

MUNICIPALITY OF NORRISTOWN

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2012



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

MUNICIPALITY OF NORRISTOWN
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2012

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	3
Management's Discussion and Analysis (Unaudited)	5
Basic Financial Statements	
<i>Government-Wide Financial Statements</i>	
Statement of Net Position	16
Statement of Activities	17
<i>Fund Financial Statements</i>	
<i>Governmental Funds</i>	
Balance Sheet	18
Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	21
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
<i>Notes to the Basic Financial Statements</i>	24
Required Supplementary Information	
Budgetary Comparison Schedule	64
Postemployment Benefits Other Than Pension Funding Progress	65

MUNICIPALITY OF NORRISTOWN

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2012

	Page
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	66
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133	68
Supplementary Information - Major Federal Award Programs Audit	
Schedule of Expenditures of Federal Awards	71
Notes to the Schedule of Expenditures of Federal Awards	72
Schedule of Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	76
Corrective Action Plan	78

Independent Auditors' Report

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit's financial statements for the Norristown Municipal Waste Authority. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, Norristown Municipal Waste Authority, is based solely on the report of the other auditors. We did not audit the Police and Firefighters Pension Plans, which are presented as Fiduciary Funds for the Municipality of Norristown. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Police and Firefighters Pension Plans for the Municipality of Norristown, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Norristown Municipal Waste Authority and the Police and Firefighters Pension Plans were not audited in accordance with *Government Auditing Standards*.

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 Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

Opinions

In our opinion, based on our report and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Norristown as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison information on page 64 and postemployment benefits other than pension funding progress on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Norristown's basic financial statements. The schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015, on our consideration of the Municipality of Norristown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality of Norristown's internal control over financial reporting and compliance.



Oaks, Pennsylvania
April 27, 2015

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

This section of the Municipality of Norristown's annual financial report presents its discussion and analysis of the Municipality's financial performance during the fiscal year ended December 31, 2012. We recommend that it be read in conjunction with the Municipality's financial statements and notes to the financial statements in order to obtain a thorough understanding of the Municipality's financial condition at December 31, 2012.

FINANCIAL HIGHLIGHTS

The Municipality of Norristown's Finance Department continued to make the accounting system more organized to ensure accurate presentation of its 2012 financial data in accordance with Generally Accepted Accounting Principles (GAAP), Government Auditing Standards and the Department of Community and Economic Development's financial reporting regulations.

The Municipality of Norristown continues to receive a significant amount of revenues each year in the form of state and local grants. These annual revenues include funds from Liquid Fuels, the Pension State Aid, the Firemen's Relief Fund, the Weed and Seed Program, various Department and Community Economic Development grants, various Department of Community and Natural Resources grants, Pennsylvania Department of Environmental Protection and the County of Montgomery.

Significant federal revenues were provided by the U.S. Department of Housing and Urban Development in the form of Community Development Block Grants, the Department of Justice JAG Grants and through the U.S. Department of Transportation.

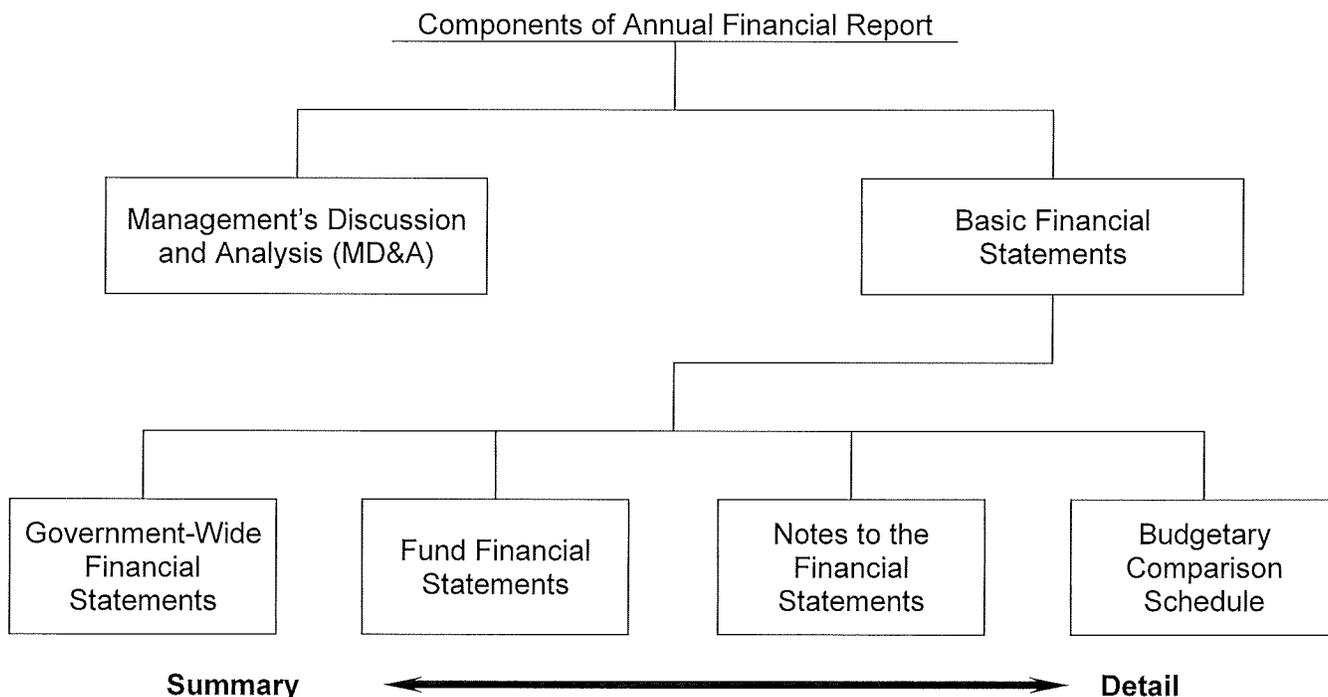
In 2012, the Municipality of Norristown continued to participate in the Delaware Valley Health Insurance Trust Program (DVHIT), which is a risk sharing pool that provides health insurance to various local governments and municipalities in select counties of Pennsylvania. Through this participation, in the coming years the Municipality has the potential to minimize future annual premium increases.

Also in 2012, non-uniformed employees received a 2% base wage increase. The International Association of Fire Fighters (IAFF) employees were provided a 1% wage increase effective January 1, 2012, and an additional 1% wage increase effective July 1, 2012, along with normal longevity applications. The Fraternal Order of Police (FOP) employees were provided a 1% wage increase effective January 1, 2012, and an additional 1% wage increase effective July 1, 2012, along with normal longevity applications.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure 1



Management's Discussion and Analysis (MD&A)

The MD&A serves as an introduction to the Municipality of Norristown's basic financial statements by providing information that will assist the reader to better understand the financial condition of the Municipality. The basic financial statements include notes that provide additional information necessary for a complete understanding of the financial data provided in the government-wide and fund financial statements.

Basic Financial Statements

The basic financial statements present two different views of the Municipality. These financial statements are comprised of four components:

- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements
- Budgetary Comparison Schedule

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

Government-Wide Financial Statements

The government-wide financial statements, the first two statements, provide a broad overview of the Municipality's overall financial status (short-term and long-term). The statement of net position presents information on all of the Municipality's assets and liabilities, with the difference reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business by acting as an indicator of the financial position of the Municipality.

The statement of activities presents information on how the Municipality's net position changed during the year. This statement separates program revenue from general revenue and illustrates to which extent each program relies on local taxes for funding.

All changes to net position are recorded using the accrual method of accounting, which requires that revenues be recorded when they are earned and expenses be recorded when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the Municipality's financial position. Over time, increases or decreases in the Municipality's net position are one indicator of whether the Municipality's financial position is improving or deteriorating. To assess the overall position of the Municipality, other non-financial factors such as changes in the Municipality's real estate property tax base and general economic conditions must be considered.

The government-wide financial statements distinguish functions of the Municipality of Norristown that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- **Governmental Activities** encompasses the Municipality's basic services such as general government, public safety, community development, administration, public works, health and sanitation, parks and recreation. Property taxes, state and federal grants and revenues finance most of these activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The Municipality of Norristown uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments. Fund financial statements provide more detailed information on the Municipality's most significant funds, not the Municipality as a whole.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

The Municipality has two kinds of funds:

- **Governmental Funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, Governmental Funds financial statements focus on the inflow and outflow of cash and other financial assets that can be readily converted to cash and the balances left at the fiscal year end that are available for spending. This information presents a better understanding of the long-term impact of the Municipality's short-term financing decisions.

The Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate a comparison between Governmental Funds and governmental activities.

- **Fiduciary Funds** are funds for which the Municipality is the trustee or fiduciary. The Municipality serves as the fiduciary agent for the Police Pension Fund and Paid Firefighters' Pension Fund and certain Agency Funds or clearing accounts for assets held by the Municipality in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong. The Municipality is responsible to ensure the assets reported in these funds are used for their intended purposes. This activity is reported in a statement of fiduciary net position and a statement of changes in fiduciary net position. These funds are not reflected in the government-wide financial statements because the resources of those funds are not utilized to finance its operations.

Budgetary Comparison Schedule

The Municipality adopts an annual budget for its General Fund, as required by its Home Rule Charter. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the authorized budget. The statement identifies four components:

- Original budget as adopted by Municipal Council
- Final Appropriated Budget
- Actual Revenues and Expenditures
- Final Budget Variance

Notes to the Basic Financial Statements

The notes to the financial statements provide supplemental information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

FINANCIAL ANALYSIS

Government-Wide Financial Statements

As previously noted in this document, net position may serve as a useful indicator of a government's financial position as well as an important determinant of its ability to finance services in the future.

The Municipality of Norristown's total assets were \$40,942,615 as of December 31, 2012. Of this amount, \$26.7 million were capital assets, net of accumulated depreciation. On a government-wide basis, the Municipality's assets exceeded its liabilities by \$9.7 million as of December 31, 2012, which represents the balance of net position at year-end. Of this amount, \$13,920,492 represents the balance of long-term capital assets, net of long-term debt related to such capital assets. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the Municipality's net position that is restricted carries a balance of \$429,547. The portion of the Municipality's net position that is unrestricted represents a deficit balance of \$4,606,941. Significant changes in net position in 2012 included a \$1,493,639 increase in earned income taxes and a \$321,255 increase in property taxes.

Figure 2 - Statement of Net Position

Net cost of service expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2012, the Municipality's real estate tax revenues of \$10.5 million and the earned income tax revenue of \$7.8 million along with other enabling tax collections indicates the Municipality relied heavily on these revenues to fund its activities in 2012.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
ASSETS			
Current assets	\$ 14,230,747	\$ 13,568,023	\$ 662,724
Capital assets, net	<u>26,711,868</u>	<u>26,676,068</u>	<u>35,800</u>
TOTAL ASSETS	<u>40,942,615</u>	<u>40,244,091</u>	<u>698,524</u>
LIABILITIES			
Current	6,227,537	5,275,249	952,288
Noncurrent	<u>24,971,980</u>	<u>27,184,339</u>	<u>(2,212,359)</u>
TOTAL LIABILITIES	<u>31,199,517</u>	<u>32,459,588</u>	<u>(1,260,071)</u>
NET POSITION			
Net investment in capital assets	13,920,492	13,072,190	848,302
Restricted	429,547	1,163,804	(734,257)
Unrestricted	<u>(4,606,941)</u>	<u>(6,451,491)</u>	<u>1,844,550</u>
TOTAL NET POSITION	<u>\$ 9,743,098</u>	<u>\$ 7,784,503</u>	<u>\$ 1,958,595</u>

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

Figure 3 - Statement of Activities

	<u>2012</u>	<u>2011</u>	<u>Change</u>
REVENUES			
Program revenues			
Charges for services	\$ 6,363,227	\$ 6,376,032	\$ (12,805)
Operating grants and contributions	2,112,253	2,555,534	(443,281)
Capital grants and contributions	3,139,866	2,917,610	222,256
General revenues			
Taxes (property, enabling)	20,380,802	18,370,146	2,010,656
Investment earnings	83,097	20,286	62,811
Miscellaneous	89,563	68,369	21,194
TOTAL REVENUES	<u>32,168,808</u>	<u>30,307,977</u>	<u>1,860,831</u>
EXPENSES			
General government	7,432,164	7,200,127	232,037
Public safety	13,403,871	13,651,277	(247,406)
Public works			
Highways and streets	3,172,495	3,328,509	(156,014)
Sanitation	2,311,692	2,325,354	(13,662)
Community development	1,929,319	1,696,828	232,491
Culture and recreation	489,891	435,995	53,896
Interest on long-term debt	1,470,781	1,584,325	(113,544)
TOTAL EXPENSES	<u>30,210,213</u>	<u>30,222,415</u>	<u>(12,202)</u>
CHANGE IN NET POSITION	1,958,595	85,562	1,873,033
NET POSITION, BEGINNING OF YEAR	<u>7,784,503</u>	<u>7,698,941</u>	<u>85,562</u>
NET POSITION, END OF YEAR	<u>\$ 9,743,098</u>	<u>\$ 7,784,503</u>	<u>\$ 1,958,595</u>

The Municipality's 2011 tax rate of 11.95 mills increased to 12.36 mills in 2012. The 2012 tax rate continues to remain well below the Commonwealth of Pennsylvania's cap of 25 mills for operating costs. In 2012, the Municipality derived approximately 32.7% of its revenues from property taxes.

