

PATTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2019



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

PATTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2019

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YEAR ENDED DECEMBER 31, 2019

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Independent Auditor's Report

Board of Supervisors
Patton Township
State College, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township, as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Township'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Township'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 Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township as of December 31, 2019 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, budgetary comparison information and schedules of historical pension information 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 inquires 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 Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
April 29, 2020

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

As management of Patton Township, we offer readers of these financial statements this narrative overview and analysis of the financial performance of the Township for the fiscal year ended December 31, 2019. Please read this management's discussion and analysis in conjunction with the financial statements which follow in order to obtain a thorough understanding of the Township's financial condition at December 31, 2019. The intent of this MD&A is to summarize Patton Township's financial performance overall, by using comparative information from the current and prior years.

USING THESE FINANCIAL STATEMENTS

The financial statements are organized to provide an understanding of Patton Township as an entire operating entity, while also providing a detailed look at specific financial activities. The first two statements, the Statement of Net Position and the Statement of Activities, are government-wide financial statements. They provide short-term and long-term information about the Township's overall financial status. The remaining statements provide information at the fund level and focus on individual aspects of the Township's operation. The governmental funds' statements describe how general Township services are financed in the short term, as well as what resources are available for future spending. The other kind of funds shown in the financial statements are the fiduciary funds. The fiduciary fund statements provide financial information regarding funds where the Township acts solely as a trustee for the benefit of others.

Financial highlights

- Effective January 1, 2015, the Township adopted and implemented new accounting standards related to pensions, specifically Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The Township must now report the unfunded pension liability on the statement of net position as a noncurrent liability. The Township has a net pension liability at December 31, 2019 of \$178,471. The Township must also report a \$229,221 deferred outflow of resources related to the pension plan which represents a change in actuarial assumptions as of December 31, 2019. Lastly, the Township must also report a \$163,200 deferred inflow of resources related to the pension plan which represents the difference in projected and actual experience and a \$276,143 deferred inflow of resources related to the pension plan which represents the difference between the projected and actual earnings on pension plan investments as of December 31, 2019.
- In 2019, real estate tax millage was 9.5 mils. The millage rate will remain 9.5 mils for 2020.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

- The 2019 real estate tax collections, which represent the single largest source of revenue for the Township, came in at 92.3% of budget.
- Actual real estate transfer tax collections for 2019 were 70.9% of budget. This is a difficult revenue stream to predict.
- To assist with financial planning and to guide longer-term capital projects, the Township utilized two multi-year analysis and planning tools. The Financial Trends Monitoring report illustrates financial trends for the prior ten years. This tool helps identify shifts in financial conditions and provides alerts to management if trends are becoming unfavorable. The Board received the initial Capital Improvements Plan (CIP) in October and adopted the five-year CIP for the period 2019 through 2023 in December. The plan is a companion piece to the budget documents, forecasting trends in revenues and expenditures, and providing a forum to consider and prioritize capital projects and staffing changes.
- In 2019, the Township issued zoning permits for \$15.09 million of development, down from \$55.47 million in 2018.
- A three-year police contract was signed in October, 2016 and is in effect for the period 2017-2019. The main terms consist of a 3% annual wage increase, employee contribution to pension from 5% of wages to 3% of wages and employee healthcare contributions from 10% to 11.5%.
- The Township has \$8,432,864 in outstanding debt as of December 31, 2019. This amount was comprised of two borrowings. Outstanding debt of \$7,757,640 was on the General Obligation Note, Series of 2017, which was secured to purchase open space land and to refund General Obligation Bond, Series of 2010 and General Obligation Note, Series of 2012. Outstanding debt of \$675,224 was on the loan from Pennsylvania Infrastructure Bank, which was secured to be used for traffic improvements at Valley Vista Drive.
- In addition to the Township's direct borrowing obligations, the Township is also guarantor on two intermunicipal loans for the Centre Region Recreation Authority. The total maximum obligation for these two loans at December 31, 2019 is \$1,537,603.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

