated absences	99	88	-11.11%
	<u>\$ 4,858</u>	<u>\$ 4,177</u>	-14.02%

FACTORS BEARING ON THE TOWNSHIP'S FUTURE

As noted earlier, the Township relies mainly on the revenues generated by Act 511 and Real Estate Taxes to fund its general operations. While the local economy has shown signs of improvement, the Township has had to rely more on the Real Estate Taxes to fund increases in operating costs. The health of the local economy and tax base moving forward will play a significant role in the future financial condition of the Township.

The Township is also aware of another circumstance that could affect its financial health in the future. Starting in 2009, new accounting standards required the Township to carry the retiree health insurance benefits liability on our financial statements. It should be noted that the minimum annual allocation of about \$99,000 is not required, but if it is not funded, the Township must show this liability on its financial statements which could have an impact on the Township's future borrowing capabilities. The 2011 and 2012 allocations were deferred.

Finally, in 2012, the Township continued to incur significant increases in legal expenses as it defends a challenge from an entity that wants to install and operate large electronic billboards throughout the Township. At this time it is unknown how long or costly this litigation will be in future years, but the Township spent over \$122,000 in 2011, and nearly \$69,000 in 2012. Based on the experience of other jurisdictions, the Township is budgeting another \$100,000 in 2013 to fund these costs.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Township's citizens, taxpayers, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department at 2501 Stanbridge Street, East Norriton, PA 19401-1616.

EAST NORRITON TOWNSHIP

STATEMENT OF NET POSITION

December 31, 2012

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 3,028,386	\$ 459,288	\$ 3,487,674
Accounts receivable	10,650	1,114,576	1,125,226
Taxes receivable	25,926	-	25,926
Restricted assets	800,052	-	800,052
Capital assets			
Infrastructure (highways)	4,921,823	-	4,921,823
Land and improvements	6,595,287	-	6,595,287
Buildings and building improvements	2,435,703	205,826	2,641,529
Equipment and machinery	2,323,320	7,995,485	10,318,805
Automobiles and trucks	1,874,202	171,747	2,045,949
Accumulated depreciation	<u>(7,533,983)</u>	<u>(6,679,426)</u>	<u>(14,213,409)</u>
TOTAL ASSETS	14,481,366	3,267,496	17,748,862
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>35,133</u>	<u>-</u>	<u>35,133</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>14,516,499</u>	\$ <u>3,267,496</u>	\$ <u>17,783,995</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Due to Joint Authority	\$ -	\$ 2,337	\$ 2,337
Accounts payable	102,076	41,664	143,740
Payroll and withholding taxes payable	70,093	4,571	74,664
Escrow deposits	295,757	-	295,757
Long-term obligations			
Portion due or payable within one year			
Guaranteed Sewer Revenue Notes	-	54,000	54,000
Bonds/notes payable	533,000	-	533,000
Capital leases	87,629	-	87,629
Portion due or payable after one year			
Bonds/notes payable	3,071,714	-	3,071,714
Capital leases	369,301	-	369,301
Compensated absences	87,822	-	87,822
Net OPEB obligation	<u>20,134</u>	<u>-</u>	<u>20,134</u>
TOTAL LIABILITIES	<u>4,637,526</u>	<u>102,572</u>	<u>4,740,098</u>
NET POSITION			
Net investment in capital assets	6,554,708	1,639,632	8,194,340
Restricted	800,052	-	800,052
Unrestricted	<u>2,524,213</u>	<u>1,525,292</u>	<u>4,049,505</u>
TOTAL NET POSITION	<u>9,878,973</u>	<u>3,164,924</u>	<u>13,043,897</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>14,516,499</u>	\$ <u>3,267,496</u>	\$ <u>17,783,995</u>

See accompanying notes to the basic financial statements.