The real estate tax is based on the assessed value of real property; therefore, changes in the assessed valuation affect tax revenues. The Municipality's assessed valuation of real property increased \$8,994,050 in 2012. Residents have properties reassessed to lower their taxes, some people receive tax exemptions, and there are demolitions of properties and other reasons that can cause assessment fluctuation. The Municipality's ongoing plan and implementation for revitalization and deviation from rental unit residential living to single family homes should contribute to the increase in valuation in the future.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

Capital Assets

The Municipality's capital assets as of December 31, 2012, were approximately \$26.7 million. Capital assets consist primarily of land, buildings, vehicles, equipment and infrastructure.

Figure 4 - Capital Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 4,895,817	\$ -	\$ -	\$ 4,895,817
CAPITAL ASSETS BEING DEPRECIATED				
Infrastructure	54,972,419	1,440,438	-	56,412,857
Land improvements	1,026,904	-	-	1,026,904
Buildings	4,867,819	187,552	-	5,055,371
Machinery, vehicles and equipment	9,476,018	589,473	-	10,065,491
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>70,343,160</u>	<u>2,217,463</u>	<u>-</u>	<u>72,560,623</u>
Accumulated depreciation				
Infrastructure	(37,241,120)	(1,653,687)	-	(38,894,807)
Land improvements	(827,382)	(41,075)	-	(868,457)
Buildings	(2,366,525)	(108,456)	-	(2,474,981)
Machinery, vehicles and equipment	(8,127,882)	(378,445)	-	(8,506,327)
TOTAL ACCUMULATED DEPRECIATION	<u>(48,562,909)</u>	<u>(2,181,663)</u>	<u>-</u>	<u>(50,744,572)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>21,780,251</u>	<u>35,800</u>	<u>-</u>	<u>21,816,051</u>
CAPITAL ASSETS, net	<u>\$ 26,676,068</u>	<u>\$ 35,800</u>	<u>\$ -</u>	<u>\$ 26,711,868</u>

Figure 5 - Debt Administration

At December 31, 2012, the Municipality of Norristown had \$25.5 million in outstanding debt. Interest accreted on the 1998 Series A Capital Appreciation Bond amounted to \$333,716 in 2012.

GENERAL OBLIGATION DEBT, JANUARY 1, 2012	\$ 28,076,669
Additions	333,716
Reductions	<u>(2,878,988)</u>
GENERAL OBLIGATION DEBT, DECEMBER 31, 2012	<u>\$ 25,531,397</u>

During 2010, the Municipality entered into three capital leases for equipment. The amount financed totaled \$308,890. In 2012, the Municipality entered into a capital lease for a fire engine. The amount financed was \$395,292. The balance of capital lease obligations at December 31, 2012, is \$495,533.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

Fund Financial Statements

As previously noted in this document, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The General Fund, Debt Service, Capital Projects and Community Development Funds are considered to be the major funds of the Municipality. Information is presented separately in the Governmental Funds balance sheet and statement of revenue, expenditures and changes in fund balances for these four major funds. All other funds are classified in one grouping identified as Other Governmental Funds, which are the Non-Major funds.

The focus of Governmental Funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year. The General Fund serves as the chief operating fund for the Municipality. The Debt Service Fund funds are restricted to payment of interest and retirement of debt. Special Revenue Funds are restricted to specific legislative use, while the Capital Projects Fund serves as the fund for the Municipality's proceeds of bond issues. The major funds are shown on the statement of revenues, expenditures and changes in fund balance in the financial statements.

Governmental Funds Revenues

Governmental Funds revenues totaled \$32,194,717 for the year ended December 31, 2012. Local enabling tax collection revenue in 2012 increased from prior year amounts by \$1,689,400 and charges for services increased by \$74,011.

Figure 6 - Governmental Fund Revenues

	<u>2012</u>	<u>2011</u>	<u>Change</u>
REVENUES			
Property taxes	\$ 10,547,060	\$ 9,896,057	\$ 651,003
Local enabling taxes	9,854,953	8,165,553	1,689,400
Licenses and permits	972,618	975,417	(2,799)
Fines and forfeits	1,635,958	1,719,973	(84,015)
Intergovernmental	5,256,597	5,473,146	(216,549)
Charges for services	3,754,651	3,680,640	74,011
Investment earnings	83,317	20,286	63,031
Miscellaneous	89,563	68,369	21,194
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	<u>\$ 32,194,717</u>	<u>\$ 29,999,441</u>	<u>\$ 2,195,276</u>

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

Governmental Funds Expenditures

Governmental Funds expenditures totaled \$32,652,186 for the year ended December 31, 2012. Significant increases were realized in the areas of public safety and increases occurred in the area of capital outlay, which stemmed from the increase of the Municipality's road paving projects. Public safety expenditures decreased from prior year by \$214,338, which was partially funded by intergovernmental grant funding. General government expenditures in 2012 were \$210,241 more than the prior year. Total capital expenditures amounted to \$2,217,463 in 2012.

Figure 7 - Governmental Fund Expenditures

	<u>2012</u>	<u>2011</u>	<u>Change</u>
EXPENDITURES			
General government	\$ 7,472,691	\$ 7,262,229	\$ 210,462
Public safety	12,721,361	13,005,698	(284,337)
Public works			
Sanitation	2,311,692	2,325,354	(13,662)
Highways and streets	1,407,939	1,544,284	(136,345)
Culture and recreation	449,504	400,261	49,243
Community development	1,935,319	1,696,830	238,489
Debt service			
Principal	2,878,988	2,813,199	65,789
Interest and fees	1,124,106	1,189,296	(65,190)
Payment on capital leases	133,123	63,573	69,550
Capital outlays	<u>2,217,463</u>	<u>952,137</u>	<u>1,265,326</u>
TOTAL EXPENDITURES	<u>\$ 32,652,186</u>	<u>\$ 31,252,861</u>	<u>\$ 1,399,325</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality of Norristown Council may revise the budget through transfers or resolution. There are two types of revisions:

- Allocations made to specific department line items from other department line items.
- Budgeting new appropriations and anticipated related expenditures.

The General Fund budget for revenues experienced no change during 2012 from the original budget of \$26.7 million. On an actual to budget comparison, the Municipality realized a \$2,382,533 favorable revenue budget variance primarily due to increased collections in local enabling tax revenue and intergovernmental revenues.

The 2012 General Fund budget for expenditures also experienced no change during the year. On an actual-budgetary basis, the Municipality experienced an unfavorable variance from budget in overall expenditures of \$788,991. However, the 2012 budget was written with \$50,000 of General Fund reserves and \$881,732 of pension reserves to balance the budget. Therefore, since revenues were favorable, there was no amount needed from reserves in 2012.

MUNICIPALITY OF NORRISTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2012

ECONOMIC CONDITION AND OUTLOOK

The Municipality of Norristown, Montgomery County, Pennsylvania, is located within the Philadelphia-Camden-Wilmington Metropolitan Statistical Area. Growth of communities within Montgomery County has made it the third most populous county in the Commonwealth. According to the 2010 Census, the Municipality of Norristown recorded a growth rate of nearly 10%. With this growth, there has been significant interest in commercial and residential development. There are a number of highly visible public and privately funded investments within the core neighborhoods of Norristown that are stimulating private development. They are included but are not limited to:

- Continuation of implementation of publicly approved master plans for Municipal Parks including Simmons Park, amongst others throughout Norristown.
 - Poley Park Phase II work commenced, creating additional parking spaces, accommodating economic growth within the West Marshall Street Business District.
- Rehabilitation of homes for low and moderate income homeowners, thereby preserving homeownership.
- Continuation of code enforcement activities to stem blighting elements within the Municipality.
- Continuation of the state designated Enterprise Zone, encompassing 365 acres of prime light and heavy industrially zoned structures and land for development.
- Lafayette Street Extension/Expansion project continued, with the goal of the project being to provide better access to Norristown to the greater region.
- Expansion of the Riverfront Redevelopment Area with the goal to make additional land within the Municipality desirable for redevelopment.
- DeKalb Street Avenue of Arts Streetscape Phase II from Lafayette to Airy Street commenced.
- Sidewalk Replacement Project commenced along West Marshall Street, eliminating pedestrian safety hazards.
- Road milling and paving of 1.1 miles of road completed this year.
- 401-403 DeKalb Street continued the conversion of the former Bell Telephone building into 35,000 square feet of commercial space, through tax increment financing.
- Construction continued on the Arbor Heights development, creating 12 new residential units in the 1000 block of DeKalb Street.

MUNICIPALITY OF NORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2012

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Municipality Administrator, Municipality of Norristown, 235 East Airy Street, Norristown, Pennsylvania 19401.

THE MUNICIPALITY OF NORRISTOWN
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 4,565,728	\$ 1,150,602
Investments	30,143	-
Receivables, net		
Accounts	852,131	1,415,025
Taxes	6,292,606	-
Intergovernmental	150,198	-
Prepaid expenses	154,672	-
Deferred charges	562,382	-
Restricted assets		
Cash and cash equivalents	1,622,887	2,655,682
Investments	-	1,435,163
Capital assets		
Not being depreciated	4,895,817	906,727
Being depreciated	21,816,051	16,056,621
TOTAL ASSETS	<u>40,942,615</u>	<u>23,619,820</u>
LIABILITIES		
Accounts payable	779,691	296,916
Accrued liabilities	932,690	30,434
Accrued interest payable	144,145	79,455
Internal balances	58,756	
Unearned revenues	905,352	-
Long-term liabilities		
Due within one year		
General obligation debt	2,948,245	-
Revenue bonds payable	-	1,204,000
Capital lease obligations	108,824	-
Compensated absences	157,277	-
Escrow deposits	192,557	34,790
Due in more than one year		
General obligation debt	22,489,050	-
Revenue bonds payable	-	10,998,014
Capital lease obligations	386,709	-
Compensated absences	1,327,372	34,096
Other postemployment benefits	768,849	-
Revenue notes payable	-	5,619,806
TOTAL LIABILITIES	<u>31,199,517</u>	<u>18,297,511</u>
NET POSITION		
Net investment in capital assets	13,920,492	(1,227,652)
Restricted		
Capital projects	180,711	-
Highways and streets	248,836	
Debt service	-	4,090,845
Unrestricted	<u>(4,606,941)</u>	<u>2,459,116</u>
TOTAL NET POSITION	<u>\$ 9,743,098</u>	<u>\$ 5,322,309</u>

See accompanying notes to the basic financial statements.

MUNICIPALITY OF NORRISTOWN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General government	\$ 7,432,164	\$ 1,289,200	\$ 176,614
Public safety	13,403,871	2,004,088	1,570,260
Public works			
Highways and streets	3,172,495	455,017	9,728
Sanitation	2,311,692	2,405,394	-
Community development	1,929,319	181,850	354,129
Culture and recreation	489,891	27,678	1,522
Interest on long-term debt	1,470,781	-	-
	<u>30,210,213</u>	<u>6,363,227</u>	<u>2,112,253</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>30,210,213</u>	\$ <u>6,363,227</u>	\$ <u>2,112,253</u>
COMPONENT UNIT			
Norristown Municipal Waste Authority	\$ <u>4,732,913</u>	\$ <u>5,299,991</u>	\$ <u>8,182</u>

GENERAL REVENUES

Taxes

Real estate taxes
Earned income taxes
Business gross receipts tax
Local services taxes
Mechanical device tax
Per capita tax
Real estate transfer taxes
Unrestricted investment earnings
Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

<u>Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
\$ -	\$ (5,966,350)	
107,563	(9,721,960)	
1,079,441	(1,628,309)	
-	93,702	
1,573,270	179,930	
379,592	(81,099)	
-	(1,470,781)	
<u>\$ 3,139,866</u>	<u>(18,594,867)</u>	
<u>\$ -</u>		<u>\$ 575,260</u>
	10,525,849	-
	7,791,772	-
	931,257	-
	590,106	-
	6,479	-
	45,835	-
	489,504	-
	83,097	65,372
	89,563	16,816
	<u>20,553,462</u>	<u>82,188</u>
	1,958,595	657,448
	<u>7,784,503</u>	<u>4,664,861</u>
	<u>\$ 9,743,098</u>	<u>\$ 5,322,309</u>

MUNICIPALITY OF NORRISTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash and cash equivalents	\$ 4,767,647	\$ 45,092
Investments	30,143	-
Receivables, net		
Accounts	662,162	-
Taxes	6,292,606	-
Intergovernmental	-	-
Prepaid expenses	154,672	-
Due from other funds	<u>760,576</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 12,667,806</u>	<u>\$ 45,092</u>
LIABILITIES AND FUND BALANCES (DEFICIT)		
LIABILITIES		
Accounts payable	\$ 653,326	\$ -
Accrued liabilities	1,064,393	-
Unearned revenues	1,469,132	-
Escrows payable	192,557	-
Due to other funds	-	113,441
TOTAL LIABILITIES	<u>3,379,408</u>	<u>113,441</u>
FUND BALANCES (DEFICIT)		
Nonspendable, prepaid expenses	154,672	-
Restricted	-	-
Committed, pension contributions	1,202,298	-
Unassigned	<u>7,931,428</u>	<u>(68,349)</u>
TOTAL FUND BALANCES (DEFICIT)	<u>9,288,398</u>	<u>(68,349)</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 12,667,806</u>	<u>\$ 45,092</u>

See accompanying notes to the basic financial statements.

