

# **MONTGOMERY TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*Year Ended December 31, 2011*

As management of Montgomery Township, Pennsylvania (the Township), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2011.

As with other sections of this financial report, the information contained within this Management Discussion & Analysis (MD&A) should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes to the financial statements and the other required supplementary information that is provided in addition to this MD&A.

### **FINANCIAL HIGHLIGHTS**

- The Assets of the Township's Governmental Activities as reported for compliance with GASB 34, exceeded Liabilities at year end 2011 by \$126,770,999 (net assets), an increase of \$948,041 as compared to 2010.
- The Township's Capitalized Assets increased by \$814,798 due primarily to the acquisition of land including a 2.79 acre donated parcel and 5 +/- acres purchased by the Township in December 2011. Additionally, major renovations to Whistlestop Park were completed increasing the infrastructure of the Township.
- The Township's Governmental Funds (Fund Financial Statements) reported combined ending balances for all funds of \$18,618,109, a decrease of \$52,012 from 2010. In accordance with GASB 54, the General Fund ending balance of \$2,789,761 is unassigned and available for use according to the Township's fiscal policies. This balance represents 24.4% of total budgeted General Fund expenses for 2012. The remainder of the combined ending balances has been classified in accordance with the GASB 54 designations.
- The Township's Governmental Activities debt decreased by \$184,286 during 2011. The reduction was due to scheduled debt service payments on outstanding debt issues.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial view of the Township. The components of the report include the Independent Auditors' Report, Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements and Notes to the Basic Financial Statements. This report also contains other Required and Supplementary Information in addition to the basic Financial Statements.

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

# MONTGOMERY TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

The basic financial statements include the Government-Wide Financial Statements (Statement of Net Assets and Statement of Activities), Fund Financial Statements, Notes to the Basic Financial Statements and other Supplementary Information.

Note A in the Audit provides an overview of significant accounting policies including an explanation of the reporting entities, Fund Accounting and the Basis of Presentation and Accounting. This Note should be read in conjunction with this MD&A and the Financial Statements to assist the reader in understanding the audit report.

### REPORTING THE TOWNSHIP AS A WHOLE

#### Statement of Net Assets and Statement of Activities

Our analysis of the Township as a whole begins with the statement of net assets. In these statements, we divide the Township into two kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including public safety, public works, parks and recreation and administration. Real estate tax, earned income tax, business taxes, fees and grants finance most of these activities.
- **Component Units** - The Township includes two separate legal entities in this report: The Montgomery Township Sewer Authority and the Fire Department of Montgomery Township, Inc. Although legally separate, these component units are important because the Township is financially responsible for them. Additional financial information regarding the Township's component units can be found in the Statement of Net Assets and statement of activities of this report. Separately audited annual financial reports of these component units may be obtained from the Township's Finance Director.

Over time, changes in the Township's net assets serve as a useful indicator of a government's financial position. In the case of the Township, net assets of the Primary Governmental Activities increased slightly in 2011.

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The following table focuses on the net assets of the current fiscal year as compared to the prior fiscal year (Table 1).

	Governmental Activities		Component Units		Totals	
	2010	2011	2010	2011	2010	2011
<b>ASSETS</b>						
Cash and equivalents (1)	\$ 18,435,982	\$ 5,843,740	\$ 9,705,046	\$ 6,720,118	\$ 28,141,028	\$ 12,563,858
Other assets	1,773,750	14,488,308	897,769	3,608,332	2,671,519	18,096,640
Capital assets	<u>108,390,349</u>	<u>109,205,147</u>	<u>35,933,607</u>	<u>35,957,198</u>	<u>144,323,956</u>	<u>145,162,345</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>128,600,081</u></b>	<b>\$ <u>129,537,195</u></b>	<b>\$ <u>46,536,422</u></b>	<b>\$ <u>46,285,648</u></b>	<b>\$ <u>175,136,503</u></b>	<b>\$ <u>175,822,843</u></b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>LIABILITIES</b>						
Other liabilities	\$ 811,291	\$ 984,650	\$ 714,577	\$ 1,756,047	\$ 1,525,868	\$ 2,740,697
Long-term debt outstanding	<u>1,965,832</u>	<u>1,781,546</u>	<u>6,314,269</u>	<u>5,566,133</u>	<u>8,280,101</u>	<u>7,347,679</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,777,123</u></b>	<b><u>2,766,196</u></b>	<b><u>7,028,846</u></b>	<b><u>7,322,180</u></b>	<b><u>9,805,969</u></b>	<b><u>10,088,376</u></b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	106,979,859	108,143,857	29,619,357	29,884,437	136,599,216	138,028,294
Restricted (2)	-	2,573,872	-	-	-	2,573,872
Unrestricted	<u>18,843,099</u>	<u>16,053,270</u>	<u>9,888,219</u>	<u>9,079,031</u>	<u>28,731,318</u>	<u>25,132,301</u>
<b>TOTAL NET ASSETS</b>	<b><u>125,822,958</u></b>	<b><u>126,770,999</u></b>	<b><u>39,507,576</u></b>	<b><u>38,963,468</u></b>	<b><u>165,330,534</u></b>	<b><u>165,734,467</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>128,600,081</u></b>	<b>\$ <u>129,537,195</u></b>	<b>\$ <u>46,536,422</u></b>	<b>\$ <u>46,285,648</u></b>	<b>\$ <u>175,136,503</u></b>	<b>\$ <u>175,822,843</u></b>
<b>NOTES</b>						
1. In 2011, the Township invested \$13M in one-year certificates of deposit and assigned those funds to "other assets."						
2. In 2011, the Township applied GASB Statement No. 54 and began designating specific assets as "restricted."						