EAST NORRITON 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	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES						
General government	\$ 1,324,775	\$ 30,652	\$ 298,482	\$ (995,641)	\$ -	\$ (995,641)
Public safety	3,752,763	51,499	-	(3,701,264)	-	(3,701,264)
Highways and streets	1,046,920	-	-	(1,046,920)	-	(1,046,920)
Culture and recreation	560,046	-	-	(560,046)	-	(560,046)
Payroll taxes, employee benefits, insurance and other	2,037,711	-	-	(2,037,711)	-	(2,037,711)
Interest on long-term debt	169,695	-	-	(169,695)	-	(169,695)
TOTAL GOVERNMENTAL ACTIVITIES	<u>8,891,910</u>	<u>82,151</u>	<u>298,482</u>	<u>(8,511,277)</u>	<u>-</u>	<u>(8,511,277)</u>
BUSINESS-TYPE ACTIVITIES						
Sewer Revenue Account	<u>2,801,710</u>	<u>2,803,654</u>	<u>-</u>	<u>-</u>	<u>1,944</u>	<u>1,944</u>
TOTAL TOWNSHIP ACTIVITIES	<u>\$ 11,693,620</u>	<u>\$ 2,885,805</u>	<u>\$ 298,482</u>	<u>(8,511,277)</u>	<u>1,944</u>	<u>(8,509,333)</u>
GENERAL REVENUES						
Property taxes, levied for general purposes				2,467,349	-	2,467,349
Other taxes				3,632,322	-	3,632,322
Investment earnings				3,078	8,465	11,543
Interest on long-term debt				-	(2,498)	(2,498)
Gain on disposal of capital assets				16,430	-	16,430
Miscellaneous				1,582,487	-	1,582,487
TRANSFERS				<u>769,032</u>	<u>(769,032)</u>	<u>-</u>
TOTAL GENERAL REVENUES AND TRANSFERS				<u>8,470,698</u>	<u>(763,065)</u>	<u>7,707,633</u>
CHANGE IN NET POSITION				<u>(40,579)</u>	<u>(761,121)</u>	<u>(801,700)</u>
NET POSITION AT BEGINNING OF YEAR				<u>9,919,552</u>	<u>3,926,045</u>	<u>13,845,597</u>
NET POSITION AT END OF YEAR				<u>\$ 9,878,973</u>	<u>\$ 3,164,924</u>	<u>\$ 13,043,897</u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Project Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,988,637	\$ 540,815	\$ -	\$ 498,934	\$ 3,028,386
Accounts receivable	760	-	-	9,890	10,650
Due from other funds	-	-	-	2,840	2,840
Taxes receivable	20,572	3,414	-	1,940	25,926
Restricted cash	<u>275,305</u>	<u>-</u>	<u>-</u>	<u>524,747</u>	<u>800,052</u>
TOTAL ASSETS	<u>\$ 2,285,274</u>	<u>\$ 544,229</u>	<u>\$ -</u>	<u>\$ 1,038,351</u>	<u>\$ 3,867,854</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)					
LIABILITIES					
Accounts payable	\$ 46,695	\$ 15,888	\$ 38,433	\$ 1,060	\$ 102,076
Due to other funds	2,840	-	-	-	2,840
Payroll and withholding taxes payable	66,499	3,594	-	-	70,093
Escrow deposits	<u>295,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,757</u>
TOTAL LIABILITIES	<u>411,791</u>	<u>19,482</u>	<u>38,433</u>	<u>1,060</u>	<u>470,766</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue, property taxes	<u>84,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,589</u>
FUND BALANCES (DEFICIT)					
Restricted for					
Building and land improvement escrows	265,434	-	-	-	265,434
Norris City Cemetery	9,871	-	-	-	9,871
Street lights	-	16,221	-	-	16,221
Fire protection	-	137,412	-	-	137,412
Parks and recreation	-	110,222	-	-	110,222
Liquid fuels	-	173,449	-	-	173,449
Parks and recreation capital	-	87,443	-	-	87,443
Committed for subsequent year's budget	900,000	-	-	-	900,000
Assigned for capital projects	-	-	-	1,037,291	1,037,291
Unassigned	<u>613,589</u>	<u>-</u>	<u>(38,433)</u>	<u>-</u>	<u>575,156</u>
TOTAL FUND BALANCES (DEFICIT)	<u>1,788,894</u>	<u>524,747</u>	<u>(38,433)</u>	<u>1,037,291</u>	<u>3,312,499</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	<u>\$ 2,285,274</u>	<u>\$ 544,229</u>	<u>\$ -</u>	<u>\$ 1,038,351</u>	<u>\$ 3,867,854</u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP

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

December 31, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ <u>3,312,499</u>
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Infrastructure (highways)	4,921,823
Land and improvements	6,595,287
Buildings and building improvements	2,435,703
Equipment and machinery	2,323,320
Automobiles and trucks	1,874,202
Accumulated depreciation	<u>(7,533,983)</u>
TOTAL CAPITAL ASSETS	<u>10,616,352</u>
<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>84,589</u>
<p>Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities--both current and long-term--are reported in the statement of net position. Balances at December 31, 2012, are:</p>	
Bonds/notes payable	(3,558,000)
Deferred charge on refunding	35,133
Bond issuance premium	(46,714)
Capital leases	(456,930)
Net OPEB obligation	(20,134)
Compensated absences	<u>(87,822)</u>
TOTAL LONG-TERM LIABILITIES	<u>(4,134,467)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>9,878,973</u></u>

See accompanying notes to the basic financial statements.

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Project Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Real estate taxes	\$ 1,680,690	\$ 590,319	\$ -	\$ 335,479	\$ 2,606,488
Other taxes	3,632,322	-	-	-	3,632,322
Licenses and permits	340,005	-	-	-	340,005
Fines	79,362	-	-	-	79,362
Charges for services	94,861	-	-	-	94,861
Intergovernmental revenue	415,961	413,981	-	18,955	848,897
Interest income	653	2,304	-	622	3,579
Other	332,082	265,962	-	1,500	599,544
	<u>6,575,936</u>	<u>1,272,566</u>	<u>-</u>	<u>356,556</u>	<u>8,205,058</u>
TOTAL REVENUES					
EXPENDITURES					
General government	967,662	160,865	-	-	1,128,527
Public safety	3,541,302	255,738	-	227,242	4,024,282
Highways and streets	503,338	399,242	-	24,131	926,711
Culture and recreation	13,500	793,342	-	-	806,842
Miscellaneous					
Payroll taxes	354,309	-	-	-	354,309
Employee benefits	1,574,829	-	-	-	1,574,829
Insurance	21,325	-	-	-	21,325
Capital outlay	-	-	-	31,754	31,754
Principal	-	-	519,000	-	519,000
Interest	-	-	135,077	-	135,077
	<u>6,976,265</u>	<u>1,609,187</u>	<u>654,077</u>	<u>283,127</u>	<u>9,522,656</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(400,329)</u>	<u>(336,621)</u>	<u>(654,077)</u>	<u>73,429</u>	<u>(1,317,598)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	625,260	31	648,972	-	1,274,263
Transfers out	(266,210)	(62,347)	(1,011)	(175,663)	(505,231)
Sale of capital assets	-	-	-	18,755	18,755
	<u>359,050</u>	<u>(62,316)</u>	<u>647,961</u>	<u>(156,908)</u>	<u>787,787</u>
TOTAL OTHER FINANCING SOURCES (USES)					
NET CHANGE IN FUND BALANCES	(41,279)	(398,937)	(6,116)	(83,479)	(529,811)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>1,830,173</u>	<u>923,684</u>	<u>(32,317)</u>	<u>1,120,770</u>	<u>3,842,310</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 1,788,894</u>	<u>\$ 524,747</u>	<u>\$ (38,433)</u>	<u>\$ 1,037,291</u>	<u>\$ 3,312,499</u>

See accompanying notes to the basic financial statements.