<u>Community Development Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 466,981	\$ 639,182	\$ 269,713	\$ 6,188,615
-	-	-	30,143
-	189,969	-	852,131
-	-	-	6,292,606
150,198	-	-	150,198
-	-	-	154,672
-	-	-	760,576
<u>\$ 617,179</u>	<u>\$ 829,151</u>	<u>\$ 269,713</u>	<u>\$ 14,428,941</u>
\$ 125,660	\$ -	\$ 705	\$ 779,691
24,944	630	-	1,089,967
444,621	4,937	4,548	1,923,238
-	-	-	192,557
22,083	642,873	40,935	819,332
<u>617,308</u>	<u>648,440</u>	<u>46,188</u>	<u>4,804,785</u>
-	-	-	154,672
-	180,711	248,836	429,547
-	-	-	1,202,298
(129)	-	(25,311)	7,837,639
<u>(129)</u>	<u>180,711</u>	<u>223,525</u>	<u>9,624,156</u>
 <u>\$ 617,179</u>	 <u>\$ 829,151</u>	 <u>\$ 269,713</u>	 <u>\$ 14,428,941</u>

MUNICIPALITY OF NORRISTOWN
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 9,624,156
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	4,895,817
Infrastructure, net of \$38,894,807 accumulated depreciation	17,518,050
Site land improvements, net of \$868,457 accumulated depreciation	158,447
Buildings, net of \$2,474,981 accumulated depreciation	2,580,390
Machinery, vehicles and equipment, net of \$8,506,327 accumulated depreciation	1,559,164
	<u>26,711,868</u>
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.</p>	
Unamortized debt issue costs	<u>562,382</u>
<p>Revenue not available to pay for the current period's expenditures and therefore reported as unearned revenue in the funds.</p>	
Property taxes	<u>1,017,886</u>
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Bonds, notes and loans payable	(25,531,397)
Unamortized bond discounts (premiums), net	94,102
Accrued interest on bonds	(144,145)
Other postemployment benefit liability	(768,849)
Capital lease obligations payable	(495,533)
Compensated absences	(1,327,372)
COMBINED LIABILITY ADJUSTMENT	<u>(28,173,194)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,743,098</u>

See accompanying notes to the basic financial statements.

MUNICIPALITY OF NORRISTOWN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property taxes	\$ 10,547,060	\$ -
Local enabling taxes	9,854,953	-
Licenses and permits	972,618	-
Fines and forfeits	1,635,958	-
Intergovernmental	2,110,731	-
Charges for services	3,754,651	-
Investment earnings	83,044	-
Miscellaneous	89,563	-
	<u>29,048,578</u>	<u>-</u>
TOTAL REVENUES		
EXPENDITURES		
General government	7,465,989	-
Public safety	12,514,953	-
Sanitation	2,311,692	-
Highways and streets	1,006,510	-
Culture and recreation	365,123	-
Community development	152,332	-
Debt service		
Principal	-	2,878,988
Interest and fees	-	1,124,106
Payment on capital lease	63,123	-
Capital outlays	743,534	-
	<u>24,623,256</u>	<u>4,003,094</u>
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		
	<u>4,425,322</u>	<u>(4,003,094)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from capital lease	395,292	-
Transfers in	-	3,996,243
Transfers out	<u>(4,116,243)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)		
	<u>(3,720,951)</u>	<u>3,996,243</u>
NET CHANGE IN FUND BALANCES		
	704,371	(6,851)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR		
	<u>8,584,027</u>	<u>(61,498)</u>
FUND BALANCES (DEFICIT) AT END OF YEAR		
	<u>\$ 9,288,398</u>	<u>\$ (68,349)</u>

See accompanying notes to the basic financial statements.

<u>Community Development Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 10,547,060
-	-	-	9,854,953
-	-	-	972,618
-	-	-	1,635,958
1,579,270	905,653	660,943	5,256,597
-	-	-	3,754,651
36	-	237	83,317
-	-	-	89,563
<u>1,579,306</u>	<u>905,653</u>	<u>661,180</u>	<u>32,194,717</u>
-	6,702	-	7,472,691
72,016	-	134,392	12,721,361
-	-	-	2,311,692
-	56,067	345,362	1,407,939
35,000	49,381	-	449,504
1,402,419	380,568	-	1,935,319
-	-	-	2,878,988
-	-	-	1,124,106
70,000	-	-	133,123
-	914,273	559,656	2,217,463
<u>1,579,435</u>	<u>1,406,991</u>	<u>1,039,410</u>	<u>32,652,186</u>
<u>(129)</u>	<u>(501,338)</u>	<u>(378,230)</u>	<u>(457,469)</u>
-	-	-	395,292
-	120,000	-	4,116,243
-	-	-	(4,116,243)
<u>-</u>	<u>120,000</u>	<u>-</u>	<u>395,292</u>
(129)	(381,338)	(378,230)	(62,177)
-	562,049	601,755	9,686,333
<u>\$ (129)</u>	<u>\$ 180,711</u>	<u>\$ 223,525</u>	<u>\$ 9,624,156</u>

MUNICIPALITY OF NORRISTOWN

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 \$ (62,177)

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,217,463) are more than depreciation (\$2,181,663) in the current period.

35,800

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt uses current financial resources. Neither transaction has any effect on net position. Also, Governmental Funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. The net effects of these difference in the current period are:

Principal repayments	2,878,988
Net amortization of bond issue, discounts/premium	(8,143)
Proceeds from capital lease	(395,292)
Principal paid on capital lease obligations	117,916
Amortization of bond issuance costs	<u>(92,622)</u>
NET ADJUSTMENT	<u>2,500,847</u>

Interest is expensed when paid in the Governmental Funds. However, in the government-wide statements, interest is matched to the period in which it was incurred. In the current period, the net effect of matching interest expense to the proper period is:

Accreted interest on capital appreciation bonds	(333,716)
Change in accrued interest	<u>10,393</u>
	<u>(323,323)</u>

Revenues in the statement of activities that are not available to provide current financial resources are not reported as revenues in the funds. At the government-wide level, revenue recognition is not limited by availability. The effects of these adjustments in the current year are:

Taxes	<u>(21,213)</u>
-------	-----------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.

Compensated absences	<u>41,364</u>
Change in OPEB	<u>(212,703)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,958,595

See accompanying notes to the basic financial statements.

MUNICIPALITY OF NORRISTOWN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 378,791	\$ 275,385
Receivables	52,625	-
Prepaid plan expenses and pension benefits	51,501	-
Investments	26,503,708	-
Due from other funds	-	58,756
	<u>26,986,625</u>	<u>\$ 334,141</u>
LIABILITIES		
Accounts payable and accrued expenses	39,317	\$ 118,267
Tax collections due to		
County	-	1,473
Norristown Municipality	-	59,660
Waste Management	-	2,388
Tax refunds due to residents	-	152,353
	<u>39,317</u>	<u>\$ 334,141</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ 26,947,308</u>	

See accompanying notes to the basic financial statements.

MUNICIPALITY OF NORRISTOWN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	<u>Pension Trust Funds</u>
ADDITIONS	
Investment income	
Net appreciation in fair value of investments	\$ 2,328,969
Interest	23,008
Dividends	660,489
Investment expenses and foreign taxes paid	(90,696)
INVESTMENT INCOME, net	<u>2,921,770</u>
Contributions	
Commonwealth of Pennsylvania Act 205 pension allocation	847,538
Municipality contributions	804,194
Member contributions	395,969
TOTAL CONTRIBUTIONS	<u>2,047,701</u>
 TOTAL ADDITIONS	 <u>4,969,471</u>
DEDUCTIONS	
Monthly retirement benefits	2,661,608
Account B benefits	26,150
Return of contributions	15,912
Administrative expenses	112,778
TOTAL DEDUCTIONS	<u>2,816,448</u>
 CHANGE IN NET POSITION	 2,153,023
 NET POSITION AT BEGINNING OF YEAR	 <u>24,794,285</u>
 NET POSITION AT END OF YEAR	 <u>\$ 26,947,308</u>

See accompanying notes to the basic financial statements.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Norristown (the "Municipality") was incorporated in 1812 under the provisions of the Commonwealth of Pennsylvania. The Municipality operates under a home rule charter approved by voters on November 6, 1984, that became effective January 6, 1986. As of July 2004, the Municipality has transitioned from a mayoral form of government to one that is governed by Municipal Council and managed by a Municipal Administrator. The Municipality provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB").

A summary of the Municipality's significant accounting policies follows.

Reporting Entity

In conformity with GAAP, the financial statements include those of the Municipality of Norristown (the "Primary Government") and its component unit. The component unit discussed below is included in the Municipality's reporting entity because of its operational or financial relationship with the Municipality and the Municipality's ability to exercise oversight responsibility.

Discretely Presented Component Unit - In conformity with GAAP, the following component unit has been included in the financial reporting entity as a discretely presented component unit:

- **Norristown Municipal Waste Authority ("Authority")** - The appointment of members of the governing board of the Authority is subject to the approval by the Council of the Primary Government. The Authority reports on the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The Authority operates on a fiscal year ending March 31. More detailed information is available from the Norristown Municipal Waste Authority at 235 East Airy Street, Norristown, Pennsylvania 19401.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net position and statement of activities) report information on all the non-fiduciary activities of the Primary Government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the Primary Government is reported separately from its legally separate component unit.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are affected by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the Agency Fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows where applicable. 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.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes must be received within 60 days of year-end to be deemed available. Licenses, operating grants, capital grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental Funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Because of their spending measurement focus, expenditure recognition for Governmental Fund Types exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as Governmental Fund Type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Municipality reports the following major Governmental Funds:

- The *General Fund* is the Primary Government's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are property taxes, local enabling taxes, charges for services and state grants and shared revenue. The primary expenditures are for public safety, street maintenance and sanitation services.
- The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- The *Community Development Fund* tracks activity primarily related to the Municipality's Community Development Block Grant and related community development activity.
- The *Capital Projects Fund* accounts for financial resources, including the proceeds of general obligation debt, to be used for the acquisition or construction of major capital assets.

Additionally, the Municipality reports the following fund types:

- The *Pension Trust Funds* account for the revenue (i.e., member contributions, Municipal contributions, state contributions and net investment income) and the expenses (i.e., contributions refunded, retirement allowances and death benefits paid) of the Police Pension Trust Fund and the Paid Firefighters' Trust Fund.
- The *Agency Funds* consist of the Tax Collection Fund used as a conduit for distributing tax collections to the County and Norristown Municipality. Other Agency Funds are held for community groups and are not owned by Norristown Municipality. The Municipality maintains no fund balances in the Agency Funds since the Municipality is the custodian, not the owner of such funds.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Assets, Liabilities and Net Position or Fund Balances

Cash and Cash Equivalents - The Municipality considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables and Payables

- **Interfund Receivables and Payables** - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is referred to as "due to/from other funds."
- **Taxes Receivable** - Enabling taxes are presented net of an allowance for uncollectibles based on historical collections and current tax collector estimates.
- **Other Receivables** - Receivables related to other charges are presented net of an allowance for uncollectibles based on historical collections, current collection efforts and discussions with legal counsel where applicable.

Investments - Investments for the Municipality are reported at fair value. Investments that do not have an established market value are reported at estimated values.

Capital Assets - Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Property, plant and equipment and infrastructure with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlay of capital assets and improvements are capitalized as projects are completed.

Property, plant and equipment of the Primary Government are depreciated using the straight-line method over the following intended useful lives:

	<u>Years</u>
Buildings and improvements	20-50
Machinery, vehicles and equipment	5-20
Infrastructure	20-50

Allowance for Doubtful Accounts - Accounts receivable and taxes receivable have been reported net of an allowance for doubtful accounts in the amount of \$499,776.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Compensated Absences - Municipal policy permits employees to accumulate a limited amount of earned but unused sick time. These benefits are payable to employees upon separation of services. All leave pay is accrued when incurred in the government-wide financial statements. Sick buy back benefits paid shortly after year-end are also accrued as a short-term liability in the Governmental Funds financial statements. The computed liability is in compliance with GASB 16, *Accounting for Compensated Absences*.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government-wide activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method to interest expense. Long-term general obligation debt is presented net of unamortized premiums and discounts. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt to general expense using the straight-line method.

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

Deferred/Unearned Revenue - Unearned revenues represent government grant funds received but not yet spent for its intended purposes and rental license income collected in advance of the corresponding license year. Property tax revenue received within 60 days of year-end is deemed to be measurable and available and recognized as revenue in the year of the property tax levy. Property tax revenue levied but not collected beyond 60 days after year-end is accrued net of an allowance for uncollectible amounts and deferred in the Governmental Funds financial statements. Such property tax revenue is accrued and recognized into income for the government-wide statements.

Net Position/Fund Balances - The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net Investment in Capital Assets** - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- **Restricted Net Position** - This category presents external restrictions imposed by creditors, grantors, contributors or laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This category represents net position of the Municipality, not restricted for any project or other purpose.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In 2011, the Municipality 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 Municipality's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable*** - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- ***Committed*** - Amounts that can be spent only for specific purposes determined by formal actions of the members of Council. The Council is the highest level of decision-making authority for the Municipality of Norristown. Commitments may be established, modified, or rescinded only through resolutions approved by Council.
- ***Assigned*** - Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.
- ***Unassigned*** - All other spendable amounts.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to use restricted resources first, then unrestricted resources as they are needed for their intended purposes.

Interfund Transactions - Quasi-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 except quasi-external transactions and reimbursements are reported as transfers. Transfers can only be approved in the budget or through Council motion during the year.

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

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Component Unit - Norristown Municipal Waste Authority

Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The Authority applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a Proprietary (Enterprise) Fund. Proprietary Funds are used to account for operations that are (1) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segregated into "net investment in capital assets," "restricted for debt service" and "unrestricted" components.

Operating revenues are those revenues that are generated directly from primary activities. For the Authority, these revenues are rental charges for services and investment income. Operating expenses are necessary costs incurred to provide the services that are the primary activity of the Authority.

