



**MONTGOMERY TOWNSHIP
BOARD OF SUPERVISORS**

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TOWNSHIP MANAGER

June 14, 2012

To the Board of Supervisors and Citizens of Montgomery Township:

We are pleased to present to you the Comprehensive Annual Financial Report of Montgomery Township for the fiscal year ended December 31, 2011. The financial statements contained within the report are presented in accordance with generally accepted accounting principles by a firm of licensed certified public accountants.

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

Maillie, Falconiero & Company, LLP, a firm of licensed certified public accountants, audits the Township's financial statements and has issued an unqualified ("clean") opinion on Montgomery Township's financial statements for the year ended December 31, 2011. The independent auditors' report is located at the front of the Financial Section of this report.

The purpose of this report is to provide readers with useful information concerning the Township's financial position and operations. Generally Accepted Accounting Principles (GAAP) 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 the MD&A and should be read in conjunction with it. Montgomery Township's MD&A can be found immediately following the report of the independent auditors.

Profile of the Township

Montgomery Township is a 10.82-square-mile, rectangular-shaped community located in the North Penn area of eastern Montgomery County. The Township is located in Montgomery County, approximately 13 miles from the City of Philadelphia. Montgomery Township is a diverse and dynamic suburban cosmopolitan area, with an excellent mix of housing and expanding opportunities for employment making it one of the most desirable communities in the region in which to live and work.

Incorporated in 1714, the Township was originally a rural-residential community but experienced rapid residential growth in the past 30 years quadrupling its population from 5,718 in 1980 to 24,790 in 2011. While primarily an affluent residential suburb of Philadelphia, the Township is a center for retail sales and has several major retail centers including the Montgomery Mall, a 1.1 million square foot super regional shopping center. The Bethlehem Pike Industrial Center and Montgomeryville Industrial Center are located in the Township, as is the Hartman Corporate Center. Despite a strong business presence, Montgomery retains its suburban character with a wide range of well established residential neighborhoods.

The Township is governed by a five-member elected Board of Supervisors that serves as the Township's legislative and policymaking body. The board members are elected at large to staggered six-year terms. The Board of Supervisors is assisted by a full-time appointed Township Manager, who is responsible for the day to day operations of the Township. The Township provides a full range of municipal services. The public safety programs include police, fire protection, building inspection, planning, zoning, emergency management and code enforcement. Public works programs include street maintenance and repair, street lighting, snow removal, traffic signalization, street markings, storm sewer and storm water basin maintenance, and maintenance of building and parks facilities. The Township owns and maintains numerous community and neighborhood parks and nature areas, and holds an annual autumn festival and free concert in the park series.

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

- Montgomery Township Municipal Sewer Authority - Established in 1986 to finance the Township's sewage collection and treatment facilities. A five-member board appointed by the Township's Board of Supervisors governs this Utility Authority.
- Volunteer Fire Department of Montgomery Township which serves in combination with the Department of Fire Services to provide 24/7 fire protection services to the Township.

Major Initiatives

Following are some of the major initiatives undertaken by the Township during 2011:

- Land Acquisition - In 2006, the Board of Supervisors adopted an Open Space Plan which identified parcels of land targeted by the Township for open space and for park and recreation purposes. In late 2010 and through to mid-2012, the Board of Supervisors has made the acquisition of these parcels a priority. During that period, over 65 acres of land were acquired by the Township. Specifically, in 2011, the Township entered into agreements of sale to purchase two parcels containing a total of 18+/- acres. It is the intention of the Board to utilize a 12 +/- parcel to build a multi-use Community/Recreation Center for the residents of the Township with the remaining parcel to be used to provide a trail linkage between the Township parks and the new eight mile long Rt. 202 Parkway multi-use trail. The remaining 50+/- acres acquired in late 2010 are expected to be used to expand the Township's flagship William F. Maule Park at Windlestrae.
- The Park System - In 2011, the Township completed major renovations to Whistlestop Park. The renovations included rebuilding fields (one baseball, one softball), increasing the elevation of the outfield, adding drainage and installing a rain garden.