EAST NORRITON 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 \$ (529,811)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$589,769) exceed depreciation (\$439,207) in the current period. 150,562

The net effect of various miscellaneous transactions involving capital assets is to increase net position. (2,325)

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 increased by this amount this year. (171,098)

Bond proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balances. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the statement of net position.

Bond issuance premium	6,126
Deferred refunding	(8,785)
Principal repayments	519,000
Capital lease payments	83,000

The net change in the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements. (98,861)

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 11,613

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (40,579)

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP**STATEMENT OF NET POSITION****PROPRIETARY FUND***December 31, 2012*

	<u>Enterprise Fund Sewer Revenue Account</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 459,288
Accounts receivable	<u>1,114,576</u>
TOTAL CURRENT ASSETS	<u>1,573,864</u>
PROPERTY AND EQUIPMENT	
Accumulated depreciation	8,373,058
	<u>(6,679,426)</u>
	<u>1,693,632</u>
TOTAL ASSETS	<u>\$ 3,267,496</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Due to Joint Authority	\$ 2,337
Accounts payable	41,664
Accrued payroll	4,571
Notes payable, current portion	<u>54,000</u>
TOTAL CURRENT LIABILITIES	<u>102,572</u>
NET POSITION	
Net investment in capital assets	1,639,632
Unrestricted	<u>1,525,292</u>
TOTAL NET POSITION	<u>3,164,924</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,267,496</u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIPSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2012

	<u>Enterprise Fund Sewer Revenue Account</u>
OPERATING REVENUES	
Current use charges	\$ 2,749,936
Other	<u>53,718</u>
TOTAL OPERATING REVENUES	<u>2,803,654</u>
OPERATING EXPENSES	
Personnel services	371,741
Contracted services	1,883,445
Repairs and maintenance	415,071
Depreciation and amortization	<u>131,453</u>
TOTAL OPERATING EXPENSES	<u>2,801,710</u>
OPERATING INCOME	<u>1,944</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	8,465
Interest on long-term debt	<u>(2,498)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>5,967</u>
INCOME BEFORE TRANSFERS	7,911
TRANSFERS IN	16,340
TRANSFERS OUT	<u>(785,372)</u>
CHANGE IN NET POSITION	(761,121)
NET POSITION AT BEGINNING OF YEAR	<u>3,926,045</u>
NET POSITION AT END OF YEAR	<u>\$ 3,164,924</u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP**STATEMENT OF CASH FLOWS****PROPRIETARY FUND***Year Ended December 31, 2012*

	<u>Enterprise Fund Sewer Revenue Account</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,810,143
Payments to suppliers	(2,272,712)
Payments to employees	(369,942)
Other receipts	53,718
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>221,207</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances to other funds	(785,372)
Advances from other funds	16,340
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(769,032)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Facilities acquisition/construction/improvements	(257,247)
Principal payments on debt	(88,000)
Interest paid on debt	(2,498)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(347,745)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	8,465
NET DECREASE IN CASH AND CASH EQUIVALENTS	(887,105)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,346,393</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 459,288</u>

EAST NORRITON TOWNSHIP

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended December 31, 2012

Enterprise
Fund

Sewer
Revenue
Account

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating income	\$ 1,944
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	131,453
Decrease in	
Accounts receivable	60,207
Debt issuance costs	3,600
Increase (decrease) in	
Accounts payable	23,871
Accrued payroll	1,799
Due to other funds	<u>(1,667)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ <u><u>221,207</u></u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	<u>Pension Trust Funds</u>	<u>Health Benefits Fund</u>
ASSETS		
Cash	\$ 52,077	\$ 811,160
Investments	<u>12,830,597</u>	<u>-</u>
TOTAL ASSETS	<u>12,882,674</u>	<u>811,160</u>
LIABILITIES		
Annuities payable	<u>42,854</u>	<u>-</u>
NET POSITION		
Held in trust for pension benefits and other purposes	<u>\$ 12,839,820</u>	<u>\$ 811,160</u>

See accompanying notes to the basic financial statements.

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

	<u>Pension Trust Funds</u>	<u>Health Benefits Fund</u>
ADDITIONS		
Contributions	\$ 697,520	\$ -
Investment income	<u>1,298,418</u>	<u>359</u>
TOTAL ADDITIONS	<u>1,995,938</u>	<u>359</u>
DEDUCTIONS		
Contracted services	40,069	3,400
Benefits	<u>706,087</u>	<u>20,172</u>
TOTAL DEDUCTIONS	<u>746,156</u>	<u>23,572</u>
CHANGE IN NET POSITION	1,249,782	(23,213)
NET POSITION AT BEGINNING OF YEAR	<u>11,590,038</u>	<u>834,373</u>
NET POSITION AT END OF YEAR	<u><u>\$ 12,839,820</u></u>	<u><u>\$ 811,160</u></u>

See accompanying notes to the basic financial statements.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Scope of Reporting Entity

The financial statements of East Norriton Township (the "Township") include the departments and other organizational units over which the Board of Supervisors exercises oversight responsibility, including general government, police protection, parks and recreation, public works and the Norris City Cemetery.

In reviewing the criteria for inclusion in the financial statements, the Township considered the following:

- The fire department receives a contribution from the Township. However, the majority of revenues generated is through private fund-raisers under the direction of a separate independent board not appointed by the Supervisors. The departments are organized under a separate charter and, therefore, are not included in the financial statements.
- The East Norriton-Plymouth-Whitpain Joint Sewer Authority is not included in the financial statements, as this entity is operated independently of the Township.
- The tax collector is an elected officer who is responsible for the collection of real estate taxes in Montgomery County and the Township. The Township regards the tax collector's office as a separate entity and, therefore, does not account for its activity in the financial statements.