Cash and Cash Equivalents - Cash and cash equivalents include all cash accounts, restricted cash accounts and highly liquid investments, which are not subject to withdrawal restrictions or penalties, with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Restricted Investments - Restricted investments consist of U.S. Treasury notes which are restricted by debt agreement.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Trade Accounts Receivable - Trade receivables consist of retail sewer line and treatment charges and wholesale treatment charges to another government entity. Trade receivables are shown net of an allowance for uncollectibles, as applicable. Trade receivables, in excess of 90 days, are evaluated for collectibility, and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

Property, plant, and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Collection system and sewer plant	6-50
Equipment	5-10

Long-Term Debt - Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, when applicable, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized to interest expense. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt to administrative expenses.

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the Authority has adopted the following policy for bond refunding resulting in the defeasance of debt reported in Proprietary Funds.

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the statement of net position, the deferred amount is reported as a deduction from the new debt liability.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Debt Issuance Costs - Debt issuance costs have been capitalized and are amortized to general expense using the straight-line method over the term of the associated debt.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Tax

The Municipality levies taxes on real property located within the boundaries of the Municipality of Norristown. Property taxes are levied by the Municipality on property values assessed by the Montgomery County Assessment Offices.

The Municipality bills and collects property taxes. Tax bills were mailed on or about January 31, 2012. A 2% discount was allowed on bills paid by April 1, 2012, and a 10% penalty was assessed for bills paid after June 1, 2012. Unpaid property taxes attach as an enforceable lien on property on January 1, 2013.

The rate of real estate taxation in 2012 was 12.36 mills in total, which was designated entirely for general government purposes. All real estate tax revenue is recognized in the General Fund.

Pension Plans

The Municipality has pension plans covering substantially all of its employees. All pension plans are funded by the Municipality's annual contribution and by member contributions. Brief descriptions of each plan are included in the pension notes to the financial statements. The primary functions of the pension plans, which are investment management and benefit management activities, are vested solely with each plan's respective Pension Board. The Boards have contracted with various investment managers and banks for management of the portfolios of the funds. Furthermore, the assets are under ownership and control of the pension funds and are not owned by the Municipality. Pension benefits and administrative costs are paid directly from the assets of the plans. These plans are subject to audits and issue separate reports, the results of which are included in the Fiduciary Funds financial statements.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Budgets

Legal Requirements - The Home Rule Charter requires the Municipal Administrator to submit a financial plan and budget to the Council four months prior to the end of the year for the General Fund budget. The Municipality does not, and is not legally required to adopt budgets for any other fund. Council reviews the proposed financial plan with the Municipal Administrator and upon review and the completion of changes, the Municipal Administrator will submit the proposed plans and budgets along with a budget message to Council within 75 days prior to the end of the fiscal year. Council will then advertise, in one or more newspapers, a notice of a public meeting in which the public can voice their concerns in regards to the proposed financial plans and budget. After a public meeting, within 30 days before the end of the fiscal year, Council will, by ordinance, adopt the budget which will be effective the first day of the following year.

Lapsing of Appropriations - Unexpended appropriations lapse at year-end.

Management Amendment - During the course of the year, departmental needs may change, emergencies may occur, or additional revenue may arise. As a result, funds may be transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by the Municipal Council.

Financial analysis is provided monthly to management showing spending levels in comparison to the current budget. The budget is also reviewed by management with operating departments.

Pending Governmental Accounting Standards Board (GASB) Statements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*. This statement is required to be adopted for years beginning after June 15, 2012, and earlier application is encouraged. The Municipality has not determined the effect of GASB Statement No. 61 on the financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement is required to be adopted for years beginning after December 15, 2012, with earlier application encouraged. The Municipality has not determined the effect of GASB Statement No. 65 on the financial statements.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This statement is required to be adopted for years beginning after December 15, 2012, with earlier application encouraged. The Municipality has not determined the effect of GASB Statement No. 66 on the financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans--an amendment of GASB Statement No. 25*. This statement is required to be adopted for years beginning after June 15, 2013, with earlier application encouraged. The Municipality has not determined the effect of GASB Statement No. 67 on the financial statements.

In June 2013, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment to GASB Statement No.27*. The Municipality is required to adopt this statement for its calendar year 2014 financial statements. The Municipality has not determined the effect of GASB Statement No. 68 on the financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Municipality is required to adopt GASB Statement No. 70 for its calendar year 2014 financial statements. The Municipality has not determined the effect of GASB Statement No. 70 on the financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date--an amendment of GASB Statement No. 68*. The Municipality is required to adopt GASB Statement No. 71 for its calendar year 2015 financial statements. The Municipality has not determined the effect of GASB Statement No. 71 on the financial statements.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurements and Application*. The Municipality is required to adopt this statement for its calendar year 2016 financial statements. The Municipality has not determined the effect of GASB Statement No. 72 on the financial statements.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK

Deposits and Investments

Municipality funds may be deposited in any bank that is insured by federal deposit insurance or the Pennsylvania Local Government Investment Trust, by resolution of the Municipal Council. To the extent that such deposits exceed federal insurance, the depositories must deposit (with their trust department or other custodians) obligations of the United States, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Pennsylvania Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit with their institution.

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

Governmental Funds - The Municipality's Governmental Funds' cash and cash equivalents consist of deposits with financial institutions as follows:

CASH AND CASH EQUIVALENTS

Bank deposits	\$ 3,182,325
Pennsylvania Local Government Investment Trust	<u>3,006,290</u>
	<u>\$ 6,188,615</u>

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Municipality's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2012, \$6,158,926 of the Municipality's Governmental Funds bank balance of \$6,607,963, was exposed to custodial credit risk as follows:

GOVERNMENTAL FUNDS

Uninsured and uncollateralized	\$ 3,082,561
Uninsured and uncollateralized but covered under Act 72	<u>3,076,365</u>
	<u>\$ 6,158,926</u>

Governmental Funds investments consist of the following:

INVESTMENT, E TRADE PORTFOLIO	<u>\$ 30,143</u>
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MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK (Continued)

Agency Funds - The Municipality's Agency Funds cash and cash equivalents consist of deposits with financial institutions as follows:

CASH AND CASH EQUIVALENTS	
Bank deposits	\$ <u>275,385</u>

As of December 31, 2012, \$199,388 of the Municipality's Agency Funds bank balance of \$199,388, was exposed to custodial credit risk as follows:

AGENCY FUNDS	
Uninsured and uncollateralized but covered under Act 72	\$ <u>199,388</u>

Fiduciary Funds - As of December 31, 2012, Fiduciary Funds balances were comprised of the following:

	<u>Totals</u>	<u>Police Pension Plan</u>	<u>Paid Firefighters Pension Plan</u>
CASH AND CASH EQUIVALENTS			
Bank deposits	\$ <u>378,791</u>	\$ <u>260,389</u>	\$ <u>118,402</u>
INVESTMENTS			
Exchange traded funds	\$ 1,586,191	\$ 633,348	\$ 952,843
Mutual funds	21,931,283	18,394,957	3,536,326
International equity mutual funds	362,491	-	362,491
Common and preferred stock	380,227	58,934	321,293
Money market mutual funds	1,216,750	873,192	343,558
U.S. Government agency obligations	340,809	-	340,809
Certificates of deposit	680,277	-	680,277
Mortgage-backed security	5,680	-	5,680
	<u>\$ 26,503,708</u>	<u>\$ 19,960,431</u>	<u>\$ 6,543,277</u>

Fiduciary bank deposits were FDIC insured for \$378,791. Fiduciary certificates of deposit were FDIC insured for \$680,277.

Interest Rate Risk

Governmental Funds - As a means of limiting its exposure to fair value losses arising from fluctuations in interest rates, the Municipality takes a conservative approach to meet its projected cash flow needs by investing primarily in short-term bank deposits and cash equivalents in accordance with the Commonwealth of Pennsylvania's Act 72. PLGIT investments have maturities of less than one year.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK (Continued)

Fiduciary Funds - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Municipality's investment policy is to invest funds to achieve a positive rate of return over the long-term, sufficient to meet the Pension Plan's actuarial interest rate and provide for the payment of benefit obligations and expenses in perpetuity and in secure and prudent fashion.

As of December 31, 2012, the Municipality had the following debt investments and maturities within its Fiduciary Funds accounts:

Type of Investment	Fair Market Value at December 31, 2012	Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
PAID FIREFIGHTERS' PENSION PLAN					
U.S. Government agency obligations	\$ 340,809	\$ 40,032	\$ 78,048	\$ 222,729	\$ -
Certificates of deposit	680,277	90,822	589,455	-	-
Money market mutual funds	343,558	343,558	-	-	-
Mortgage-backed security	5,680	-	-	-	5,680
	<u>\$ 1,370,324</u>	<u>\$ 474,412</u>	<u>\$ 667,503</u>	<u>\$ 222,729</u>	<u>\$ 5,680</u>
POLICE PENSION PLAN					
Money market mutual funds	\$ 873,192	\$ 873,192	\$ -	\$ -	\$ -

Credit Risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit exposure.

The Municipality's Governmental Funds investments in the Pennsylvania Local Government Investment Trust were rated as "AAAm" by Standard and Poor's at December 31, 2012. Both instruments have maturities of three months or less and are considered to be cash equivalents. It is a fundamental policy of the aforementioned investments to maintain a net asset value of \$1 per share, but there can be no assurance that the net asset value will not vary from the \$1 per share.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK (Continued)

At December 31, 2012, the Municipality's retirement fixed income investments had a credit quality rating as follows:

Paid Firefighters Pension Plan

Type of Investment	Fair Market Value at December 31, 2012	AAAm	AAA	AA+	Unrated
U.S. Government agency obligations	\$ 340,809	\$ -	\$ 140,894	\$ 199,915	\$ -
Certificates of deposit	680,277	-	-	-	680,277
Money market mutual funds	343,558	343,558	-	-	-
Mortgage-backed security	5,680	-	-	-	5,680
	<u>\$ 1,370,324</u>	<u>\$ 343,558</u>	<u>\$ 140,894</u>	<u>199,915</u>	<u>\$ 685,957</u>

Police Pension Plan

Type of Investment	Fair Market Value at December 31, 2012	AAAm	AAA	AA+	Unrated
Money market mutual funds	\$ 873,192	\$ 873,192	\$ -	\$ -	\$ -

Concentration of Credit Risk

The Municipality's investment policy for Governmental Funds is to invest primarily in U.S. Government or federal agency securities held in money funds or in pooled funds such as the Pennsylvania Local Government Investment Trust. Investments in these funds with maturities of less than three months are considered cash equivalents.

The municipal pension plans maintain a diversity of assets to absorb market risk and to meet pension plan obligations. The following investments in pension plan assets represent more than 5% of the plan assets as of December 31, 2012:

Paid Firefighters Plan

MUTUAL FUNDS

MFS Total Return Fund-A	\$ 2,805,948
MFS Value Fund-A	605,568
Schwab1000 Index Fund	271,147
SPDR S+P 500 ETF Tr	<u>412,989</u>
	<u>\$ 4,095,652</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK (Continued)

Police Pension Plan

EXCHANGE TRADED FUNDS	
Vanguard Dividend Growth Fd IV	\$ 1,343,368
Vanguard Total Stock Market Index Fd	5,116,788
Oppenheimer Developing Markets Fd	1,196,981
Vanguard Total International Stock Index Fd	2,771,311
Metropolitan West Total Return Bond Fd	2,075,268
PIMCO Total Return FD Institutional	2,074,343
First American Government Obligation Fd	<u>821,565</u>
	<u><u>\$ 15,399,624</u></u>

Component Unit - Deposit and Investment Risk

Norristown Municipal Waste Authority - The Authority's available cash is invested in demand deposits, the Pennsylvania Local Government Investment Trust (PLGIT) and money market mutual funds. The carrying amounts of the cash deposits and investments at December 31, 2012, consist of the following:

Cash deposits	\$ 3,432,234
PLGIT	197,094
Money market mutual funds	176,956
U.S. Treasury notes	<u>1,435,163</u>
	<u><u>\$ 5,241,447</u></u>

Classification per the statement of net position:

Cash and cash equivalents	\$ 1,150,602
Restricted cash and cash equivalents	2,655,682
Restricted investments	<u>1,435,163</u>
	<u><u>\$ 5,241,447</u></u>

The Authority has custodial credit risk on cash deposits. This is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE B - DEPOSIT AND INVESTMENT RISK (Continued)

At December 31, 2012, the carrying amount of the Authority's bank deposits was \$3,806,284 of which \$250,000 was covered by Federal Depository Insurance. At December 31, 2012, the remaining bank deposit amount of \$3,556,284 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name.

The Authority has deposits of \$197,094 in external investment pools that are considered cash equivalents because of their short maturity dates and are included in the deposit figure above. The investments in the external investment pool and the money market funds were rated AAA by Standard and Poor's.