- Technology - The Township began distributing information to the Board of Supervisors via electronic format in 2011. It is anticipated that this will reduce the amount of paper used by 62 reams per year or approximately 31,000 sheets of paper. Additionally, the Township added "Twitter" to the list of mediums, including cable news, email and the local newspaper, that staff and the Board use to communicate with the residents of the Township.

Local Economy

The Township has a thriving business community with employment estimated at over 20,000, based on the Township's Occupation Privilege Tax records, making the Township essentially a net importer of jobs. The economic growth in the Township has been driven in large part by business development and strong retail sales. The strength of the local economy can be judged by looking at trends in employment and business tax receipts.

While a downturn in the economy is expected to significantly impact areas of high retail, the diversity of the Township's major employers and the variety of the Township's revenue streams allowed the Township to continue to rank below the state and national averages for unemployment even during the difficult times of 2008 through 2010. Montgomery Township continues to rank as the 8th largest employment center in Montgomery County. As seen in the statistical section of this report, the major employers include a pharmaceutical company, an employment agency and a manufacturing company as well as retail stores and restaurants. In addition to the strong and diverse employment foundation in the Township, the fiscally conservative and forward thinking approach of the Board of Supervisors has given the Township a strong financial base to sustain itself through difficult times and start to prosper as the region's economy begins to rebound.

Cable Franchise Fee revenues have become a significant component of the License and Permit revenues for the Township as well. In 2006, the Township entered into a Franchise Agreement with Verizon, in addition to the Franchise Agreement already in place with Comcast. This agreement had a positive impact on the residents and businesses of the Township by creating increased competition in the marketplace and providing a larger scope of resources for the television, phone and technology needs of the community. The agreement had a positive impact on the Township by providing an additional 39% in Franchise Fee revenues over the past five years.

In 2011, the Township saw a significant increase in Building Permit revenues. This increase is a result of several factors. In 2010, the Township issued a new fee schedule based upon the BVD fee method of the International Code Council (ICC) to ensure a more fairly apportioned fee structure between residential and commercial projects. This resulted in increased permit revenues for both 2010 and 2011. Next, the Township saw a significant increase in permit revenues based upon residential home improvements. It should be noted that a majority of the residential developments in the Township are between 20 and 25 years old. The Department of Planning and Zoning attributes the age of the homes as a significant factor in the increase in permit revenues for home improvements. Lastly, as the economy began to rebound in 2011 several building projects came to fruition including a 95 townhome development in the Township.

The ability of the leadership of the Township to continue to be financially conservative and forward thinking created strength for the Township during the past few years of difficult economic times. While the Township has seen a rebound in its economy, the State and National indices have not shown the same strength therefore creating a need for caution, reservation and a conservative approach to managing a municipal budget. While many of the Township's revenues are dependent upon a strong business community and real estate market, the revenue sources are diversified and proportionate with no one revenue source bearing the lion's share of the budget. This diversification was a lead factor in maintaining a balanced budget and allowing the Board of Supervisors to continue the ten year trend of no increase in the real estate millage rate in spite of the changes in the economy over that same period of time.

Long-Term Financial Planning

The Board of Supervisors and Township staff are committed to providing value to the taxpayers by maintaining quality service levels and offering new benefits whenever the opportunity presents itself and the Township's fiscal position permits. To accomplish this, the Township regularly evaluates its revenue generating strategy. The Township has also developed and maintains multi-year financing plans for replacement of capital assets and infrastructure improvements. These include a 10 Year Equipment Replacement Plan and a 14 Year Road and Curb/Sidewalk Replacement Plan. Both of these programs provide for establishment of reserves funded by annual allocations so as to ensure that funding is available in the Township's annual budgets to replace needed capital equipment, resurface deteriorated roadway surfaces, or replace damaged curbs and sidewalks.

Also, as a part of sound fiscal planning, the Township has adopted the Government Finance Officers Association's recommendation of maintaining an unreserved fund balance in the General Fund of no less than five to fifteen percent of General Fund operating revenues. The Township currently maintains a 25% unreserved fund balance in the General Fund.

Internal Controls

The management of the Township is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Township are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled and maintained to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that the Township's objectives are met. The concept of reasonable assurance recognizes that:

1. the cost of a control should not exceed its benefit, and
2. the evaluation of cost and benefits requires estimates and judgments by management.