Cash and investments represent 4.5% of Montgomery Township's *total Governmental assets*. Of this amount, \$12,650,000 is classified as committed by the Montgomery Township Board of Supervisors in accordance with GASB 54 designations.

The largest portion of the Township's assets, 84.3% reflects the Township's investment in capital assets (e.g., land, buildings, streets, equipment) less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**MONTGOMERY TOWNSHIP**  
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*Year Ended December 31, 2011*

Table 2 is a condensed statement of activities for all Governmental Activities for the current fiscal year as compared to the prior fiscal year and shows changes in net assets from the prior fiscal year to the current fiscal year for the Township's Governmental Activities and Component Units. In 2011, total revenues exceeded total expenses by 2.9% for all Governmental Activities resulting in the increase in net assets over the prior year. This increase in net assets from 2010 to 2011 was primarily due to the increase in capital assets, specifically land, acquired by the Township in 2011. The Township received a donation of 2.79 +/- acres and purchased a parcel of 5.01 +/- acres to add to the open space and recreation system in the Township.

**Table 2**  
**Changes in Net Assets**  
**Years Ended December 31, 2010 and 2011**

	2010			2011		
	Governmental Activities	Component Units	Totals	Governmental Activities	Component Units	Totals
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 1,076,812	\$ 5,575,937	\$ 6,652,749	\$ 1,225,331	\$ 5,297,271	\$ 6,522,602
Operating grants and contributions	949,586	115,441	1,065,027	1,512,844	96,853	1,609,697
Capital grants and contributions	-	923,525	923,525	-	82,824	82,824
General revenues						
Taxes	10,485,766	-	10,485,766	11,486,880	-	11,486,880
Cable TV franchise fees	439,003	-	439,003	483,769	-	483,769
Investment income	120,328	16,122	136,450	83,569	8,706	92,275
Proceeds from sale of fixed assets	553,321	-	553,321	18,611	-	18,611
<b>TOTAL REVENUES</b>	<b>13,624,816</b>	<b>6,631,025</b>	<b>20,255,841</b>	<b>14,811,004</b>	<b>5,485,654</b>	<b>20,296,658</b>
<b>EXPENSES</b>						
Operating						
General government	2,144,259	-	2,144,259	2,020,878	-	2,020,878
Public safety	7,168,920	-	7,168,920	7,337,227	-	7,337,227
Highways and streets	2,938,385	-	2,938,385	3,051,214	-	3,051,214
Parks and recreation	568,400	-	568,400	593,554	-	593,554
Sewer Authority	-	5,935,049	5,935,049	-	5,975,087	5,975,087
Fire Department	-	112,842	112,842	-	54,675	54,675
Interest on long-term debt	49,866	-	49,866	35,704	-	35,704
Depreciation, unallocated	776,908	-	776,908	824,386	-	824,386
<b>TOTAL EXPENSES</b>	<b>13,646,738</b>	<b>6,047,891</b>	<b>19,694,629</b>	<b>13,862,963</b>	<b>6,029,762</b>	<b>19,892,725</b>
<b>CHANGE IN NET ASSETS</b>	<b>(21,922)</b>	<b>583,134</b>	<b>561,212</b>	<b>948,041</b>	<b>(544,108)</b>	<b>403,933</b>
<b>NET ASSETS, BEGINNING</b>	<b>125,844,880</b>	<b>38,924,442</b>	<b>164,769,322</b>	<b>125,822,958</b>	<b>39,507,576</b>	<b>165,330,534</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 125,822,958</b>	<b>\$ 39,507,576</b>	<b>\$ 165,330,534</b>	<b>\$ 126,770,999</b>	<b>\$ 38,963,468</b>	<b>\$ 165,734,467</b>