As of December 31, 2012, the Authority had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturity Less Than One Year</u>	<u>Rating as of Year-End</u>	<u>Percentage of Fair Value of Investments</u>
U.S. Government money market fund, mutual funds	\$ 64,821	\$ 64,821	AAA	5%
U.S. Treasury notes	<u>1,370,342</u>	<u>1,370,342</u>	AAA	<u>95%</u>
	<u>\$ 1,435,163</u>	<u>\$ 1,435,163</u>		<u>100%</u>

NOTE C - CAPITAL ASSETS

Governmental Activities

Capital asset activities for the year ended December 31, 2012, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 4,895,817	\$ -	\$ -	\$ 4,895,817
CAPITAL ASSETS BEING DEPRECIATED				
Infrastructure	54,972,419	1,440,438	-	56,412,857
Site land improvements	1,026,904	-	-	1,026,904
Buildings	4,867,819	187,552	-	5,055,371
Machinery, vehicles and equipment	9,476,018	589,473	-	10,065,491
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>70,343,160</u>	<u>2,217,463</u>	<u>-</u>	<u>72,560,623</u>
Accumulated depreciation				
Infrastructure	(37,241,120)	(1,653,687)	-	(38,894,807)
Site land improvements	(827,382)	(41,075)	-	(868,457)
Buildings	(2,366,525)	(108,456)	-	(2,474,981)
Machinery, vehicles and equipment	(8,127,882)	(378,445)	-	(8,506,327)
TOTAL ACCUMULATED DEPRECIATION	<u>(48,562,909)</u>	<u>(2,181,663)</u>	<u>-</u>	<u>(50,744,572)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>21,780,251</u>	<u>35,800</u>	<u>-</u>	<u>21,816,051</u>
CAPITAL ASSETS, net	<u>\$ 26,676,068</u>	<u>\$ 35,800</u>	<u>\$ -</u>	<u>\$ 26,711,868</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE C - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

General government	\$ 196,622
Highways and streets, public works	1,680,999
Recreation	38,865
Public safety	<u>265,177</u>
	<u>\$ 2,181,663</u>

Component Unit - Norristown Municipal Waste Authority

Capital asset activities for the year ended December 31, 2012, are as follows:

	Balance January 1, 2012	Additions	Transfers and Deletions	Balance December 31, 2012
CAPITAL ASSETS NOT BEING DEPRECIATED				
Construction in progress	\$ <u>615,669</u>	\$ <u>657,055</u>	\$ <u>(365,997)</u>	\$ <u>906,727</u>
CAPITAL ASSETS BEING DEPRECIATED				
Sewer plant	19,469,080	63,532	(21,966)	19,510,646
Sewer collection system	7,171,885	226,416	-	7,398,301
Equipment	<u>243,815</u>	<u>31,789</u>	<u>-</u>	<u>275,604</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>26,884,780</u>	<u>321,737</u>	<u>(21,966)</u>	<u>27,184,551</u>
Accumulated depreciation				
Sewer plant	(8,975,886)	(398,474)	8,762	(9,365,598)
Sewer collection system	(1,519,780)	(143,842)	-	(1,663,622)
Equipment	<u>(63,851)</u>	<u>(34,859)</u>	<u>-</u>	<u>(98,710)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(10,559,517)</u>	<u>(577,175)</u>	<u>8,762</u>	<u>(11,127,930)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>16,325,263</u>	<u>(255,438)</u>	<u>(13,204)</u>	<u>16,056,621</u>
CAPITAL ASSETS, net	<u>\$ 16,940,932</u>	<u>\$ 401,617</u>	<u>\$ (379,201)</u>	<u>\$ 16,963,348</u>

A total of \$365,997 of construction in progress was completed and transferred to sewer collection system capital assets in 2012.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS

Substantially all employees of the Municipality participate in one of the Municipality's pension plans. The Municipality has separate retirement plans for qualified police, firemen and non-uniformed employees.

Each year, the Municipality receives state funds under the Municipality Pension Plan Funding Standard and Recovery Act (Act 205). The amount for 2012, was \$847,538. The allocation of these funds is based on the actuarial valuation of the plans, which may differ from state receipts because of the use of accrual basis accounting.

The allocations of Act 205 funds, as approved by council, were as follows:

Paid Firefighter's Pension Plan	\$	180,558
Police Pension Plan		<u>666,980</u>
	\$	<u><u>847,538</u></u>

The following brief descriptions of the retirement plans are provided for general information purposes only. Plan participants should refer to the appropriate source documents for more complete information on the plans.

Police Pension Plan

The Municipality issues a publicly available financial report that includes financial statements and required supplementary information for the Police Pension Plan. That report can be obtained by writing to: O'Neill Consulting Corporation, 1560 Old York Road, Abington, Pennsylvania 19001, or by calling (215) 657-7400.

The Police Pension Plan is a single employer, defined benefit pension plan established by the Municipality. The Plan is a trust created for the exclusive benefit of the participants and their beneficiaries, and, as such, is exempt from federal income taxes under Internal Revenue Code Section 401(a).

Pursuant to the Act of May 29, 1956 P.L. 1804 (Act 600), as amended, this Act assigns authority to establish and amend benefit provisions to provide pension benefits for all its full-time police officers. In addition, the Plan provides survivor and disability benefits as outlined below.

1. *Normal Retirement Benefit* - Each participant retiring at his normal retirement date shall be entitled to receive a monthly benefit equal to an amount calculated from the plan provisions selected by the participant.
2. *Disability Benefit* - To be eligible for disability benefits, participants must become permanently and totally disabled as a direct result of injuries received in the line of duty prior to reaching the member's normal retirement date. The member is entitled to receive a monthly disability benefit in an amount equal to 70% of the member's final average monthly salary during the last 36 months prior to becoming disabled.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

3. *Survivor Benefit* - The Plan provides for a death benefit for the preretirement death of participants killed in the line of duty. The participant's spouse is entitled, during the spouse's lifetime (or children to age 18, or age 23 if attending college, if there is no spouse), to receive a pension equal to 100% of salary.
4. *Normal Retirement Benefits* - A police officer's normal retirement benefit shall be equal to 50% of Final Average Salary (last 36 months of W-2 pay) plus \$25 per month for each full year of service in excess of 25 years. The normal form of benefits under this Plan is 50% Joint and Survivor Annuity. A police officer may select the 100% Joint and Survivor Annuity option.
5. *Deferred Vested Retirement Benefits* - A police officer who separates from employment with the Municipality after 12 years of service and then terminates employment as a Municipality police officer may elect to vest his deferred vested retirement benefits by submitting to the Board of Trustees a written notice of his intent to vest these benefits. The police officer shall be entitled to receive a deferred vested retirement benefit, payable upon the date which would have been his normal retirement date if the police officer had continued to be employed. The deferred vested retirement benefit shall be determined by applying the percentage of years of actual service to the years of service that would have been rendered if the police officer had continued working up until the normal retirement date.
6. *Early Retirement Benefits* - A police officer may retire before reaching his normal retirement date. However, the police officer must have reached the age of 45 with at least 15 years of service. The pension of a police officer electing early retirement shall be calculated the same as the deferred vested pension (see above) and shall be actuarially reduced from the deferred vested amount to reflect a retirement date earlier than the police officer's normal retirement date. Benefits shall be payable upon the first of the month coincident with or next following the police officer's early retirement.
7. *Vesting* - 12 years of service.
8. Effective January 1, 2008, the Plan was amended to offer a five-year self-directed Deferred Retirement Option Plan ("DROP") to all police officers who reach the age of 55 and who complete at least 25 years of service.
9. Effective January 1, 2008, the Plan was amended for distributions on and after January 1, 2008, to include a Roth IRA benefit, as defined in Section 408 of the Internal Revenue Code, and to amend the limitations on benefits section of the Plan to follow Section 415 of the Internal Revenue Code and regulation issued thereunder.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

At December 31, 2012, the Plan membership consisted of the following:

Current active employees	63
Retirees and beneficiaries currently receiving benefits	81
Employees vested, entitled to benefits, but not receiving them	<u>2</u>
	<u><u>146</u></u>

Funding Policy - Plan members contribute at a rate of 5% of their annual covered salary. The Municipality's contribution is determined based on actuarial valuations and is governed by Pennsylvania Act 205, which monitors minimum actuarial funding for pension plans. Administrative costs of the Plan are financed through investment earnings. Significant actuarial assumptions used by the actuary include (1) a rate of return on the investments of present and future assets of 8.25% per annum, (2) projected salary increases of 5.5% per year compounded annually, (3) members are assumed to retire upon attainment of age 55 or the completion of 25 years of service on valuation date, if later, (4) an inflation rate of 3.5%.

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Funding Progress

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2007	\$ 25,522,825	\$ 26,802,381	\$ 1,279,556	95.2%	\$ 5,294,164	24.2%
2009	19,342,849	29,707,243	10,364,394	65.1%	5,683,212	182.4%
2011	21,549,200	31,749,111	10,199,911	67.9%	6,086,480	167.6%

The UAAL is being amortized over the average lifetime of active plan participants. The portion of the UAAL arising from actuarial gains and losses is amortized over a 15-year period.

Investments - The Pension Trust Fund investments are stated at fair value. Investments that do not have an established market are reported at estimated fair value.

Annual Pension Cost and Net Pension Obligation - The annual required contribution was determined based on the most recent annual actuarial valuation dated as of January 1, 2011.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

Actuarial Valuation Information - The Municipality has an actuarial valuation prepared every two years. The following methods and assumptions were used to prepare the valuation:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5 Year Asset Smoothing
Amortization Method	Level Dollar
Actuarial Assumptions	
Investment Rate of Return	8.25%
Projected Salary Increases	5.50%

Contributions Required and Contributions Made - Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation ("MMO") to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated contributions. The annual required contribution for the MMO to the Pension Trust Fund in 2012, was \$1,294,190, which was funded entirely by the Municipality through state aid and municipal contributions. Municipal contributions were \$627,210 of the required MMO. Employee contributions in 2012, totaled \$327,191. State aid and employee participant contributions in 2012 amounted to 11.25% and 6.0%, respectively, of the \$5,954,543 annual covered payroll.

Schedule of Contributions from Employer - Six-Year Trend Information

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Contribution Made</u>	<u>Percentage of Annual Required Contribution Contributed</u>
2012	\$ 1,294,190	\$ 1,294,190	100%
2011	1,342,405	1,342,405	100%
2010	629,124	629,124	100%
2009	561,254	561,254	100%
2008	341,860	341,860	100%
2007	297,879	297,879	100%

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

Paid Firefighters' Pension Plan

The Municipality issues a publicly available financial report that includes financial statements and required supplementary information for the Paid Firefighters' Pension Plan. That report can be obtained by writing to Valley Forge Benefit Administrators, 400 Franklin Avenue, Suite 135, Phoenixville, Pennsylvania 19460 or by calling (215) 483-6000.

The Paid Firefighters' Pension Plan is a single employer, defined benefit pension plan established pursuant to the Agreement and Declaration of Trust of the Norristown Paid Firefighters' Pension Fund. The Plan is a trust created for the exclusive benefit of the participants and their beneficiaries, and, as such, is exempt from federal income taxes under Internal Revenue Code Section 401(a).

The Plan provides for normal, early, deferred vested and disability pension and for death benefits as outlined below:

1. *Normal Retirement Benefits* - Each participant retiring at his normal retirement date (age 50 and 25 years of service) shall be entitled to receive a monthly benefit equal to, or the actuarial equivalent of, his accrued benefit in the normal form.
2. *Early Retirement Benefits* - Each participant retiring at his early retirement date shall be entitled to receive a monthly benefit commencing as of his early retirement date. This benefit is equal to his accrued benefit in the normal form as of his early retirement date, reduced by 1/151 for each of the first five years and for each of the next five years by which his early retirement date precedes his normal retirement date. Early retirement is available at age 45 with ten years of service.
3. *Deferred Retirement Benefits* - Each participant retiring at his deferred retirement date shall be entitled to receive a monthly (or other periodic) benefit commencing as of his deferred retirement date equal to, or the actuarial equivalent of, his accrued benefit in the normal form as of the deferred retirement date.
4. *Disability Retirement Benefits* - To be eligible for a disability benefit, participants must be permanently and totally disabled. For severe service connected disability, the benefit is equal to 100% of applicable compensation at the date of disability. For moderate service connected disability, the benefit is equal to 50% of applicable compensation at the date of disability. For non-service connected disability, the benefit is equal to 30% of applicable compensation at the date of disability provided that the participant has completed ten years of service.
5. *Death Benefits* - Preretirement benefit for those killed in the line of duty is an amount equal to the participant's contributions plus 5% interest thereon compounded annually. A preretirement death benefit, for those not killed in the line of duty, based on a 100% Joint and Survivor Annuity after ten years of service is provided. Postretirement benefit, the excess, if any, of the participant's contributions plus 5% interest thereon compounded annually and the total pension payments made.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

6. *Forms of Benefit* - Normal form - 100% joint and survivor annuity; optional forms 50% joint and survivor annuity and 66 2/3% joint and survivor annuity.
7. *Vesting* - 12 years of service.

At December 31, 2012, the Plan membership consisted of the following:

Current active employees	18
Retirees and beneficiaries currently receiving benefits	10
Employees vested, entitled to benefits, but not receiving them	-
	<u>28</u>

Funding Policy - Members contribute at a rate of 3% of compensation. The Municipality's contribution is determined based on actuarial valuations. Significant actuarial assumptions used by the actuary include (1) a rate of return on investments of present and future assets of 8.25% per annum, (2) projected salary increases of 5.5% per year compounded annually, (3) members are assumed to retire upon attainment of the age of 53 and the completion of 25 years of service and (4) an inflation rate of 3.5%.

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Funding Progress

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2007	\$ 6,041,700	\$ 6,470,636	\$ 428,936	93.4%	\$ 1,279,914	33.5%
2009	5,676,212	7,229,530	1,553,318	78.5%	1,538,471	101.0%
2011	6,324,975	8,410,955	2,085,980	75.2%	1,751,092	119.1%

The UAAL is being amortized over the average lifetime of active plan participants. The portion of the UAAL arising from actuarial gains and losses is amortized over a 19-year period.

Investments - The Pension Trust Fund investments are stated at fair value. Investments that do not have an established market are reported at fair value.

Annual Pension Cost and Net Pension Obligation - The annual required contribution was determined based on the most recent annual actuarial valuation dated as of January 1, 2011.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

Actuarial Valuation Information - The Municipality has an actuarial valuation prepared every two years. The following methods and assumptions were used to prepare the valuation:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5 Year Asset Smoothing
Amortization Method	Level Dollar
Actuarial Assumptions	
Investment Rate of Return	8.25%
Projected Salary Increases	5.50%

Contributions Required and Contributions Made - Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation ("MMO") to each employee pension fund of the Municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated contributions. The annual required contribution for the MMO to the Pension Trust Fund in 2012, was \$357,542, which was funded entirely by the Municipality through state aid and municipal contributions. Municipal contributions were \$176,984 of the required MMO in 2012. Employee contributions in 2012, totaled \$68,778.