All internal accounting control evaluations occur within the above framework. We believe that the Township's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of transactions and maintenance of asset accountability.

In addition to the above controls, the Township maintains budgetary accounting controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual budget approved by the Board of Supervisors. Activities of all Township funds, with the exception of the pension trust funds, are included in the annual appropriation budget. The annual budget process officially begins in August of each year with the goal setting conference between staff and the Township Manager. Throughout the course of September and October requests for funding are submitted and reviewed, in public workshop meetings with the Board of Supervisors, culminating with a public hearing and vote for adoption by the governing body in December. The Township's fiscal year begins on January 1st and ends on December 31st. All annual appropriations lapse at year-end.

Although the Township maintains the legal level of control established by law for its operating budget, the Board of Supervisors has also established an internal budgetary control system at the departmental level. Each department is required to operate within the annual departmental budget established by the Board of Supervisors.

The level of budgetary control (i.e., the level at which expenditures cannot exceed the appropriated amount) is maintained by department. Changes to the budget by transfer or supplemental appropriation can only be made after April 1st of the budget year in accordance with the Pennsylvania Second Class Township Code. The Board of Supervisors may increase the amount of any object in the budget through supplemental appropriation contingent upon available revenues. To aid departments in maintaining budgetary control, the Township maintains a purchase order and encumbrance accounting system.

As demonstrated by the statements and schedules included in the financial section of this report, the Township continues to meet its responsibility for sound financial management.

Awards and Acknowledgements

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Montgomery Township for its comprehensive annual financial report for the fiscal year ended December 31, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Preparation of this report would have been impossible without the hard work of the Finance Department Staff, not just in the compilation of information at year-end, but in maintaining the Township's financial records and fiscal control system throughout the year.

We greatly appreciate the ongoing support and guidance we receive from the Board of Supervisors.


Lawrence J. Grogan
Township Manager


Shannon Q. Drosnock
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery Township
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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