# MONTGOMERY TOWNSHIP

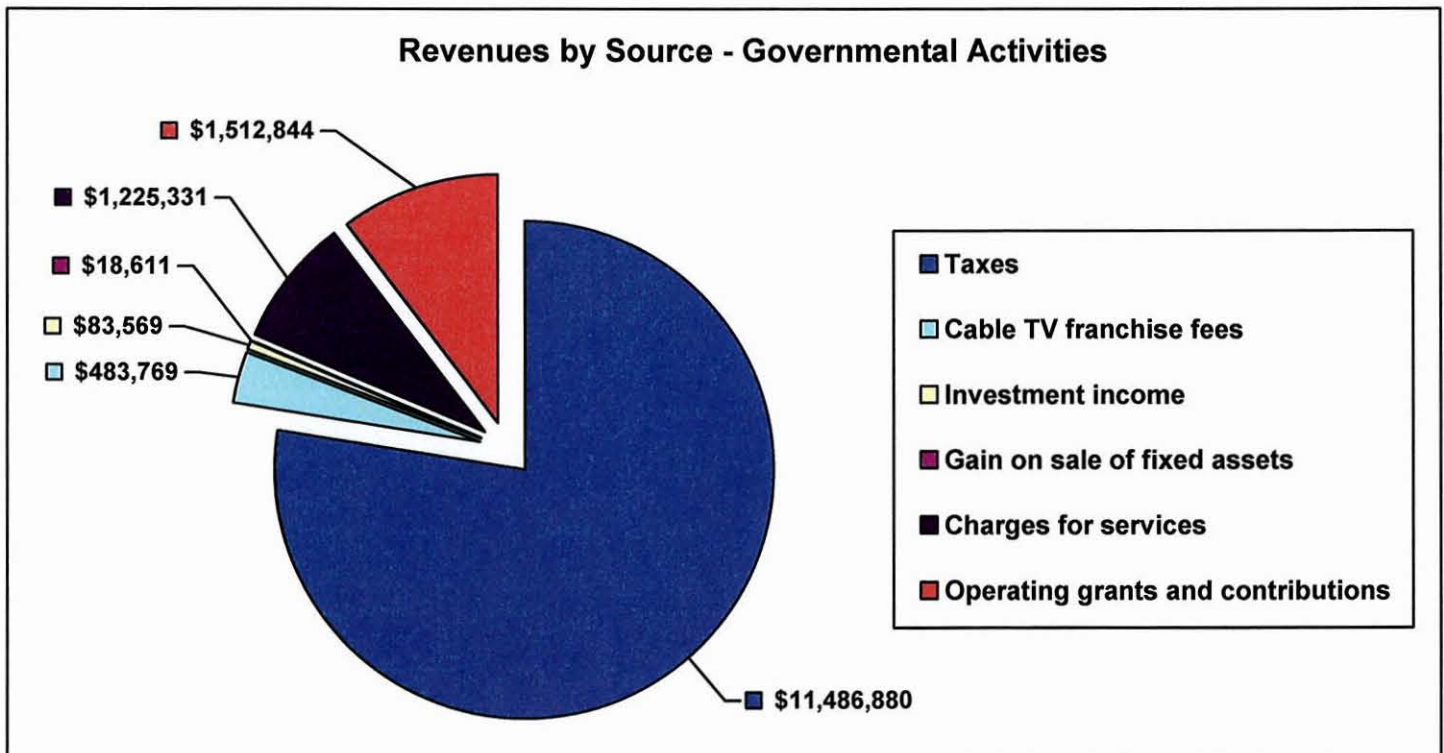
## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

### Governmental Activities

The Township generates revenues from a variety of sources. Total revenues for Governmental Activities for fiscal 2011 were \$14,811,004 compared to \$13,624,816 in 2010, an increase of 8.7%. The Township realized an increase in every major source of revenue including: Charges for Services, Operating Grants and Contributions, Taxes and Cable TV Franchise Fees. This is a solid indication that the economic downward trend of 2008 has begun to stabilize and possibly rebound within the Township. Investment income is still continuing to decline based upon the national interest rate environment. Additionally, the Township realized a significant decrease in the Proceeds from Sale of Fixed Assets solely related to the completion of PennDOT's purchase of Township land for the Route 202 Parkway project in 2010. Revenues by source were as follows:

Revenue	2010		2011	
	Amount	% of Total	Amount	% of Total
Taxes	\$ 10,485,766	76.97%	\$ 11,486,880	77.56%
Cable TV franchise fees	439,003	3.22%	483,769	3.27%
Investment income	120,328	0.88%	83,569	0.56%
Gain on sale of fixed assets	553,321	4.06%	18,611	0.13%
Charges for services	1,076,812	7.90%	1,225,331	8.27%
Operating grants and contributions	949,586	6.97%	1,512,844	10.21%
	<u>\$ 13,624,816</u>	<u>100.00%</u>	<u>\$ 14,811,004</u>	<u>100.00%</u>





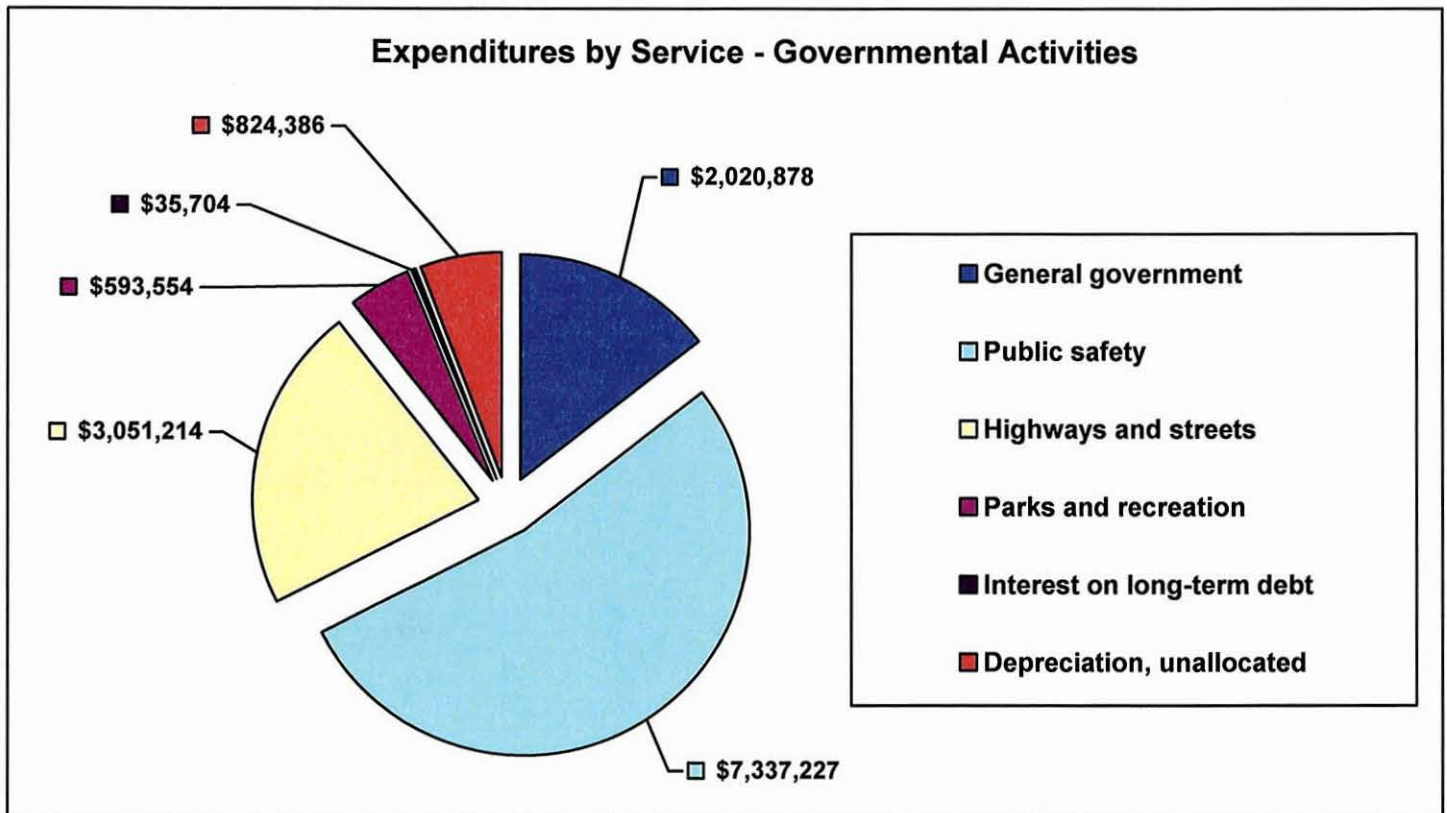
# MONTGOMERY TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