Schedule of Contributions from Employer - Six-Year Trend Information

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Contribution Made</u>	<u>Percentage of Annual Required Contribution Contributed</u>
2012	\$ 357,542	\$ 357,542	100%
2011	367,556	367,556	100%
2010	267,008	267,008	100%
2009	242,045	242,045	100%
2008	191,161	191,161	100%
2007	192,259	192,259	100%

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

Non-Uniformed Pension Plan

The Non-Uniformed Pension Plan is a single employer, defined benefit pension plan. The Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by writing to the Chief, Accounting Division of Commonwealth of Pennsylvania, Pennsylvania Municipal Retirement System, PO Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling (800) 622-7968.

The Plan was established by the Municipality to provide pension benefits for all its full-time non-uniformed employees. In addition, the Plan provides survivor and disability benefits as outlined below:

1. *Normal Retirement Benefits* - Each participant retiring at his normal retirement date shall be entitled to receive a monthly benefit as of his normal retirement date equal to, or the actuarial equivalent of, his accrued benefit in the normal form.
2. *Disability Benefit* - To be eligible for disability benefit, participants must be permanently and totally disabled. For service-related disability, the benefit is equal to 50% of applicable compensation at the date of disability.
3. *Survivor Benefit* - If the participant was eligible for retirement at the time of death, the beneficiary receives the present value of the participant's accrued benefits.
4. *Vesting* - 100% after 12 years of service.

At December 31, 2012, the Plan membership consisted of the following:

Current active employees	46
Retirees and beneficiaries currently receiving benefits	25
Employees vested, entitled to benefits, but not receiving them	2
	73

Funding Policy - Members contribute at a rate of 4.5% of compensation. The Municipality's Contribution is determined based on actuarial valuations. Significant actuarial assumptions include (1) a rate of return on investments of present and future assets of 6% per annum, (2) projected salary increases of 4.5% per year compounded annually, (3) members are assumed to retire within a range of years between 61 and 75.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Funding Progress

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2007	\$ 6,389,440	\$ 4,076,053	\$ (2,313,387)	156.8%	\$ 1,575,840	-146.8%
2009	6,965,490	4,265,541	(2,699,949)	163.3%	1,995,796	-135.3%
2011	7,360,181	4,784,187	(2,575,994)	153.8%	2,134,745	-120.7%

Investments - Investments are reported at fair value. The Plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures for aggregate PMRS investments are included in PMRS's separately issued Comprehensive Annual Financial Report (CAFR).

Annual Pension Cost and Net Pension Obligation - Employer contributions made for 2012, were \$120. Member contributions for the year ended December 31, 2012, amounted to \$91,408.

Actuarial Valuation Information - The Plan has an actuarial valuation prepared every two years. The following methods and assumptions were used to prepare the valuation:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value
Actuarial Assumptions	
Investment Rate of Return	6.00%
Projected Salary Increases	5.20%

Laborers Non-Uniformed Pension Plan

The Laborers Non-Uniformed Pension Plan is a participant in a multi-employer pension plan with the Laborers' District Council of the Metropolitan Area of Philadelphia and the Vicinity. The multi-employer plan is a defined benefit pension plan covering all eligible employees covered by the collective bargaining agreements. It is subject to the provision of the Employee Retirement Income Security Act of 1974 (ERISA).

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The financial report may be obtained by writing to the Plan Administration Laborer's District Council Pension Plan, 500-506 North 6th Street, Philadelphia, Pennsylvania 19123 or by calling (215) 928-6166.

Active members of the Plan are not required to contribute to the plan. The Municipality is required to contribute \$2.38 per hour worked for each member.

At December 31, 2012, the Plan membership consisted of the following:

Current active employees	18
Retirees and beneficiaries currently receiving benefits	21
Employees vested, entitled to benefits, but not receiving them	<u>6</u>
	<u><u>45</u></u>

A schedule of state aid and employer contributions for each year in the six-year period ended December 31, is as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>State Aid</u> <u>Deposited</u>	<u>Employer</u> <u>Contributions</u>
2012	\$ -	\$ 84,281
2011	-	91,617
2010	-	92,134
2009	-	84,151
2008	-	82,901
2007	-	55,661

ICMA Retirement Pension Plan

The International City Manager's Association (ICMA) Retirement Pension Plan is a single employer, defined contribution plan administered by the International City Manager's Association Retirement Corporation. Plan provisions are established or amended by Municipality Council resolutions. Eligible participants include the Municipality's managers and its solicitor.

Active members are not required to contribute to the plan. The Municipality is required to contribute 6.18% of annual covered payroll. The Plan may also be eligible for an annual allocation from the General Municipal Pension System State Aid Program, which is used to reduce or eliminate the required municipal contribution.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE D - EMPLOYEES' RETIREMENT PLANS (Continued)

Participants have, at all times, a 100% interest in their accounts. Normal retirement age is 65 years. The Plan is a money purchase plan qualified under Section 401(a) of the Internal Revenue Code. At December 31, 2012, the Plan's membership consisted of the following:

Current active employees	4
Retirees and beneficiaries currently receiving benefits	-
Employees vested, entitled to benefits, but not receiving them	<u>4</u>
	<u><u>8</u></u>

A schedule of state aid and employer contributions for each year in the six-year period ended December 31, is as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>State Aid</u> <u>Deposited</u>	<u>Employer</u> <u>Contributions</u>
2012	\$ -	\$ 23,975
2011	-	21,722
2010	-	18,204
2009	-	14,426
2008	-	17,074
2007	-	13,569

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended December 31, 2012:

	<u>Maturity Date</u>
GOVERNMENTAL ACTIVITIES	
General obligation bonds and notes	
1998 Taxable Series	2018
1998 Series A	2016
2001 Series	2016
2002 Series	2015
2002 Series A	2012
2003 Series	2013
2004 Series A	2015
2004 Series AA	2014
2004 Series AAA	2018
2004 Series	2034
2006 Series-SL Projects	2026
2006 Series-Capital	2026
TOTAL GENERAL OBLIGATION BONDS AND NOTES	
Deferred amounts	
Issuance discount	
Issuance premium	
TOTAL DEFERRED AMOUNTS	
TOTAL GENERAL OBLIGATION BONDS AND NOTES	
Capital leases	
Compensated absences	
OPEB liability	
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	
COMPONENT UNIT - NORRISTOWN MUNICIPAL WASTE AUTHORITY	
Sewer revenue bonds	
Series 2003	2023
Series 2009	2025
TOTAL SEWER REVENUE BONDS	
Deferred amounts	
Issuance discount	
TOTAL BONDS PAYABLE	
Compensated absences	
TOTAL COMPONENT UNIT LONG-TERM LIABILITIES	

General obligation debts are generally liquidated by the Debt Service Fund. The \$333,716 addition to the 1998 Series A Capital Appreciation Bond represents accreted interest.

Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
\$ 2,605,000	\$ -	\$ (300,000)	\$ 2,305,000	\$ 320,000
6,283,796	333,716	(1,465,000)	5,152,512	1,470,000
660,000	-	(120,000)	540,000	125,000
135,000	-	(35,000)	100,000	30,000
150,000	-	(150,000)	-	-
950,000	-	(465,000)	485,000	485,000
781,000	-	(1,000)	780,000	1,000
344,000	-	(11,000)	333,000	169,000
4,005,000	-	(15,000)	3,990,000	15,000
7,750,000	-	(175,000)	7,575,000	185,000
3,006,873	-	(140,988)	2,865,885	147,245
1,406,000	-	(1,000)	1,405,000	1,000
<u>28,076,669</u>	<u>333,716</u>	<u>(2,878,988)</u>	<u>25,531,397</u>	<u>2,948,245</u>
(109,215)	-	11,628	(97,587)	11,628
6,970	-	(3,485)	3,485	(2,485)
<u>(102,245)</u>	<u>-</u>	<u>8,143</u>	<u>(94,102)</u>	<u>9,143</u>
27,974,424	333,716	(2,870,845)	25,437,295	2,957,388
218,157	395,292	(117,916)	495,533	108,824
1,418,464	66,185	-	1,484,649	157,277
556,146	212,703	-	768,849	-
<u>\$ 30,167,191</u>	<u>\$ 1,007,896</u>	<u>\$ (2,988,761)</u>	<u>\$ 28,186,326</u>	<u>\$ 3,223,489</u>
\$ 12,920,000	\$ -	\$ (775,000)	\$ 12,145,000	\$ 800,000
6,429,000	-	(383,000)	6,046,000	404,000
<u>19,349,000</u>	<u>-</u>	<u>(1,158,000)</u>	<u>18,191,000</u>	<u>1,204,000</u>
(405,771)	-	36,591	(369,180)	-
18,943,229	-	(1,121,409)	17,821,820	1,204,000
29,366	4,730	-	34,096	-
<u>\$ 18,972,595</u>	<u>\$ 4,730</u>	<u>\$ (1,121,409)</u>	<u>\$ 17,855,916</u>	<u>\$ 1,204,000</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES (Continued)

Long-Term Debt

An analysis of debt service requirements to maturity on general obligation debt follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 2,948,245	\$ 1,047,749	\$ 3,995,994
2014	3,029,780	969,641	3,999,421
2015	3,109,605	889,199	3,998,804
2016	3,174,490	797,497	3,971,987
2017	3,262,391	705,634	3,968,025
2018 to 2022	4,502,816	2,130,836	6,633,652
2023 to 2027	2,751,558	1,415,888	4,167,446
2028 to 2032	2,330,000	753,529	3,083,529
2033 to 2034	1,135,000	100,275	1,235,275
	<u>26,243,885</u>	<u>\$ 8,810,248</u>	<u>\$ 35,054,133</u>
Less unaccreted amount on 1998 Capital Appreciation Bond	<u>(712,488)</u>		
	<u>\$ 25,531,397</u>		

The following is a summary of general obligation debt outstanding:

Bonds, Taxable Series of 1998, in the amount of \$5,105,000 were issued to finance pension obligations. Interest rates range from 6.55% to 7.00%; principal payments are due annually and interest payments are due semiannually through October 15, 2018. The outstanding principal balance at December 31, 2012, amounted to \$2,305,000.

General Obligation Bonds, Series A of 1998, in the amount of \$4,772,699 were issued as capital appreciation bonds, which were used to fund unfunded debt and for the refunding of prior debt. Interest rates range from 4.93% to 5.38%. Interest is accreted annually to a face value (principal and compounded interest) of \$10,200,000. Principal and interest payments commence December 15, 2010 and mature December 15, 2016. The accreted value of the bonds outstanding amounted to \$5,152,512 at December 31, 2012.

General Obligation Bonds, Series of 2001, in the amount of \$3,705,000 were used to finance capital projects and refund prior debt. Interest rates range from 3.00% to 5.00%. Principal payments are due annually and interest payments are due semiannually through May 15, 2016. The outstanding principal amounted to \$540,000 at December 31, 2012.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds, Series 2002, in the amount of \$5,190,000 were issued to refund prior debt. Interest rates range from 2.00% to 4.70%. Principal payments are due annually and interest is due semiannually through December 31, 2015. The outstanding principal balance at December 31, 2012, amounted to \$100,000.

General Obligation Bonds, Series A of 2002, in the amount of \$1,300,000 were issued to fund unfunded debt. Interest rates range from 2.25% to 4.40%. Principal payments are due annually and interest payments are due semiannually through November 15, 2012. The outstanding principal balance at December 31, 2012, amounted to \$0.

General Obligation Bonds, Series of 2003, in the amount of \$4,135,000 were issued to fund unfunded debt. Interest rates range from 2.50% to 4.25%. Principal payments are due annually and interest payments are due semiannually through November 15, 2013. The outstanding principal balance at December 31, 2012, amounted to \$485,000.

General Obligation Bonds, Series AAA of 2004, in the amount of \$4,040,000 were issued to fund capital projects. Interest rates range from 2.50% to 4.35%. Principal payments are due annually and interest payments are due semiannually through November 15, 2018. The outstanding principal balance at December 31, 2012, amounted to \$3,990,000.

General Obligation Bonds, Series 2004, in the amount of \$8,545,000 were issued to fund pension plans. Interest rates range from 3.39% to 5.83%. Principal payments are due annually and interest payments are due semiannually through November 1, 2034. The outstanding principal balance at December 31, 2012, amounted to \$7,575,000.

A General Obligation Note, Series A of 2004, in the amount of \$788,000 was issued to refund prior debt at a 3.99% fixed interest rate. Principal payments are due annually and interest payments are due semiannually through November 15, 2015. Principal is repaid \$1,000 per year through 2013 with increased lump-sum principal payments of \$521,000 and \$258,000 due in 2014 and 2015, respectively. The outstanding principal balance of this note amounted to \$780,000 at December 31, 2012.

A General Obligation Note, Series AA of 2004, in the amount of \$351,000 was issued to refund prior debt at a 5.89% fixed interest rate. Principal payments are due annually and interest payments are due semiannually through November 15, 2014. Principal is repaid \$1,000 per year through 2011 with increased principal payments of \$11,000, \$169,000 and \$164,000 due in 2012, 2013 and 2014, respectively. The outstanding principal balance of this note amounted to \$333,000 at December 31, 2012.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES (Continued)

A General Obligation Note, Series of 2006, was issued to fund capital projects in the amount of \$1,411,000 and street lights projects in the amount of \$3,570,753. Principal payments on the capital projects portion of the note are \$1,000 per year through 2017, with a final lump sum principal payment of \$1,400,000 due June 1, 2018. Interest is paid semiannually at 4.39% through June 1, 2016. Interest is reset for the remainder of the loan at 60% of the ten-year average LIBOR rate plus 250 basis points. The maximum cap on the interest rates is 6.25%.