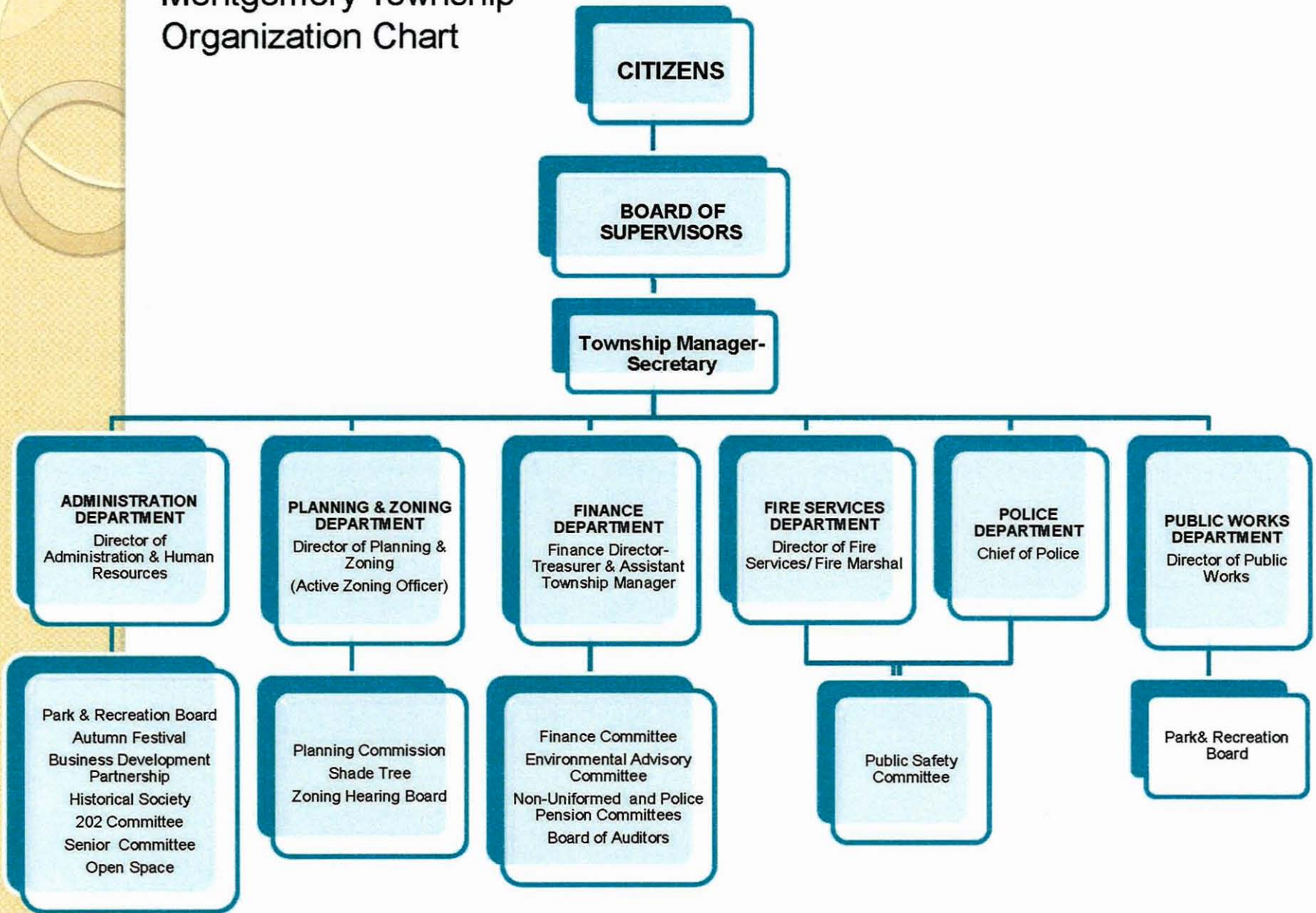
Linda C. Danison

President

Jeffrey R. Emer

Executive Director

Montgomery Township Organization Chart



PRINCIPAL OFFICIALS
AS OF DECEMBER 31, 2011
MONTGOMERY TOWNSHIP, PENNSYLVANIA

BOARD OF SUPERVISORS

Robert J. Birch, Chairman
Candyce Fluehr Chimera, Vice Chairman
Michael J. Fox
Jeffrey W. McDonnell
Joseph P. Walsh

APPOINTED OFFICIALS


Lawrence J. Gregan, Township Manager
Frank R. Bartle, Esq., Township Solicitor
John O. Chambers, P.E. Chambers Associates Inc., Township Engineer

OTHER MANAGEMENT OFFICIALS

J. Scott Bendig, Deputy Chief of Police
Richard Brady, Chief of Police
Kevin Costello, Director of Public Works
Shannon Drosnock, Finance Director
Mark Houghtaling, Police Lieutenant
Richard Lesniak, Director of Fire Services
Ann M. Shade, Director of Administration & Human Resources
Bruce Shoupe, Director, Planning and Code Enforcement

OTHERS





Conrad Siegel Actuaries, Pension Plan Actuary
Boucher & James, Inc., Landscape Engineer
Hughes, Kalkbrenner & Ozorowski, LLP, Zoning Hearing Board Solicitor
Morgan Stanley Smith Barney, Pension Plan Investment Advisor
Eckert Seamans Cherin & Mellott, LLC, Labor Law Attorneys
Traffic Planning & Design, Inc., Traffic Engineers
Univest National Bank, Banking Depository