- The Township was awarded a number of state grants for future construction projects.
 - The Pennsylvania Community Transportation Alternatives Grant of \$1,041,212 will provide funding for the construction of the Valley Vista Drive Bike Path project. Construction is to begin in 2020.
 - The Township was notified that it would be the recipient of a PennDOT Multimodal Grant of \$700,000 to upgrade the intersection of Bernel Road and Fox Hill Road to a classic "T" intersection.
- The fund balance for the Township's General Fund at December 31, 2019 decreased to \$1,267,762 from \$2,214,426 in 2018. Of this amount \$71,281 is unassigned and represents 0.8% of general fund expenditures. The remainder of the fund balance in the General Fund, \$1,196,481, is assigned or committed to future projects and purchases. In all other funds, the fund balance is fully assigned, committed or reserved for future projects and obligations. The Township has a policy of maintaining a fund balance for the General Fund of between 8% and 12% of general fund expenditures. The budget was generated to purposely reduce the fund balance over time, in line with the policy. Having a healthy fund balance has been accepted by the Board of Supervisors as prudent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section is intended to serve as an introduction to the Township's basic financial statements which are comprised of the following components: management's discussion and analysis, government-wide financial statements, fund financial statements and notes to the financial statements. The report also contains other required supplementary information.

Government-wide financial statements

The two government-wide financial statements are designed to provide the reader with a broad overview of the Township's financial position, in a manner that uses accounting methods similar to a private-sector company. These statements report the effects on the Township's net position over the fiscal period.

The statement of net position presents information pertaining to the Township's assets and deferred outflows and liabilities and deferred inflows. Changes in net position over time may be a useful indicator of the Township's financial position.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
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The statement of activities presents information regarding how the Township's net position changed during the fiscal year by reporting all of the current year's revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (full accrual accounting). For example, revenues and expenses are recorded for some items yet the cash flow will occur in a future period (e.g., uncollected taxes and earned but unused vacation leave).

The Township's financial statements report on functions that are principally supported by taxes and intergovernmental revenue. There are no business-type (proprietary) activities operated by the Township.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements include:

- *Governmental funds* financial statements, which explain how services such as public safety and public works are financed and focus on near-term inflows and outflows of spendable resources. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds include the General Fund, the Parks and Recreation Fund, the Open Space Bond Fund, the Debt Service Fund and nonmajor funds, the largest of which is the State Highway Aid (Liquid Fuels).

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
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- *Fiduciary funds* are used to account for resources held for the benefit of others outside of this government. Fiduciary funds are not reflected in the government-wide financial statements because these funds are not available to support Township programs. The Township's fiduciary funds are the pension trust funds for Township employees and the agency funds used to account for taxes collected by the Township's tax office for other taxing jurisdictions.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all the financial statements.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the Township's progress in funding its obligation to provide pension benefits to its uniformed employees. Required supplementary information can be found after the notes to the financial statements. Additional supplementary information concerning nonmajor funds combining statements can be found after the RSI.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

As noted earlier, over time net position may serve as a useful indicator of a government's financial position. In the case of the Township, assets and deferred outflows exceeded liabilities and deferred inflows by \$18,978,234 at the end of 2019 (\$18,317,483 for 2018).

A condensed summary of the Township's assets and deferred outflows and liabilities, deferred inflows and net position at December 31, 2019 and 2018 is shown below.

	2019	2018
	Governmental activities	Governmental activities
	<u> </u>	<u> </u>
Current assets	\$ 3,164,625	\$ 4,846,793
Capital assets, net of depreciation	25,443,217	24,482,045
Deferred outflows	396,411	637,543
	<u> </u>	<u> </u>
Total assets and deferred outflows	<u>\$ 29,004,253</u>	<u>\$ 29,966,381</u>
Current liabilities	\$ 1,254,907	\$ 1,864,068
Noncurrent liabilities, other than pension	8,153,298	9,040,222
Net pension liability	178,471	548,988
Deferred inflows	439,343	195,620
	<u> </u>	<u> </u>
Total liabilities and deferred inflows	<u>10,026,019</u>	<u>11,648,898</u>
Net position:		
Net investment in capital assets	17,177,543	15,293,383
Restricted for:		
Fire protection	18,101	45,070
State Liquid Fuels Tax projects	402,916	370,608
Streetlights	42,621	26,961
Unrestricted	1,337,053	2,581,461
	<u> </u>	<u> </u>
Total net position	<u>18,978,234</u>	<u>18,317,483</u>
	<u> </u>	<u> </u>
Total liabilities, deferred inflows and net position	<u>\$ 29,004,253</u>	<u>\$ 29,966,381</u>

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

By far, the largest portion of the Township's net position pertains to its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related outstanding debt used to acquire said assets. The Township uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally would not be used to liquidate these liabilities.