Basis of Presentation

Government-Wide Financial Statements - The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for Fiduciary Funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to parties for goods or services.

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

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Separate financial statements are provided for Governmental Funds, the Proprietary Fund and Fiduciary Funds, even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

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. 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 for the Enterprise 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.

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

Fund Financial Statements - Fund financial statements of the reporting entity are organized into individual funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses.

Funds are organized as major funds or nonmajor funds within the governmental, proprietary and fiduciary statements. An emphasis is placed on major funds within the governmental and proprietary categories.

Governmental Funds - Governmental Funds are those funds through which most governmental functions of the Township are financed. The acquisition, use and balance of the Township's expendable financial resources are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following are the Township's Governmental Funds:

General Fund - 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 and public services. Those activities are funded principally by property taxes, state shared taxes and grants from other governmental units.

Special Revenue Funds - 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 street lighting tax and fire protection tax activity and disposition of state liquid fuels highway aid funding. Included in these funds are the State Highway Aid, Street Lighting Tax, Fire Protection Tax and Park and Recreation Funds.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds - Capital Project Funds include the accounts of the General Obligation Series of 2002 and 2010 Bond Funds, developer improvements and parks and recreation improvements.

Proprietary Fund - The focus of Proprietary Fund measurement is upon determination of net income and cash flows. The generally accepted accounting principles applicable are similar to those used by businesses in the private sector.

The Proprietary Fund includes the accounts of the Township's Sewer Revenue Account. The Township establishes sewer rates, collects sewer revenues, operates the sewer system, employs personnel to operate the sewer system and send sewer bills and handles fiscal management for the sewer system.

Fiduciary Funds - Fiduciary Funds include the Police and Non-Uniformed Pension Trust, along with the Police Post-Retirement Health Insurance Trust. The measurement focus of the Pension Trust Funds and the Police Post-Retirement Health Insurance Trust is similar to that of the Proprietary Fund.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The current financial resources measurement focus and the modified accrual basis of accounting are followed by the Governmental Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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 current fiscal period.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources. Property taxes are recorded in the year levied as receivables and deferred revenues and recognized as revenues in the succeeding year when services financed by the levy are being provided.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The Township reports unavailable revenue on its statement of net position and its Governmental Funds balance sheet. For government-wide financial statements, unavailable revenue arises from taxes levied in the current year, which are for the subsequent year's operations. For Governmental Funds financial statements, unavailable revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenue also arises when resources are received before the Township has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Township has a legal claim to the resources, the liability for unavailable revenue is removed from the balance sheet and revenue is recognized.

The Proprietary Fund is accounted for on the accrual basis. Revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Investments

The Township has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires the Township to record investments at fair value.

Real Estate Taxes

Real estate property taxes attach as an enforceable lien on property on January 1. Taxes are billed March 1 and payable under the following terms: a 2% discount March 1 through April 30; face amount May 1 through June 30; and a 10% penalty after July 1.

Budget Policy

The Board of Supervisors annually adopts the budget for the General, Capital Project and Special Revenue Funds of the Township. Budgetary control is legally maintained at the fund level. The Township's budget policy provides transfer authority to the Supervisors within and between categories as long as the total budget of the Township (net of interfund transfers) is not increased.

All budget amounts presented in the accompanying financial statements and required supplementary information have been adjusted for legally authorized revisions of the annual budgets during the year.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in Governmental Fund operations or Proprietary Fund operations and whether they are reported in the government-wide or fund financial statements.

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 only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying 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.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Prior to January 2000, Governmental Funds' capital assets were accounted for in the General Fixed Assets Account Group and were not recorded directly as a part of any individual fund's financial statements. Infrastructure of Governmental Funds was not previously capitalized. Upon implementing GASB Statement No. 34, governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	20-50
Improvements	10-50
Machinery and equipment	5-50

Infrastructure

The Township has adopted the modified approach for valuing its infrastructure, which consists of 50.04 miles of roads. The Township completes an annual assessment of pavement conditions and maintains all roads at an overall good or better condition level. As a result, infrastructure costs have been estimated for the entire roadway system. If the yearly assessment maintains this overall condition level, no depreciation will be recorded. Annual maintenance costs for the roads will be expensed.

Interfund Transactions

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.

Fund Equity

Beginning with the year ended June 30, 2011, the Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** includes fund balance 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 expenses and inventories.
- ***Restricted Fund Balance*** includes fund balance 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, street lights, fire protection, parks and recreation, capital reserve and liquid fuels.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

- **Committed Fund Balance** includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the East Norriton Board of Supervisors. To be reported as committed, amounts cannot be used for any other purpose unless the East Norriton Township Supervisors take the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** includes fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Fund balances may be assigned by the Township Manager and/or Township Finance Director.
- **Unassigned Fund Balance** includes the residual classifications for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. These are funds to ensure the maintenance of services to the public due to emergency or unplanned expenditures or unanticipated revenue shortfalls in accordance with the Township's stated fund balance policy.

NOTE B DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. Under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, 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 federal depository insurance limits. Since the securities are not held in the name of participating governmental entities, custodial credit risk exists that the deposits may not be returned promptly in the event of bank failure. The Township also places funds with the Pennsylvania Local Government Investment Trust (PLGIT). Each member owns a pro rata share of the fund's underlying investments or deposits, which are held in the name of the applicable fund. In order to minimize interest rate risks, each fund strives to maintain investment maturities to keep the net asset values for participants at \$1.00 per share.

As of December 31, 2012, \$104,527 of the Township's \$5,239,373 bank balance is uninsured and collateralized with securities held by the pledging bank's trust department not in the Township's name. Of the Township's bank balance, \$4,884,846 is uninsured and uncollateralized.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Investments

Investments in the Fiduciary Funds are reported at fair value.