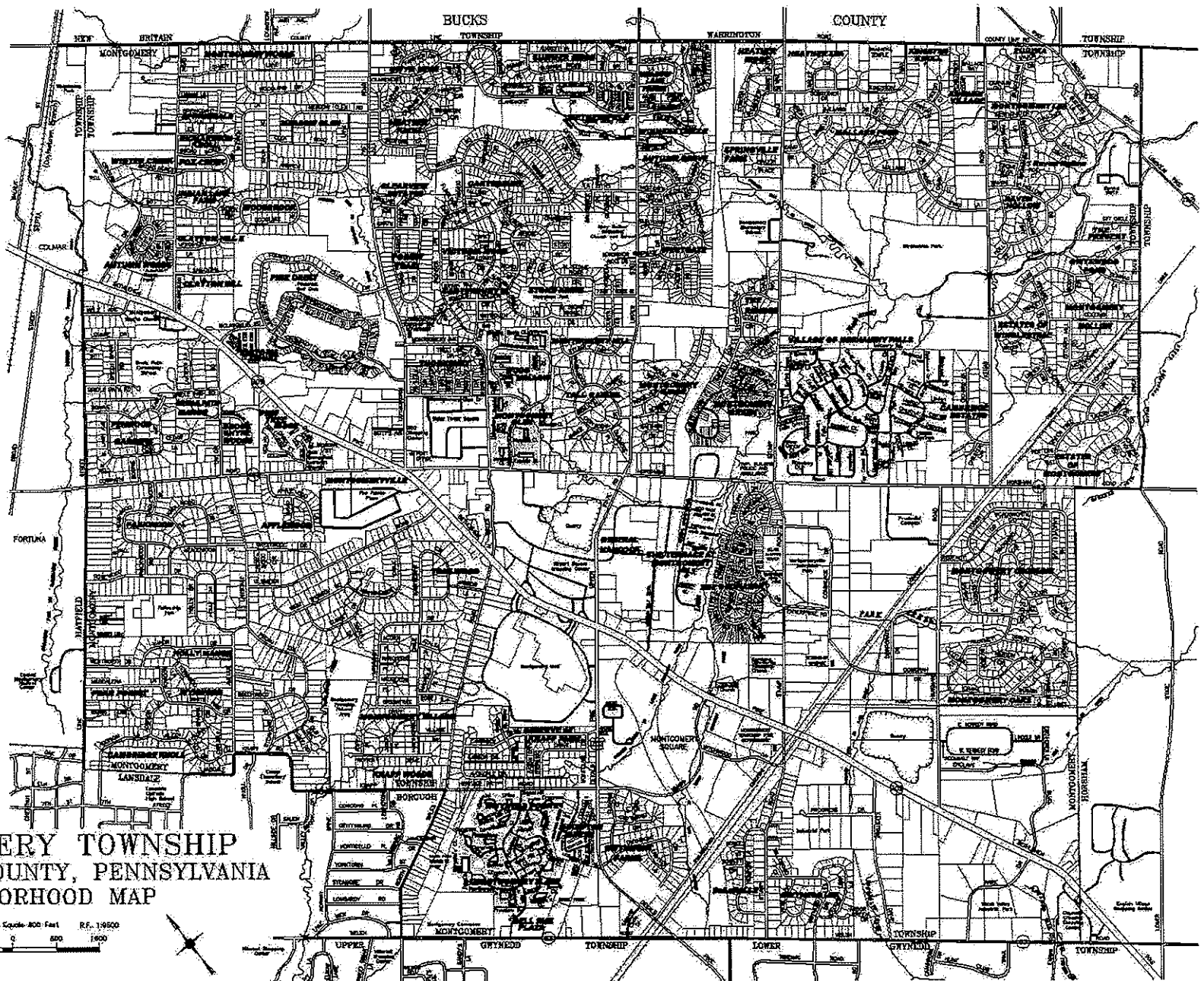

 Surveying Association of Montgomery County
 1000 North 10th Street
 P.O. Box 1000
 Leesport, PA 19533

This map is based on 2002 aerial photography, boundary data, and other information provided by the Montgomery County Planning Commission. The Planning Commission is not responsible for any errors or omissions on this map. The user of this map is advised to verify the accuracy of the information shown on this map.

MAP REVISIONS

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-  PUBLIC ROAD
-  PRIVATE ROAD
-  U.S. ROUTE
-  PENNSYLVANIA ROUTE



MONTGOMERY TOWNSHIP
MONTGOMERY COUNTY, PENNSYLVANIA
NEIGHBORHOOD MAP

THIS MAP PREPARED BY THE
 MONTGOMERY COUNTY PLANNING COMMISSION
 COURT HOUSE, KENNESBETH, PA.
 PROPERTY LINES AS OF NOVEMBER, 2002

One Inch Equals 400 Feet R.F. 1:4000
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 1900