The \$463,638 externally imposed restrictions on the balance of net position at December 31, 2019 are restricted for fire protection, state liquid fuel projects and streetlights. At the end of the fiscal year, the Township reports a positive balance in net position for the government as a whole, as well as for its separate governmental activities.

The Township's total assets and deferred outflows were \$29,004,253 of which 87.7% or \$25,443,217 is accounted for by its capital assets which includes infrastructure deeded to the Township.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
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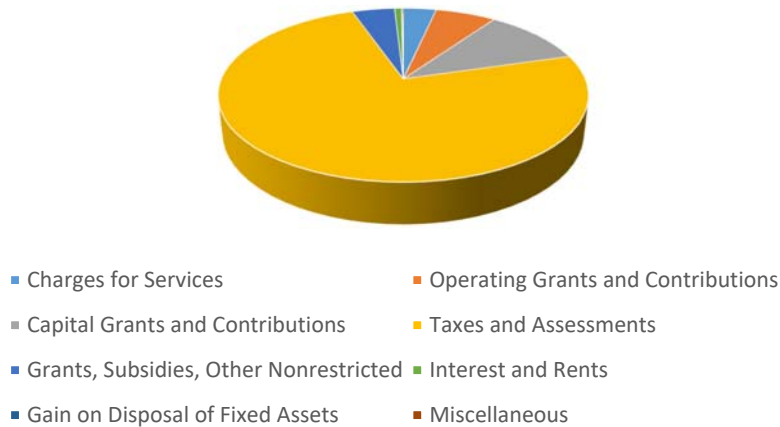
A condensed summary of the Township's change in net position for the years ended December 31, 2019 and 2018 follows:

	2019 Governmental activities	2018 Governmental activities
	<u> </u>	<u> </u>
Revenues:		
Program revenues:		
Charges for services	\$ 352,655	\$ 561,601
Operating grants and contributions	646,880	600,684
Capital grants and contributions	1,100,057	48,925
General revenues:		
Taxes and assessments	7,621,104	7,448,870
Grants, subsidies, other nonrestricted	454,742	523,637
Interest and rents	75,018	94,652
Transfers out	(40,148)	(54,471)
Gain (loss) on disposal of fixed assets	(4,119)	3,210
Miscellaneous	14,503	9,072
	<u>10,220,692</u>	<u>9,236,180</u>
Total revenues	10,220,692	9,236,180
Expenses:		
General government	667,783	469,070
Police department	3,776,486	3,442,710
Public works	3,704,780	3,353,252
Community services	1,186,905	1,578,085
Human services	41,426	43,755
Debt service	173,273	188,038
Amortization	9,288	9,288
	<u>9,559,941</u>	<u>9,084,198</u>
Total expenses	9,559,941	9,084,198
Increase in net position	\$ 660,751	\$ 151,982

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

Revenue by Source - 2019 Governmental Activities



FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

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

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

At the end of 2019, the Township's governmental funds reported combined ending fund balances of \$2,804,970 (\$3,883,410 in 2018). Approximately 2.5% of this total amount, or \$71,281, constitutes *unassigned fund balance*, which is available for spending at the Township's discretion and debt service payments. The remainder of the fund balance is assigned, committed or restricted for specific uses such as vehicle replacements, road resurfacing projects and park projects; therefore, it is not available for new spending.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