At December 31, 2012, the Township's Pension Trust Funds had the following investment portfolio:

	<u>Fair Value</u>
PENSION TRUST FUNDS	
Cash	\$ 261,374
DFA Emerging Mrkts Core Equity	605,608
DFA International Value Portfolio	717,012
DFA One-Year Fixed-Income I	1,632,348
DFA Intl Small Cap Value Portfolio	670,420
DFA Real Estate Securities Portfolio	243,517
DFA Intl. Real Estate Securities Portfolio	114,069
DFA US Small Cap Value Portfolio	1,082,696
Vanguard GNMA Fund Admiral Shares	1,651,113
Vanguard Mid Cap Index Signal	1,063,590
Vanguard Value Index Fund	1,582,895
Vanguard Short-Term Investment-Grade Adm	1,638,422
Vanguard 500 Index Signal	<u>1,567,533</u>
	<u>\$ 12,830,597</u>

Interest Rate Risk - The Township meets with its advisors on a regular basis as a means of managing its exposure to fair value losses arising from increasing interest rates.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE C ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	<u>Governmental Funds</u>		
	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>Proprietary Fund</u>
Other taxes and fees	\$ 760	\$ -	\$ -
Sewer receivables	-	-	1,114,576
Other	-	9,890	-
	<u>\$ 760</u>	<u>\$ 9,890</u>	<u>\$ 1,114,576</u>

The Proprietary Fund has filed liens against homeowners on approximately \$289,835 of sewer receivables at December 31, 2012.

NOTE D RESTRICTED ASSETS

During 1990, proceeds of the Norris City Cemetery Trust were transferred to the Township. These monies are to be used solely for the maintenance, upkeep and repair of the Norris City Cemetery. As of December 31, 2012, General Fund assets of \$9,871 have been restricted for this purpose.

Capital Project Funds assets of \$948,399 have been designated for specific capital improvements.

NOTE E ESCROW DEPOSITS

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 of \$265,434 is maintained in the cash accounts of the Township.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE F CAPITAL ASSETS

Capital asset activity is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Infrastructure	\$ 4,921,823	\$ -	\$ -	\$ 4,921,823
Capital assets being depreciated				
Land and improvements	6,250,821	344,466	-	6,595,287
Buildings and building improvements	2,435,703	-	-	2,435,703
Equipment and machinery	2,206,741	116,579	-	2,323,320
Automobiles and trucks	1,838,652	128,724	(93,174)	1,874,202
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>12,731,917</u>	<u>589,769</u>	<u>(93,174)</u>	<u>13,228,512</u>
Accumulated depreciation				
Land and improvements	(2,347,856)	(120,811)	-	(2,468,667)
Buildings and building improvements	(1,837,092)	(55,416)	-	(1,892,508)
Equipment and machinery	(1,983,904)	(79,103)	-	(2,063,007)
Automobiles and trucks	(1,016,773)	(183,877)	90,849	(1,109,801)
TOTAL ACCUMULATED DEPRECIATION	<u>(7,185,625)</u>	<u>(439,207)</u>	<u>90,849</u>	<u>(7,533,983)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>5,546,292</u>	<u>150,562</u>	<u>(2,325)</u>	<u>5,694,529</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 10,468,115</u>	<u>\$ 150,562</u>	<u>\$ (2,325)</u>	<u>\$ 10,616,352</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Plant costs financed by the East Norriton Township Municipal Authority	\$ 2,196,513	\$ -	\$ -	\$ 2,196,513
Sewer garage	52,106	-	-	52,106
Sewer systems	4,728,761	247,577	-	4,976,338
Municipal building improvements	153,720	-	-	153,720
Automobiles and trucks	171,747	-	-	171,747
Other property, plant and equipment	812,964	9,670	-	822,634
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>8,115,811</u>	<u>257,247</u>	<u>-</u>	<u>8,373,058</u>
Accumulated depreciation	(6,547,973)	(131,453)	-	(6,679,426)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>\$ 1,567,838</u>	<u>\$ 125,794</u>	<u>\$ -</u>	<u>\$ 1,693,632</u>

Depreciation for business-type activities is calculated using the straight-line method over the useful life (ranging from 3 to 31.5 years) of the asset.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Depreciation expense was charged to functions/programs for governmental activities as follows:

General government	\$ 203,118
Highways and streets	172,585
Culture and recreation	<u>63,504</u>
	<u>\$ 439,207</u>

NOTE G LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2012, are as follows:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and notes payable					
General obligation bonds/notes	\$ 4,077,000	\$ -	\$ (519,000)	\$ 3,558,000	\$ 533,000
Bond issuance premium	<u>52,840</u>	<u>-</u>	<u>(6,126)</u>	<u>46,714</u>	<u>-</u>
TOTAL BONDS AND NOTES PAYABLE	4,129,840	-	(525,126)	3,604,714	533,000
Capital leases	539,930	-	(83,000)	456,930	87,629
Compensated absences	99,435	-	(11,613)	87,822	-
Net OPEB obligation	* (78,727)	<u>98,861</u>	<u>-</u>	<u>20,134</u>	<u>-</u>
	<u>\$ 4,690,478</u>	<u>\$ 98,861</u>	<u>\$ (619,739)</u>	<u>\$ 4,169,600</u>	<u>\$ 620,629</u>
BUSINESS-TYPE ACTIVITIES					
Guaranteed Sewer Revenue Notes					
Series A of 2003	\$ 7,000	\$ -	\$ (7,000)	\$ -	\$ -
Series B of 2003	<u>135,000</u>	<u>-</u>	<u>(81,000)</u>	<u>54,000</u>	<u>54,000</u>
	<u>\$ 142,000</u>	<u>\$ -</u>	<u>\$ (88,000)</u>	<u>\$ 54,000</u>	<u>\$ 54,000</u>

*At December 31, 2011, there was a net OPEB obligation asset.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The maturity schedules of the bonds and notes follow:

\$1,552,000 General Obligation Notes, Series of 2002

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	4.27%	\$ 148,000	\$ 12,653	\$ 160,653
2014	4.27%	210,000	5,231	215,231
		<u>\$ 358,000</u>	<u>\$ 17,884</u>	<u>\$ 375,884</u>

\$4,240,000 General Obligation Bonds, Series of 2010

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	3.00%	\$ 385,000	\$ 101,831	\$ 486,831
2014	4.00%	345,000	90,281	435,281
2015	4.00%	570,000	76,481	646,481
2016	2.38%	595,000	53,681	648,681
2017	2.70%	335,000	39,550	374,550
2018 to 2020	3.00% to 3.30%	970,000	62,615	1,032,615
		<u>\$ 3,200,000</u>	<u>\$ 424,439</u>	<u>\$ 3,624,439</u>

Aggregate maturities of long-term debt for governmental activities are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 533,000	\$ 114,484	\$ 647,484
2014	555,000	95,512	650,512
2015	570,000	76,481	646,481
2016	595,000	53,681	648,681
2017	335,000	39,550	374,550
2018 to 2020	970,000	62,615	1,032,615
	<u>\$ 3,558,000</u>	<u>\$ 442,323</u>	<u>\$ 4,000,323</u>

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Future maturities of long-term debt for business-type activities are as follows:

<u>Year Ending December 31,</u>	<u>Principal Series B of 2003</u>
2013	\$ <u>54,000</u>

Interest is paid monthly on a variable rate basis with a maximum rate of 15.00%.

Capital Leases

The Township leases certain equipment under capital lease arrangements. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 113,186
2014	113,186
2015	113,186
2016	113,186
2017	<u>80,299</u>
	533,043
Amount representing interest	<u>(76,113)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ <u>456,930</u>

Equipment under capital leases at December 31, 2012, is summarized as follows:

Vehicles	\$ 740,996
Accumulated depreciation	<u>(190,773)</u>
	\$ <u>550,223</u>

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE H CONTRIBUTED CAPITAL

Contributed capital represents contributions by various developers restricted for capital improvements. Funds contributed for specific projects are restricted. Funds contributed for general improvements are unrestricted.

NOTE I OTHER TAXES

Other taxes by source are summarized as follows:

Earned income taxes	\$ 2,166,872
Business privilege taxes	932,623
Real estate transfer taxes	229,459
Local services taxes	<u>303,368</u>
	<u>\$ 3,632,322</u>

NOTE J INTERGOVERNMENTAL REVENUE AND GRANTS

Intergovernmental revenue and grants by source are summarized as follows:

	Governmental Funds			Totals
	General Fund	Special Revenue Funds	Capital Project Funds	
COMMONWEALTH OF PENNSYLVANIA				
Foreign Fire and Casualty Insurance Tax Grant	\$ -	\$ 117,050	\$ -	\$ 117,050
Public Utility Realty	8,579	-	-	8,579
State Highway Aid Grant	-	273,691	-	273,691
School Resource Officer Grant	117,479	-	-	117,479
General Municipal Pension State Aid	282,513	-	-	282,513
Road Turnback Grant	-	23,240	-	23,240
FEMA Storm Emergency Grant	7,390	-	-	7,390
Department of Justice	-	-	18,955	18,955
	<u>\$ 415,961</u>	<u>\$ 413,981</u>	<u>\$ 18,955</u>	<u>\$ 848,897</u>

Intergovernmental revenue accounts for approximately 11% of all Township receipts.

NOTE K PENSION PLANS

The Township sponsors a single-employer defined benefit police pension plan for police officers and a single-employer defined benefit non-uniformed pension plan for municipal employees of the Township. These plans are included in the Pension Trust Funds of East Norriton Township and are controlled by various ordinances adopted pursuant to Pennsylvania Act 205.

Police Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide pension benefits for police officers of the Township. The assets of the pension plan are administered in part by Conrad Siegel Investment Advisors. The normal retirement benefit of the police pension plan is equal to 50% of the average monthly compensation for the 36 months immediately preceding retirement date. Normal retirement is age 50 or completion of 25 years of service, whichever is later, with full vesting after 12 years of service.

Covered employees are required by statute to contribute up to 5% of their salary to the pension plan. If an employee leaves covered employment, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Funded Status and Funding Progress - As of January 1, 2011, the most recent actuarial valuation date, the plan was 72.5% funded. The actuarial liability for benefits was \$11,109,974 and the actuarial value of assets was \$8,059,398 resulting in an unfunded actuarial accrued liability (UAAL) of \$3,050,576. The covered payroll (annual payroll of active employees covered by the plan) was \$2,404,010, and the ratio of the UAAL to the covered payroll was 126.9%.

Non-Uniformed Employee Pension Plan

The Township sponsors a Public Employee Retirement System (PERS) to provide pension benefits for non-uniformed employees of the Township. The assets of the pension plan are administered in part by Conrad Siegel Investment Advisors. The normal retirement benefit of the employees' pension plan is 1% of the final five-year average monthly pay (up to \$750) plus 1.5% of any excess of average monthly pay over \$750 multiplied by total credited service.

The normal retirement date of each participant shall be the earlier of the day on which the member satisfies the following requirements:

- The member attains age 58 and completes 10 years of vesting service, or
- The member attains age 55 and completes 25 years of vesting service.

Full vesting is attained upon the normal retirement date, notwithstanding the plan's vesting schedule.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Covered employees are required to contribute 5% to the plan. The Township is required by statute, principally Pennsylvania Act 205, to contribute the amount necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

Funded Status and Funding Progress - As of January 1, 2011, the most recent actuarial valuation date, the plan was 72.3% funded. The actuarial liability for benefits was \$5,751,179 and the actuarial value of assets was \$4,158,958 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,592,221. The covered payroll (annual payroll of active employees covered by the plan) was \$1,740,017, and the ratio of the UAAL to the covered payroll was 91.5%.