The Township's Governmental Activities expenses consist of operating departments, including: Police, Fire, Public Works, Planning, Parks and Recreation, Finance and Administration. Total expenses for governmental activities for fiscal year 2011 were \$13,862,963 compared to \$13,646,738 in expenses in 2010, an increase of 1.5%. This increase is primarily attributable to moderate cost of living increases in personnel and non-personnel related expenses and is shown in the Statement of Activities section for Table 2 below.

Expenditures	2010		2011	
	Amount	% of Total	Amount	% of Total
General government	\$ 2,144,259	15.71%	\$ 2,020,878	14.58%
Public safety	7,168,920	52.53%	7,337,227	52.93%
Highways and streets	2,938,385	21.53%	3,051,214	22.01%
Parks and recreation	568,400	4.17%	593,554	4.28%
Interest on long-term debt	49,866	0.37%	35,704	0.26%
Depreciation, unallocated	776,908	5.69%	824,386	5.95%
	<u>\$ 13,646,738</u>	<u>100.00%</u>	<u>\$ 13,862,963</u>	<u>100.00%</u>



# **MONTGOMERY TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*Year Ended December 31, 2011*

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The Township's approved General Fund Budget for 2011 included total revenues of \$11.25M, including transfers in of approximately \$450K and total expenses of \$11.18M. These budgeted amounts include budget amendments made throughout the fiscal year in accordance with the Second Class Township Code.

The 2011 General Fund budget, including transfers, was balanced with a projected surplus of \$70K. However, actual revenues, in particular Transfer Tax receipts, Earned Income Tax receipts, Mercantile Tax receipts and a one-time increase in State Pension Aid, exceeded budget estimates by 7.8% (\$878K) which, in combination with actual expenses below budget by 4.6% (\$504K), resulted in the surplus increasing to \$1,382,921. At year-end, the Board of Supervisors elected to transfer \$1,200,000 of this surplus to the Capital Fund for future designated capital projects. This resulted in an ending General Fund balance of \$2,792,961 and allowed the Township to continue to adhere to the Board's policy of retaining a minimum General Fund balance of 15-20% of General Fund expenses.

Overall, revenue performance of the General Fund in 2011 was positive when compared to budget. Actual revenues, excluding transfers in, were \$11.7 million for 2011. While Charges for Services and Interest Income were slightly below budget, all other revenue categories exceeded budget. Taxes exceeded budget by \$464K, License and Permits exceeded budget by \$141K, Fines and Forfeits exceeded budget by \$53K and a one-time increase in State Pension Aid led to Intergovernmental Revenues exceeding budget by \$257K. Each of these revenue categories contributed to the \$905K surplus (excluding transfers in) in General Fund revenues. This surplus was then reduced slightly (\$27K) by Other Financing Sources reporting below budget to create the 7.8% budgetary surplus as described above. The decrease in Other Financing Sources was related to two factors: there were no Proceeds from Sale of Fixed Assets in 2011 and the interfund revenue was less than budget based on actual need.

Actual expenses, excluding interfund transfers were \$10.6M for 2011. While expenses were slightly above the 2010 actual expenses, they were \$528K less than the 2011 budgeted expenses. This savings was achieved by practicing strict cost containment measures across all departments. The two primary departments contributing to the savings were General Government Expenses, which were below budget by \$216K, and Public Safety Expenses, which were below budget by \$169K. The detail of this can be seen in the Schedule of Functional Expenditures by Activity and Other Financing Uses in this report.

While the economic downturn that began in 2008 is still affecting some Township revenues, as seen in the Transfer Tax receipts when compared to 2008 and prior receipts, the effect on other sources of revenues are beginning to stabilize and increase as seen in Earned Income Tax and Permits and Licenses. Overall, the Township outperformed the budgeted surplus of \$70K, ending the year with a surplus of 251K. As a result, the Board of Supervisors was able to adopt a 2012 Budget with no increase in the Township's Real Estate Tax millage and continue adhering to the Board's minimum fund balance policy of 15-20% of General Fund expenditures.