Principal payments on the street light projects portion of the note are due annually and interest payments are due semi-annually through December 1, 2026. Interest rates are fixed at 4.39% through June 1, 2016. Interest is reset for the remainder of the loan at 60% of the ten-year average LIBOR rate plus 250 basis points. The maximum cap on the interest rates is 6.25%. Principal balances on the capital projects and street light projects portions of the note amounted to \$1,405,000 and \$2,865,885, respectively, at December 31, 2012.

Component Unit - Norristown Municipal Waste Authority

Sewer Revenue Bonds, Series of 2003, in the amount of \$14,760,000 were issued to provide funds for the acquisition, construction and improvement of facilities. Interest rates range from 2.3% to 5.125%. Principal payments are due annually and interest payments are due semi-annually through November 2023. The outstanding principal balance at December 31, 2012, amounted to \$12,145,000.

Sewer Revenue Bonds, Series of 2009, in the amount of \$7,390,000 were issued to refund previously issued Sewer Revenue Notes, Series of 2005. Interest rate is 5% through 2015, subject to adjustment thereafter. Principal payments are due annually and interest payments are due semiannually through November 2025. The outstanding principal balance at December 31, 2012, amounted to \$6,046,000.

Aggregate maturities required on long-term debt at December 31, 2012, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 1,204,000	\$ 834,332	\$ 2,038,332
2014	1,259,000	782,006	2,041,006
2015	1,202,000	731,073	1,933,073
2016	1,263,000	780,226	2,043,226
2017	1,323,000	719,784	2,042,784
2018 to 2022	7,667,000	2,535,270	10,202,270
2023 to 2025	4,273,000	370,718	4,643,718
	<u>\$ 18,191,000</u>	<u>\$ 6,753,409</u>	<u>\$ 24,944,409</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES (Continued)

Capital Lease Obligations

The Municipality has entered into lease agreements as a lessee for financing the acquisition of certain equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the lower of asset value or present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

<u>Item</u>	<u>Amount Financed (Cost)</u>	<u>Term of Agreement</u>	<u>Annual Payment</u>	<u>Interest Rate</u>
Peterbilt truck with sweep	\$ 167,589	5 years	\$ 36,531	4.50%
Dump truck with plow	75,834	7 years	12,537	4.25%
Fire truck	395,292	7 years	61,626	2.72%
Skid steer	65,467	5 years	14,504	4.09%
	<u>\$ 704,182</u>		<u>\$ 125,198</u>	

This equipment is included in machinery, vehicles and equipment in Note C. Accumulated depreciation at December 31, 2012, was \$142,484.

The annual payments for principal and interest due for the remainder of the lease agreement are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 108,824	\$ 16,376	\$ 125,200
2014	112,708	12,490	125,198
2015	83,558	8,459	92,017
2016	68,394	5,769	74,163
2017	70,431	3,732	74,163
2018	51,618	1,632	53,250
	<u>\$ 495,533</u>	<u>\$ 48,458</u>	<u>\$ 543,991</u>

Compensated Absences

Full-time employees earn vacation time. Carryover of vacation time after year-end is subject to contract limits. In addition, employees also accrue sick leave benefits subject to contract limits. Certain unused sick time is purchased annually from employees subject to contract limits.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE E - LONG-TERM LIABILITIES (Continued)

GAAP requires accrual of sick and vacation pay that meets certain specific conditions. The Municipality has determined that such conditions apply to accumulated sick and vacation pay of Governmental Funds. To the extent sick pay liabilities in Governmental Funds are to be liquidated with available resources (annual sick buy back shortly after year-end), they are accounted for as fund liabilities in the Governmental Funds fund financial statements; the total obligation for both sick and vacation pay is accounted for as a liability in the government-wide financial statements.

Total compensated absence liabilities presented on the statement of net position amounted to \$1,484,649 as of December 31, 2012.

NOTE F - LEASE COMMITMENTS - OPERATING LEASES

The Municipality is the lessee of certain vehicles and equipment under operating leases that have remaining noncancelable lease terms in excess of one year.

Minimum annual rentals are as follows:

<u>Year Ending December 31,</u>	<u>Annual Rentals</u>
2013	\$ <u><u>2,090</u></u>

Rent expense under the operating leases amount to \$20,918 for the year ended December 31, 2012.

NOTE G - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances consist of the following at December 31, 2012:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 113,441
General Fund	Community Development Fund	22,083
General Fund	Capital Projects Fund	584,117
General Fund	Other Governmental Funds	40,935
Agency Fund	Capital Projects Fund	<u>58,756</u>
		<u>\$ 819,332</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE G - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund transfers for the year ended December 31, 2012, are as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 4,116,243
Debt Service Fund	3,996,243	-
Capital Projects Fund	120,000	-
	<u>\$ 4,116,243</u>	<u>\$ 4,116,243</u>

NOTE H - RISK MANAGEMENT

The Municipality maintains an insurance policy for workers' compensation insurance. Insurance premiums are developed based on employee job descriptions, rate factors and payroll costs for the year. The policy has an audit performed each year, and the Municipality may be required to pay any additional premium as a result of the audit, or the Municipality may be entitled to a refund as a result of the audit. For the year ended December 31, 2012, the Municipality paid net insurance premiums of \$355,622.

The Municipality is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; natural disaster; injuries to people on municipal property; and civil right violation claims. Management and legal representation is not aware of any claims that are material in nature and that would exceed insured limits as of December 31, 2012. Covered settled claims arising during the last four years of insurance coverage did not exceed liability coverage.

NOTE I - CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Municipality and its elected officials. Management and its counsel are of the opinion that these matters will not have a material adverse effect on the Municipality's financial position at December 31, 2012.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND

Plan Description

The Municipality sponsors a single-employer postemployment benefit plan that covers health and life insurance for eligible retirees of the Municipality's police and firefighters. These benefits were encompassed within each of the respective union contracts. All plan benefits are dictated in the contracts.

Annual OPEB Cost and Net OPEB Obligation

The Municipality's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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.

Funding Policy

The Municipality currently funds the plan on a pay-as-you-go basis. The eligible retirees currently contribute nothing towards the plan's costs. The ARC for 2012 was \$331,312.

The components of the Municipality's annual OPEB costs for the past three years, the amounts actually contributed to the plan and the changes in the Municipality's net OPEB obligation to the plan are as follows:

(1) Year	(2) ARC	(3) Interest on Net OPEB Obligation	(4) ARC Adjustment	(5) OPEB Cost (2+3+4)	(6) Contributions	(7) Changes in Net OPEB Obligation (5-6)	Net OPEB Obligation Balance
2010	\$ 312,525	\$ 6,441	\$ (5,820)	\$ 313,146	\$ 112,835	\$ 200,311	\$ 361,338
2011	319,968	14,454	(21,276)	313,146	118,338	194,808	556,146
2012	331,312	22,246	(32,162)	321,396	108,693	212,703	768,849

Annual OPEB Contributions

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 313,146	36%	\$ 361,338
2011	313,146	34%	556,146
2012	321,396	34%	768,849

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND (Continued)

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,149,289 and the actuarial value of assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$7,580,318, and the ratio of the UAAL to the covered payroll was 54.7%.

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 the 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 basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial 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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. The following is a summary of the actuarial assumptions used in the valuation:

Investment Return - The assumed rate used to discount obligations was the Funded Conservative Method of 4%.

Salary Scale - None assumed.

Retirement Rates - Age 60 and 25 years of service for the police (it was assumed at that age the retiring officer will enter the DROP at age 55 and stay for five years). Age 53 and 25 years of service was assumed for firefighters. Also, it was assumed that 70% of the retirees will receive the postretirement medical benefit as 30% of those retirees will be covered by another plan.

Termination - Sarason T-3.

Preretirement Mortality - 1971 Group Annuity Mortality Table for males with female rates set back six years.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND (Continued)

Postretirement Mortality - Same as the preretirement mortality. Rates of Disablement - 1964 OASDI Disability Table was used.

Post-Disablement Mortality - Standard mortality rates were set forward ten years.

Administrative Expenses - None assumed.

Percent Married - 90% of all active employees were assumed to be married at the point of retirement.

Age of Spouse - The female spouse is assumed to be three years younger than the male spouse for future retirees.

Medical Inflation - 9% in the first year gradually decreasing by 1% per year, to an ultimate rate of 5%.

Valuation of Obligations - The Entry Age Normal Method was used. Valuation of Assets - Market value of assets was used.

NOTE K - LOAN GUARANTEE

During 2011, the Municipality acted as the Unit of General Local Government for the Redevelopment Authority of Montgomery County to borrow \$5,000,000 from the U.S. Department of Housing and Urban Development ("HUD") under the Section 108 Program. The Redevelopment Authority used the funds to provide a loan to a local developer (Johnson & Markley Redevelopment, L.P.) for the redevelopment of an existing commercial building. Interest payments on the loan are due February 1, May 1, August 1 and November 1 and principal payments are due annually, commencing August 1, 2018 through August 1, 2030. Under the terms of the financing agreement, the Municipality guarantees the payment of principal and interest on the loan with its Community Development Block Grant ("CDBG") Funds should the Redevelopment Authority fail to make the required payments.

NOTE L - SUBSEQUENT EVENTS

In 2011, the Municipality guaranteed \$5,000,000 in HUD Section 108 Loans that were advanced to a local developer (Johnson & Markley Redevelopment, L.P.) in connection with redevelopment of an existing commercial building. Repayment of the loans is guaranteed by the Community Development Block Grant (CDBG) entitlements of the Municipality.

MUNICIPALITY OF NORRISTOWN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE L - SUBSEQUENT EVENTS (Continued)

The local developer has been unable to make the loan payments due to the senior lender as well as the Redevelopment Authority of Montgomery County. In May 2013, the senior lender initiated foreclosure proceedings against the project and the local developer. As part of the financing provided in 2011, Montgomery County had agreed to subordinate all of its debt (including the HUD Section 108 Program loan funds) to the senior lender, who provided the original financing for the acquisition of the property.

Montgomery County will participate in the foreclosure process as per the requirements of the Subordination Agreement and will seek to extract any value that may be available for recovery. Given the present economic reality of the project, the Municipality does not anticipate realizing any return from these investments and believes that the funding provided to this project will likely be lost during this process.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF NORRISTOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 10,666,900	\$ 10,666,900	\$ 10,547,060	\$ (119,840)
Local enabling taxes	7,829,700	7,829,700	9,854,953	2,025,253
Licenses and permits	876,150	876,150	972,618	96,468
Fines and forfeits	1,616,575	1,616,575	1,635,958	19,383
Intergovernmental	1,786,287	1,786,287	2,110,731	324,444
Charges for services	3,705,483	3,705,483	3,754,651	49,168
Investment earnings	10,500	10,500	83,044	72,544
Miscellaneous	174,450	174,450	89,563	(84,887)
TOTAL REVENUES	26,666,045	26,666,045	29,048,578	2,382,533
EXPENDITURES				
General government	6,800,618	6,800,618	7,465,989	(665,371)
Public safety	12,809,202	12,809,202	12,514,953	294,249
Sanitation	2,371,000	2,371,000	2,311,692	59,308
Highways and streets	1,169,451	1,169,451	1,006,510	162,941
Culture and recreation	355,720	355,720	365,123	(9,403)
Community development	142,103	142,103	152,332	(10,229)
Payment on capital lease	-	-	63,123	(63,123)
Capital outlays	186,171	186,171	743,534	(557,363)
TOTAL EXPENDITURES	23,834,265	23,834,265	24,623,256	(788,991)
EXCESS REVENUES OVER EXPENDITURES	2,831,780	2,831,780	4,425,322	1,593,542
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	395,292	395,292
Proceeds from sale of capital assets	500	500	-	(500)
Transfers in	931,732	931,732	-	(931,732)
Transfers out	(4,116,243)	(4,116,243)	(4,116,243)	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,184,011)	(3,184,011)	(3,720,951)	(536,940)
NET CHANGE IN FUND BALANCE	\$ (352,231)	\$ (352,231)	704,371	\$ 1,056,602
FUND BALANCE AT BEGINNING OF YEAR			8,584,027	
FUND BALANCE AT END OF YEAR			\$ 9,288,398	

See accompanying note to budgetary comparison schedule.

MUNICIPALITY OF NORRISTOWN
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2012

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) Projected Unit Credit	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2008	\$ -	\$ 3,742,732	\$ 3,742,732	0.0%	\$ 10,886,558	34.4%
2010	-	3,962,708	3,962,708	0.0%	8,673,091	45.7%
2012	-	4,149,289	4,149,289	0.0%	7,580,318	54.7%

***Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards***

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Norristown as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Municipality of Norristown's basic financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality of Norristown's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Norristown's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Norristown's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-001 to be a material weakness.

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Norristown's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality of Norristown's Response to Findings

The Municipality of Norristown's responses to the findings identified in our audit are described in the corrective action plan. The Municipality of Norristown's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oaks, Pennsylvania
April 27, 2015

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance With OMB Circular A-133***

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Norristown's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Municipality of Norristown's major federal programs for the year ended December 31, 2012. The Municipality of Norristown's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality of Norristown's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Norristown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality of Norristown's compliance.

Basis for Qualified Opinion on U.S. Department of Housing and Urban Development Community Development Block Grant Entitlement

As described in the accompanying schedule of findings and questioned costs, the Municipality of Norristown did not comply with the requirements regarding CFDA 14.218 Community Development Block Grant Entitlement as described in finding 2012-001 for submission of data collection form and finding 2012-002 for procurement and suspension and debarment.