At January 1, 2011, the latest valuation date, the Township's pension plans' membership consisted of:

	<u>Police Pension</u>	<u>Non- Uniformed Employee Pension</u>
Retirees and beneficiaries currently receiving benefits	14	23
Terminated employees entitled to deferred benefits	<u>2</u>	<u>4</u>
TOTAL	16	27
Active employees	<u>26</u>	<u>30</u>
TOTAL MEMBERSHIP	<u><u>42</u></u>	<u><u>57</u></u>

Basis of Accounting

Pension plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Financial Reporting

A separate financial statement is not issued on the pension plans.

Method Used to Value Investments

Pension plan equity securities are reported at fair value. Investment income is recognized as earned. The list of investments for the Pension Trust Funds can be found in Note B.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Contributions

Act 205 requires that annual contributions to the plans be based upon the plans' minimum municipal obligation (MMO). The MMO is based upon the plans' biennial actuarial valuation. In accordance with the plans' governing ordinances, employees are required to contribute to the plans (police - 5%; non-uniformed - 5%). The plans 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.

Investment expenses, including investment manager and custodial services, are funded through investment earnings.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings and contributions.

Concentration

Concentration of investments includes mutual funds, which do not require disclosure.

Schedule of Contributions from the Employer and Other Contributing Entities

Police Pension Plan

<u>Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer (1)</u>	<u>Percentage Contributed</u>
2010	\$ 270,911	\$ 270,911	100%
2011	354,772	354,772	100%
2012	354,475	354,475	100%

Non-Uniformed Employee Pension Plan

<u>Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer (1)</u>	<u>Percentage Contributed</u>
2010	\$ 136,204	\$ 136,204	100%
2011	169,669	169,669	100%
2012	137,467	137,467	100%

(1) Includes General Municipal Pension System State Aid.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows.

Police Pension Plan

Actuarial valuation date	January 1, 2011
Actuarial cost method.....	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period.....	18 years
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return*	7.5%
Projected salary increases*	5%

*Includes inflation based on long-term historical average rates.

Non-Uniformed Employee Pension Plan

Actuarial valuation date	January 1, 2011
Actuarial cost method.....	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period.....	15 years
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return*	7.5%
Projected salary increases*	5%

*Includes inflation based on long-term historical average rates.

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

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE L OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Township provides medical 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. Currently, only employees covered by the police contract are entitled to other postemployment benefits. 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 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.

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Normal cost	\$ 42,599
Amortization of unfunded actuarial accrued liability	65,649
ANNUAL REQUIRED CONTRIBUTION (ARC)	108,248
Interest	25,768
Estimated adjustment to ARC	(35,155)
ANNUAL OPEB COST	98,861
Net OPEB contributions during the year	-
INCREASE IN NET OPEB OBLIGATION	98,861
Net OPEB asset at beginning of year	(78,727)
NET OPEB OBLIGATION AT END OF YEAR	\$ 20,134

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 265,588	0%	\$ (341,105)
2011	262,378	0%	(78,727)
2012	98,861	0%	20,134

Funded Status and Funding Progress

As of January 1, 2011, the actuarial accrued liability for benefits was \$1,069,358 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,404,010, and the ratio of the UAAL to the covered payroll was 44.48%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the 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 liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5.0% after six years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, was 25 years.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE M COMMITMENTS AND CONTINGENCIES

Compensated Absences

The Township provides vacation for all full-time employees. Personnel covered by the police contract can carry up to ten days of unused vacation time into the next year. Non-uniform personnel can also carry up to ten days of unused vacation time into the next year when requested in advance. All employees can be compensated for up to ten days of unused vacation provided the employee used at least five days of vacation.

Township employees are entitled to unlimited sick leave for justified illness. Non-uniform personnel with up to three sick days used are compensated for perfect attendance with the equivalent of up to four days in wages or up to four days of vacation time.

NOTE N OPERATING LEASES

The Township leases office equipment under noncancelable operating leases with terms ending from 2012 to 2017.

Future minimum lease payments for noncancelable operating leases will be as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 26,200
2014	17,627
2015	14,291
2016	3,372
2017	<u>1,465</u>
	<u>\$ 62,955</u>

NOTE O 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.

EAST NORRITON TOWNSHIP
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE P DERIVATIVE FINANCIAL INSTRUMENTS

The Township financed the Series of 2002 General Obligation Note and Series A and Series B Guaranteed Sewer Revenue Notes through the Delaware Valley Regional Finance Authority (DeVal). DeVal has in turn entered into interest rate swap agreements with various counterparties to provide fixed interest rates to borrowers. These agreements may be terminated under the following circumstances: (1) DeVal and the counterparty mutually consent to termination, (2) the borrower defaults on its loan, or (3) DeVal or the counterparty default or their financial conditions deteriorate to make a default imminent. Upon termination, DeVal would receive or make a payment depending on the market value of the related interest rate swap. If DeVal were obligated to make such a payment and sufficient funds were not available, DeVal could assess each borrower its allocable share of the termination payment.

As of December 31, 2012, DeVal would have received a payment of nearly \$174 million if all of the swap agreements were terminated. Therefore, no amounts are reflected in the Township's financial statements.

NOTE Q ADOPTION OF GASB STATEMENT NO. 63 AND GASB STATEMENT NO. 65

The Township 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.