### **CAPITAL ASSETS**

Montgomery Township's investment in capital assets for its Governmental Activities as of December 31, 2011, totaled \$109,205,147 (net of accumulated depreciation), an increase of \$814,798 from 2010. This increase was the result of new Capital Assets acquired in 2011 including two parcels of land totaling approximately 7.8 acres.

**MONTGOMERY TOWNSHIP**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

The Township's investment in capital assets includes land, buildings and improvements, equipment, vehicles, land improvements and infrastructure (see Table 3 below). Infrastructure includes roads, curbs and sidewalks, bridges, storm sewer lines, street lights and traffic signals. Property, plant and equipment and certain infrastructure assets are depreciated using the straight-line method.

The Township has adopted an alternative process for recording depreciation on certain infrastructure assets. Under this alternative method, referred to as the modified approach, the Township expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 72.52 lane miles of local roads, 765,956 linear feet of curbs and 3,042,651 square feet of sidewalks.

In order to utilize the modified approach, the Township is required to perform condition assessments of eligible assets and summarize the results using a measurement scale, estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Township, and document that the assets are being preserved approximately at or above the established condition level. Additional information on the Township's capital assets can be found in Notes A and C to the financial statements.

**Table 3**  
**Capital Assets at Year-End (Net of Depreciation)**  
**December 31, 2010 and 2011**

	2010			2011		
	Governmental Activities	Component Units	Totals	Governmental Activities	Component Units	Totals
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>						
Land	\$ 2,132,829	\$ 673,095	\$ 2,805,924	\$ 2,882,312	\$ -	\$ 2,882,312
Infrastructure	95,385,006	-	95,385,006	95,523,493	-	95,523,493
Construction in progress	-	1,464,422	1,464,422	-	-	-
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>97,517,835</b>	<b>2,137,517</b>	<b>99,655,352</b>	<b>98,405,805</b>	<b>-</b>	<b>98,405,805</b>
<b>CAPITAL ASSETS BEING DEPRECIATED</b>						
Buildings and improvements	10,521,613	-	10,521,613	10,521,613	-	10,521,613
Land improvements	103,720	-	103,720	103,720	-	103,720
Infrastructure	2,553,410	-	2,553,410	2,868,564	-	2,868,564
Machinery and equipment	5,647,137	-	5,647,137	5,888,165	-	5,888,165
Property, plant and equipment	-	52,724,208	52,724,208	-	-	-
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>18,825,880</b>	<b>52,724,208</b>	<b>71,550,088</b>	<b>19,382,062</b>	<b>-</b>	<b>19,382,062</b>
Accumulated depreciation	(7,953,366)	(18,928,118)	(26,881,484)	(8,582,720)	-	(8,582,720)
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>10,872,514</b>	<b>33,796,090</b>	<b>44,668,604</b>	<b>10,799,342</b>	<b>-</b>	<b>10,799,342</b>
<b>TOTAL CAPITAL ASSETS, net</b>	<b>\$ 108,390,349</b>	<b>\$ 35,933,607</b>	<b>\$ 144,323,956</b>	<b>\$ 109,205,147</b>	<b>\$ -</b>	<b>\$ 109,205,147</b>



# MONTGOMERY TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

### FINANCIAL ANALYSIS OF THE TOWNSHIP'S OTHER GOVERNMENTAL FUNDS

The focus of the Township's Governmental Funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Township's financial requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of year 2011.

As of the close of the 2011 fiscal year, the Township reported combined ending balances for all Governmental Funds of \$18,618,109, a decrease of \$52,012 from 2010 resulting primarily from the purchase of land. Of this amount, \$11,800,878 or 63.4% is committed by the Board of Supervisors for use in the Capital Reserve Fund for uses such as Stormwater/NPDES projects, road paving, acquisition of open space and traffic improvements. Approximately 15%, or \$2.79M, is unassigned in the General Fund and available for use in accordance with the Township's fiscal policies. Along with the General Fund, the Township's Governmental Funds title includes a variety of funds with annual activity. The following is a summary of that activity, including individual fund balances, for each of these additional funds.

**Fire Fund - 04.** Expenses for the Department of Fire Services for 2011 were \$793K and Revenues for 2011 were \$865K. The fund posted a surplus of \$72K for the year and ended the year with a positive fund balance of \$213K.

**Park and Recreation Fund - 05.** Expenses for the Park and Recreation Fund for 2011 were \$655K and Revenues were \$754K. The fund posted a surplus of \$99K for the year and ended the year with a positive fund balance of \$577K.