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

Qualified Opinion on U.S. Department of Housing and Urban Development Community Development Block Grant Entitlement

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality of Norristown complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on U.S. Department of Housing and Urban Development Community Development Block Grant Entitlements for the year ended December 31, 2012.

Basis for Qualified Opinion on U.S. Department of Housing and Urban Development Home Investment Partnership Program

As described in the accompanying schedule of findings and questioned costs, the Municipality of Norristown did not comply with the requirements regarding CFDA 14.239 Home Investment Partnership Program as described in finding 2012-001 for submission of data collection form, finding 2012-002 for procurement and suspension and debarment, and 2012-003 for reporting.

Qualified Opinion on U.S. Department of Housing and Urban Development Home Investment Partnership Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality of Norristown complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on U.S. Department of Housing and Urban Development Home Investment Partnership Program for the year ended December 31, 2012.

Other Matters

The Municipality of Norristown's response to the noncompliance findings identified in our audit is described in the corrective action plan. The Municipality of Norristown's response has not been subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Compliance

Management of the Municipality of Norristown is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality of Norristown's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Norristown's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

To the Honorable Municipal Council
Municipality of Norristown
Norristown, Pennsylvania

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-001, 2012-002 and 2012-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Municipality of Norristown's response to the internal control over compliance findings identified in our audit is described in the corrective action plan. The Municipality of Norristown's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maillie LLP

Oaks, Pennsylvania
April 27, 2015

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

MUNICIPALITY OF NORRISTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-Through Grant Program Title	Federal CFDA Number
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)	
Direct programs	
Community Development Block Grant Entitlement	
B-11-MC-42-0023	14.218
B-10-MC-42-0023	14.218
TOTAL COMMUNITY DEVELOPMENT BLOCK GRANT/ ENTITLEMENT (HUD)	
Pass-through programs	
Home Investment Partnership Program	
Passed through Pennsylvania Department of Community and Economic Development	
2008 - HOME Project	14.239
2009 - HOME Project	14.239
TOTAL PA DCED	
U.S. DEPARTMENT OF JUSTICE (DOJ)	
Direct programs	
Justice Assistance Grant Program	
2009-G7669-PA-SB	16.738
2009-H2493-PA-DJ	16.738
2010-DJ-BX-0406	16.738
2011-DJ-BX-3347	16.738
2012-DJ-BX-0132	16.738
TOTAL JUSTICE ASSISTANCE GRANT PROGRAMS	
TOTAL EXPENDITURES OF FEDERAL AWARDS	

*Tested as major

See accompanying notes to the schedule of expenditures of federal awards.

<u>Award Period</u>	<u>Program Amount</u>	<u>Expenditures</u>
March 1, 2011 to February 28, 2012	\$ 911,379	\$ 680,627
March 1, 2010 to February 28, 2011	1,091,473	<u>234,085</u>
		<u>914,712 *</u>
October 30, 2008 to October 29, 2013	550,000	264,917
January 6, 2011 to January 5, 2016	500,000	<u>293,424</u>
		<u>558,341 *</u>
October 1, 2008 to September 30, 2012	873,247	10,121
October 1, 2008 to September 30, 2012	121,881	3,500
October 1, 2008 to September 30, 2013	106,406	24,804
October 1, 2010 to September 30, 2014	81,289	16,811
October 1, 2011 to September 30, 2015	57,116	<u>38,685</u>
		<u>93,921</u>
		<u>\$ 1,566,974</u>

MUNICIPALITY OF NORRISTOWN
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

NOTE A - REPORTING ENTITY

The Municipality of Norristown is the reporting entity for financial reporting purposes as defined in Note A to the Municipality of Norristown's financial statements.

NOTE B - BASIS OF ACCOUNTING

The expenditures in the accompanying schedules of expenditures of federal awards are presented on the modified accrual basis of accounting as described in Note A to the Municipality of Norristown's financial statements

NOTE C - RISK-BASED AUDIT APPROACH

The 2012 threshold for determining Type A and Type B Programs is \$300,000. The following high risk Type A programs were audited as major:

<u>CFDA #</u>	<u>Program</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program

The amount expended under programs treated as major federal programs for the year ended December 31, 2012, totaled \$1,473,053 or 94% of total federal awards.

NOTE D - SUBRECIPIENTS

The Municipality provided federal funds in the amount of \$264,500 to subrecipients under CFDA 14.239 HOME Investment Partnership Program.

MUNICIPALITY OF NORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weaknesses identified: **Yes**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Noncompliance material to financial statements noted: **No**

Federal Awards

Internal control over major programs:

Material weaknesses identified: **Yes**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Type of auditors' report issued on compliance for major programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **Yes**

Identification of major programs:

<u>Federal Programs or Cluster</u>	<u>CFDA #</u>
Community Development Block Grant	14.218
HOME Investment Partnership Program	14.239

The threshold used for distinguishing Types A and B programs, was \$300,000.

Auditee qualified as a low-risk auditee: **No**

MUNICIPALITY OF NORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2012-001 Data Collection Form

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
HOME Investment Partnership Program
CFDA No. 14.239

Untimely Submission of the Data Collection Form and the Single Audit to the Federal Clearing House

Criteria: The Data Collection Form on Federal Programs and the Municipality of Norristown's Single Audit are required to be submitted to the Federal Clearing House 270 days after year-end. An efficient and effective accounting system including monitoring procedures should be in place to ensure federal reporting and typical audit completion deadlines are achieved.

Condition: Submission of the Single Audit and Data Collection form were not timely. This condition was further exacerbated as a result of audits not being completed on a timely basis.

Causes: Management and staff did not direct resource utilization to ensure audits are started and completed timely.

Interfund payables and receivables were not reconciled on a monthly basis and required considerable reconciliation at year-end. Federal, state and local grant revenues and expenses were well tracked on Excel spreadsheets but were not uniformly posted in the general ledger accounting system, making reconciliation cumbersome and time consuming for the audit. The number of unnecessary funds and bank accounts made the accounting process very inefficient. Accounting software was not used to its full effectiveness.

Effect: The design of certain parts of the accounting system and processes are not efficient and can lead to reporting deadlines not being met. The Municipality is not in compliance with the annual reporting requirements of Circular A-133.

Recommendation: Council and management should develop reporting and monitoring guidelines that will provide for the timely completion and filing of audits as required by federal, state and local agencies including bond trustees.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

2012-001 Data Collection Form

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
HOME Investment Partnership Program
CFDA No. 14.239

See Section B for details of finding.

MUNICIPALITY OF NORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

2012-002 Procurement and Suspension and Debarment

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
HOME Investment Partnership Program
CFDA No. 14.239

Criteria: The Municipality is required by federal rules to ensure that all vendors/contractors of this federal program are not suspended or debarred from providing services to the program. A procedure should be in place and documented to ensure that the contractors are not suspended or debarred by the federal or state governments.

Condition: The Municipality could not provide documentation that it verified that all contractors were not suspended or debarred.

Causes: There does not appear to be any procedures in place and documented to ensure that contractors are not suspended or debarred by the federal or state governments.

Effect: The Municipality is not in compliance with the requirements of procurement and suspension and debarment.

Recommendation: The Municipality should develop a policy to ensure that procedures are followed to verify that contractors are not suspended/debarred and that these procedures are documented and kept on file.

2012-003 Reporting

Federal Agency: U.S. Department of Housing and Urban Development
HOME Investment Partnership Program
CFDA No. 14.239

Criteria: As a subrecipient of the Commonwealth of Pennsylvania, the Municipality is required to complete annual reporting in accordance with 24 CFR Part 92.

Condition: The Municipality could not provide documentation to support that required reports had been completed and submitted.

Causes: There does not appear to be any procedures in place and documented to ensure that reporting requirements are met.

Effect: The Municipality is not in compliance with its reporting requirements as a subrecipient of the Commonwealth of Pennsylvania.

Recommendation: The Municipality should develop a policy to ensure that reports are completed in a timely manner and supporting documentation is maintained.

MUNICIPALITY OF NORRISTOWN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

FINDINGS - FINANCIAL STATEMENTS AUDIT

2011-001 Community Development Block Grants/Entitlement Grants CFDA No. 14.218 and HOME Investment Partnership Program CFDA No. 14.239

Untimely Submission of the Data Collection Form and the Single Audit to the Federal Clearing House

Condition: The Data Collection Form on Federal Programs and the Municipality of Norristown's Single Audit are required to be submitted to the Federal Clearing House 270 days after year-end. Submission of the Single Audit and Data Collection form were not timely. This condition was further exacerbated as a result of audits not being completed on a timely basis.

Recommendation: Council and management should develop reporting and monitoring guidelines that will provide for the timely completion and filing of audits as required by Federal and state and local agencies including bond trustees.

Current Status: Not corrected. See current finding **2012-001**.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2011-001 Community Development Block Grants/Entitlement Grants CFDA 14.218 and HOME Investment Partnership Program CFDA No. 14.239

Not corrected. See current finding **2012-001**.

2011-002 Community Development Block Grants/Entitlement Grants CFDA 14.218 and HOME Investment Partnership Program CFDA No. 14.239

Condition: The Municipality is required by federal rules to ensure that all vendors/contractors of this federal program are not suspended or debarred from providing services to the program.

Recommendation: The Municipality should ensure that its procedures to verify that contractors are not suspended/debarred are documented and kept on file.

Current Status: Not corrected. See current finding **2012-002**.

MUNICIPALITY OF NORRISTOWN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

2011-003 Community Development Block Grants/Entitlement Grants CFDA 14.218 and HOME Investment Partnership Program CFDA No. 14.239

Condition: The Municipality could not provide payment certifications or reports from IDIS for its drawdown and disbursement of HOME funds.

Recommendation: The Municipality should develop a policy to ensure that documentation required to support the Municipality's compliance with program requirements is maintained.

Current Status: Corrected

2011-004 Community Development Block Grants/Entitlement Grants CFDA 14.218 and HOME Investment Partnership Program CFDA No. 14.239

Condition: The Municipality could not provide documentation to support that required reports had been completed and submitted.

Recommendation: The Municipality should develop a policy to ensure that reports are completed in a timely manner and supporting documentation is maintained.

Current Status: Not corrected. See current finding **2012-003**.

**Municipality of Norristown
December 31, 2012
Corrective Action Plan**

2012-001 Data Collection Form

Federal Agency: **U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
Home Investment Partnership Program
CFDA No. 14.239**

Criteria: The Data Collection Form on the Federal Programs and the Municipality of Norristown's Single Audit are required to be submitted to the Federal Clearing House 270 days after year-end. An efficient and effective accounting system including monitoring procedures should be in place to ensure that the federal reporting and typical audit completion deadlines are achieved.

Condition: Submission of the Single Audit and Data Collection form were not timely. This condition was further exacerbated as a result of audits not being completed on a timely basis.

Recommendation: Council and management should develop reporting and monitoring guidelines that will provide for the timely completion and filing of audits as required by Federal and state and local agencies including bond trustees.

Management Response: The Municipality will implement the following procedures to ensure timely completion of audits and submission of the Data Collection form and single audit to the Federal Clearing House:

- Effective with the audit for the 2014 fiscal year, an audit firm will be engaged by the Municipality to conduct the audit of the financial records and statements annually. The audit engagement will commence fieldwork no later than April 1st subsequent to the end of the fiscal year. The draft financial statements will be presented to Council no later than August 1st subsequent to the end of the fiscal year. The audit report will be issued no later than September 1st subsequent to the end of the fiscal year. All required federal, state, local and bond trustee reporting will be complete and submitted no later than September 15th subsequent to the end of the fiscal year.
- Effective with the 2015 fiscal year, monthly reconciliation processes will be implemented to ensure that accurate general ledger accounting records are maintained in order to facilitate the audit engagement process in an efficient and effective manner.

**Municipality of Norristown
December 31, 2012
Corrective Action Plan**

2012-002 Procurement and Suspension and Debarment

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
Home Investment Partnership Program
CFDA No. 14.239

Criteria: The Municipality is required by federal rules to ensure that all vendors/contractors of this federal program are not suspended or debarred from providing services to the program. A procedure should be in place and documented to ensure that the contractors are not suspended or debarred by the federal or state governments.

Condition: The Municipality could not provide documentation that it verified that all contractors were not suspended or debarred.

Recommendation: The Municipality should develop a policy to ensure that procedures are followed to verify that contractors are not suspended/debarred and that these procedures are documented and kept on file.

Management Response: The Municipality will implement procedures to ensure that documentation utilized in the process to verify that a contractor is not suspended/debarred retained and retrievable for presentation and review. Effective with the 2014 fiscal year, grant management will include a process to retain documentation utilized to verify that a contractor are not suspended or debarred. The documentation indicates the date generated and will be initialed by staff performing the verification process.

**Municipality of Norristown
December 31, 2012
Corrective Action Plan**

2012-003 Reporting

Federal Agency: **U.S. Department of Housing and Urban Development
Home Investment Partnership Program
CFDA No. 14.239**

Criteria: As a subrecipient of the Commonwealth of Pennsylvania, the Municipality is required to complete the annual reporting in accordance with 24 CFR Part 92.

Condition: The Municipality could not provide documentation to support that required reports had been completed and submitted.

Recommendation: The Municipality should develop a policy to ensure that reports are completed in a timely manner and supporting documentation is maintained.

Management Response: The Municipality will develop procedures to ensure that all required interim and annual reports will be completed and submitted in a timely manner. Effective with the 2014 fiscal year, the grant management process will incorporate additional measures to verify and document required interim and annual reporting upon notification of the award. Staff will be assigned to monitor reporting compliance and maintain copies of reports submitted.

Municipality of Norristown
235 East Airy Street
Norristown, PA 19401
Chenora Burkett, *Finance Director*