REQUIRED SUPPLEMENTARY INFORMATION

EAST NORRITON TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2012

	General Fund				Special Revenue Funds				Capital Project Funds			
	Budgeted Amount		Actual	Over (Under) Budget	Budgeted Amount		Actual	Over (Under) Budget	Budgeted Amount		Actual	Over (Under) Budget
	Original	Final			Original	Final			Original	Final		
REVENUES												
Real estate taxes	\$ 1,563,000	\$ 1,563,000	\$ 1,680,690	\$ 117,690	\$ 571,000	\$ 571,000	\$ 590,319	\$ 19,319	\$ 325,000	\$ 327,000	\$ 335,479	\$ 8,479
Other taxes	3,580,000	3,704,900	3,632,322	(72,578)	-	-	-	-	-	-	-	-
Licenses and permits	292,250	292,250	340,005	47,755	-	-	-	-	-	-	-	-
Fines	88,000	88,000	79,362	(8,638)	-	-	-	-	-	-	-	-
Charges for services	24,000	24,000	94,861	70,861	-	-	-	-	-	-	-	-
Intergovernmental revenue	361,000	361,000	415,961	54,961	412,240	412,240	413,981	1,741	-	-	18,955	18,955
Interest income	600	600	653	53	700	700	2,304	1,604	100	100	622	522
Other	162,500	122,500	332,082	209,582	258,600	258,600	265,962	7,362	10,000	29,000	1,500	(27,500)
TOTAL REVENUES	6,071,350	6,156,250	6,575,936	419,686	1,242,540	1,242,540	1,272,566	30,026	335,100	356,100	356,556	456
EXPENDITURES												
General government	1,320,859	1,354,759	967,662	(387,097)	187,750	187,750	160,865	(26,885)	-	-	-	-
Public safety	3,655,640	3,705,640	3,541,302	(164,338)	377,376	377,376	255,738	(121,638)	222,000	243,000	227,242	(15,758)
Health and sanitation	7,000	-	-	-	-	-	-	-	-	-	-	-
Highways and streets	540,988	540,988	503,338	(37,650)	441,240	441,240	399,242	(41,998)	28,000	28,000	24,131	(3,869)
Culture and recreation	6,500	14,500	13,500	(1,000)	862,552	862,552	793,342	(69,210)	-	-	-	-
Miscellaneous												
Payroll taxes and employee benefits	1,983,991	1,978,175	1,929,138	(49,037)	-	-	-	-	-	-	-	-
Insurance	17,830	21,330	21,325	(5)	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	26,000	26,000	31,754	5,754
TOTAL EXPENDITURES	7,532,808	7,615,392	6,976,265	(639,127)	1,868,918	1,868,918	1,609,187	(259,731)	276,000	297,000	283,127	(13,873)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,461,458)	(1,459,142)	(400,329)	1,058,813	(626,378)	(626,378)	(336,621)	289,757	59,100	59,100	73,429	14,329
OTHER FINANCING SOURCES (USES)												
Transfers in	624,957	624,957	625,260	303	-	-	31	31	-	-	-	-
Transfers out	(264,546)	(266,862)	(266,210)	652	(24,574)	(24,574)	(62,347)	(37,773)	(160,000)	(160,000)	(175,663)	(15,663)
Cash carry over	1,101,047	1,101,047	-	(1,101,047)	650,952	650,952	-	(650,952)	100,900	100,900	-	(100,900)
Sale of capital assets	-	-	-	-	-	-	-	-	-	-	18,755	18,755
TOTAL OTHER FINANCING SOURCES (USES)	1,461,458	1,459,142	359,050	(1,100,092)	626,378	626,378	(62,316)	(688,694)	(59,100)	(59,100)	(156,908)	(97,808)
NET CHANGE IN FUND BALANCES	\$ -	\$ -	(41,279)	\$ (41,279)	\$ -	\$ -	(398,937)	\$ (398,937)	\$ -	\$ -	(83,479)	\$ (83,479)
FUND BALANCES AT BEGINNING OF YEAR			1,830,173				923,684				1,120,770	
FUND BALANCES AT END OF YEAR			\$ 1,788,894				\$ 524,747				\$ 1,037,291	

EAST NORRITON TOWNSHIP
PENSION PLAN FUNDING PROGRESS
Year Ended December 31, 2012

FUNDING STATUS AND PROGRESS

Historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' 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.

Schedule of Funding Progress

Police Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) Actuarial Liability (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) Actuarial Liability as a Percentage of Payroll (c)/(e)
2007	\$ 7,346,375	\$ 8,563,334	\$ 1,216,959	85.8%	\$ 1,958,848	62.1%
2009	7,690,868	9,648,978	1,958,110	79.7%	2,267,943	86.3%
2011	8,059,398	11,109,974	3,050,576	72.5%	2,404,010	126.9%

Non-Uniformed Employee Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) Actuarial Liability (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) Actuarial Liability as a Percentage of Payroll (c)/(e)
2007	\$ 3,932,829	\$ 4,436,737	\$ 503,908	88.6%	\$ 1,375,733	36.6%
2009	4,308,786	5,224,547	915,761	82.5%	1,672,191	54.8%
2011	4,158,958	5,751,179	1,592,221	72.3%	1,740,017	91.5%

EAST NORRITON TOWNSHIP
PENSION PLAN FUNDING PROGRESS
Year Ended December 31, 2012

TREND INFORMATION

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (column d) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (column f) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

EAST NORRITON TOWNSHIP
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended December 31, 2012

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date January 1,</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability (AAL)</u>	<u>(c) Unfunded AAL (UAAL) (b)-(a)</u>	<u>(d) Funded Ratio (a)/(b)</u>	<u>(e) Covered Payroll</u>	<u>(f) UAAL as a Percentage of Covered Payroll (c)/(e)</u>
2008	\$ -	\$ 2,258,834	\$ 2,258,834	0.0%	\$ 2,151,919	104.97%
2011	-	1,069,358	1,069,358	0.0%	2,404,010	44.48%

SCHEDULE OF EMPLOYER AND OTHER ENTITY CONTRIBUTIONS

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Contributions</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 265,588	\$ -	0%	\$ (341,105)
2011	262,378	-	0%	(78,727)
2012	98,861	-	0%	20,134