**Basin Maintenance Fund - 06.** Expenses for the Basin Maintenance Fund for 2011 were \$49K and Revenues were \$1.1K. The fund posted a loss of \$48K for the year but ended the year with a positive fund balance of \$261K.

The current Township policy is that any new detention basins will remain the responsibility of the contractor or a Home Owner's Association. Therefore, the only revenue to this fund will be interest and the fund balance will continue to be drawn down for maintenance of existing Township basins.

**Street Light Fund - 07.** Expenses for the Street Light Fund for 2011 were \$148K and Revenues were \$133K. The fund posted a deficit of \$15K for the year and ended the year with a positive fund balance of \$610K. There were no new street light facilities added in 2011.

**Capital Projects Fund - 19.** Expenses for the Capital Projects Fund for 2011 were \$288K for the Whistle Stop Park renovation project. Revenues to this fund are interfund transfers from the Park Reservation Fund which totaled \$288K for the year.

**Debt Service Fund - 23.** Expenses for the Debt Service Fund for 2011 were \$378K and Revenues were \$497K. The fund posted a surplus of \$119K for the year and ended the year with a positive fund balance of \$705K. At year end 2011, the Township's outstanding debt is \$1.06M.

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**Capital Reserve Fund - 30.** Expenses for the Capital Reserve Fund for 2011 were \$1.26M for budgeted capital construction projects and capital equipment purchases plus the interfund transfers of \$601K to various operating funds to reimburse those funds for capital replacement expenses from the 10 Year Equipment Replacement Reserve Fund. Revenues for this fund were \$1.718M primarily reflecting the value of the donated parcel of land and an end of year transfer of the General Fund surplus of \$1.2M. The fund balance in this fund is comprised of designated and undesignated funds totaling \$11.8M. The major expenses from the fund were for the annual curb/sidewalk replacement program and the acquisition of Park and Recreation/Open Space land. The road work is funded from the 14 Year Road Plan Reserve set aside annually for replacement and repair of the Township's road, curb and sidewalk infrastructure.

**Park Development Fund - 31.** Expenses for the Park Development Fund for 2011 were \$153K as an interfund transfer to the Capital Projects Fund (19) for the Whistlestop Park renovation project. Revenues to this fund were \$138K from developer contributions during 2011. The fund posted a deficit of \$15K for the year and ended the year with a positive fund balance of \$171K.

**Liquid Fuels Fund - 35.** Expenses from the Liquid Fuels Fund for 2011 were \$851K and Revenues for 2011 were \$442K. The fund posted a deficit of \$409K for the year reducing the fund balance to \$152K. The fund balance increased in 2009 with State Liquid Fuels funds when no Township roads were repaved. In 2010, the Township resumed repaving and maintenance of the roads in accordance with the 14-Year Road Program and budgeted a reduction in the Liquid Fuels Fund balance for 2010 and 2011.

Liquid fuel revenues are a portion of the State's Fuel Tax paid on liquid fuels when purchased retail at the pump. The funds are allocated to municipalities statewide based on population and lane miles of roadways maintained by the Township. The expenses from this fund are for Liquid Fuels Fund eligible expenses associated with the annual street resurfacing and handicap ramp replacement program.

**Fire Relief Fund - 50.** Expenses for the Fire Relief Fund for 2011 were \$414K and Revenues were \$414K consisting of Foreign Fire Insurance Tax revenues collected by the State and allocated under the provisions of Chapter 7 of Act 205 of 1984 to municipalities for distribution to eligible fire relief associations. The funds are remitted by the Township to the Fire Department of Montgomery Township Fire Relief Association. In 2011, the Township received a one-time increase in the amount of funding due to the change in collection procedures at the State. The expenses from this fund are only for eligible expenses approved under Chapter 7 of Act 205 of 1984 and are audited annually by the State Auditor General's Office and by the Township Auditors. The fund ends each year with a \$0 balance.

**Environmental Fund - 93.** Expenses for the Environmental Fund for 2011 were \$42K and Revenues were \$90K consisting of the annual DEP Recycling Performance Grant and interest earnings on the fund balance. In 2011, the Township received payment for the 2009 Recycling Performance Grant in the amount of \$87K. Expenses from the fund in 2011 were for the Township's recycling collection costs including the costs for the biannual curbside leaf collection program. The fund posted a surplus of \$48K for the year and ended the year with a positive fund balance of \$649K.

**Replacement Tree Fund - 94.** Expenses for the Replacement Tree Fund for 2011 were \$40K and Revenues were \$6.4K. Funding for the Replacement Tree Fund comes from contributions from developers under "fee in lieu of" provisions of the Land Development Ordinance. The fund posted a loss of \$33K for the year but still ended the year with a positive fund balance of \$635K.

# MONTGOMERY TOWNSHIP

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended December 31, 2011

**Autumn Festival Fund - 95.** Expenses for the Autumn Festival Fund for 2011 were \$20K and revenues were \$24K. Expenditures from this fund pay for the expenses of the annual Autumn Festival held each year in October. Revenues consist of voluntary community contributions, a Township contribution and fees collected at the event. The fund posted a surplus of \$4K for the year and ended the year with a positive fund balance of \$26K.

**Restoration Fund - 96.** Expenses for the Restoration Fund for 2011 were \$36K and Revenues were less than \$1K. The expenses in 2011 were for consulting services and renovation work on the Knapp Farm House which is managed by the Montgomery Township Historical Society. Funding for this work came from a one-time contribution by the developer of the Knapp Farm development. The fund ended the year with a positive fund balance of \$23K.

### LONG-TERM DEBT

At year-end, the Township had \$1,061,290 outstanding non-electoral debt for governmental activities. This debt is secured by the full faith and credit of the Township's taxing authority. The Township also serves as guarantor for debt totaling \$6,116,133 for the Municipal Sewer Authority with the Township's full faith and credit pledge providing the ultimate bond security on this issue.

The current debt obligation of the Township is approximately 3.2% of the Township's available borrowing capacity which was calculated using year ending December 31, 2011 data. This again evidences the Township's fiscally responsible approach to funding Capital Improvement projects.

**Table 4**

**Outstanding Debt at Year-End**

	<u>2010</u>	<u>2011</u>
<b>GOVERNMENTAL ACTIVITIES</b>		
1999 Series Note	\$ 652,529	\$ 543,833
2002 Series Note	252,961	172,457
2003 Series Bond	<u>505,000</u>	<u>345,000</u>
	<u>\$ 1,410,490</u>	<u>\$ 1,061,290</u>
<b>COMPONENT UNITS</b>		
2005 Series	\$ 6,314,269	\$ -
2011 Series	<u>-</u>	<u>6,072,761</u>
	<u>\$ 6,314,269</u>	<u>\$ 6,072,761</u>

Additional information on Montgomery Township's debt can be found in Note D to the financial statements.

# **MONTGOMERY TOWNSHIP**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*Year Ended December 31, 2011*

### **NEXT YEAR'S BUDGET**

The ripple effect of the economic downturn that started in 2008 tapered during the 2011 fiscal year and the Township finances began to see rebounding revenues in several activities such as Permits and Licenses, Earned Income Taxes and Mercantile Taxes. The Township's continued commitment to operate on a fiscally responsible and conservative basis was evident in comparing the 2011 actual expenses to budgeted expenses. This combination resulted in the Township transferring \$1.2M in surplus funds to the Capital Reserve Fund and ending 2011 in a stronger financial condition.

Entering 2012, the Township has not increased its real estate tax millage rate for the tenth year in a row while continuing to provide excellent levels of services to our residents and business community. Montgomery Township currently has nearly \$18.63M in net assets not invested in capital, which represents an amount nearly double the amount of its annual general operating budget. This places the Township in a financial position which is virtually unparalleled among our neighboring communities.

During fiscal years 2010 and 2011, the Township was able to acquire approximately 58 acres of land through condemnation, donation, and purchase. In 2011, the Board of Supervisors passed a reimbursement resolution permitting the Township to reimburse its Capital Reserve Fund from the proceeds of future debt for expenses paid related to the acquisition of these parcels. The 2012 amended budget reflects the anticipated debt that will be used to reimburse the Township for land acquisition expenses and finalize the payment for the property condemned by the Township. Additionally, the Township anticipates securing financing for the purchase of a 12.1 +/- acre parcel for a potential future home to a Montgomery Township Recreation Center. The purchase of this land and potential construction of a recreation center are projects which will affect the Capital Reserve Fund. The General Fund budget for 2012 will again be conservatively managed by all departments to ensure that the expenses are within their respective budgets. Operating adjustments may be necessary if the revenues collected do not meet projections.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the funds it receives and disburses. If you have questions about this report or to request additional financial information (to include component units), please contact the Finance Director at 1001 Stump Road, Montgomeryville, PA 18936-9605.