The General Fund is the principal operating fund of the Township. As a measure of the General Fund's liquidity, it may be useful to compare both the *unassigned fund balance* and the total fund balance to the total fund expenditures. The General Fund's *unassigned fund balance* represents 0.8% of total General Fund expenditures while the total General Fund's fund balance represents 13.7% of the same amount. This represents planning for identified future expenditures and projects. In all of the other funds, the fund balance is assigned or restricted for specific purposes such as park construction or open space preservation and maintenance. The philosophy of the Township, given the healthy ending fund balance, is to prudently spend fund balance to balance expenditures rather than increase real estate tax rates beyond what is minimally necessary. Our longer term planning tools, such as the financial trend analysis and the capital improvement plan, allow us to look at tax rates into the future for better planning the use of fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues, as reported in these financial statements, were less than budgetary estimates mainly because of grants of approximately \$1.3 million being budgeted for 2019 that were not awarded or have been deferred into future years. In addition, tax revenue was approximately \$684,000 under budget.

There are a number of items that are reflected in the General Fund budget such as taxes that ultimately, for financial reporting purposes, get recorded as receipts in other funds. Examples are real estate taxes allocated to the Park Fund. In total, tax collections from all sources came in at 88% of budget. Total taxes collected for all funds were \$7,650,357.

Also budgeted this way, affecting intergovernmental revenues, is state pension aid which is shown in the Pension Trust Fund, and Liquid Fuels Tax revenue shown as revenue in a special revenue fund. These combined amounts account for \$734,607. These items are budgeted in the General Fund, yet for financial reporting purposes, they are shown in other funds.

As for expenditures, in total they were below budget. Again based on budgeting versus financial reporting differences, certain actual expenditures are grouped somewhere other than where they were budgeted. For example, engineering expenditures are grouped with general government expenditures but budgeted in Public Works. In addition to the differences noted above, Public Works expenditures are below budget because certain projects that were dependent on grant financing did not occur because the grants were not awarded or have been deferred. Pension expenditures are not included in the General Fund for financial reporting purposes but they are included in the General Fund budget. Pension expenditures and related items are reported in the Fiduciary Funds.

Overall, staff is satisfied with the Township's financial position at the end of 2019.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Township's investment in capital assets for its governmental activities as of December 31, 2019 amounts to \$25,443,217, net of accumulated depreciation. This investment in capital assets includes land, buildings, equipment and infrastructure.

A condensed summary of the Township's capital assets at December 31, 2019 and 2018 follows:

	2019	2018
	Governmental activities	Governmental activities
	<u> </u>	<u> </u>
Land and land improvements	\$ 9,820,186	\$ 9,820,186
Buildings	5,772,245	5,636,652
Infrastructure	10,795,734	8,917,381
Park equipment	5,032,814	4,950,208
Tools and equipment	967,969	939,455
Traffic signals	1,657,321	1,657,321
Vehicles	2,139,622	1,877,234
Construction in progress	1,292,646	1,931,486
	<u>37,478,537</u>	<u>35,729,923</u>
Total capital assets		
Less accumulated depreciation for:		
Land improvements	37,883	35,051
Buildings	2,796,724	2,653,565
Infrastructure	1,768,269	1,566,933
Park equipment	4,577,630	4,334,160
Tools and equipment	553,847	507,696
Traffic signals	1,113,239	1,060,843
Vehicles	1,187,728	1,089,630
	<u>12,035,320</u>	<u>11,247,878</u>
Total accumulated depreciation		
Total capital assets, net	<u><u>\$ 25,443,217</u></u>	<u><u>\$ 24,482,045</u></u>

More detailed information can be found in Note 5 of the financial statements.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

Long-term debt

At the end of 2019, the Township had outstanding long-term debt obligations of \$8,432,864 plus \$619,668 in obligations for accrued compensated absences. More information about the Township's general long-term debt can be found in Note 6 of the financial statements.

A condensed summary of the Township's long-term debt obligations at December 31, 2019 and 2018 follows:

	2019	2018
Beginning balance	\$ 9,972,498	\$ 10,545,391
Increase (decrease) in compensated absences	12,310	(12,033)
Principal retirement	(932,276)	(560,860)
Ending balance	\$ 9,052,532	\$ 9,972,498

Economic factors and next year's budget and rates

In 2010, the Township developed a financial trend monitoring system based on the Department of Community and Economic Development's program to better insure the ability to swiftly respond, if needed, in these more difficult economic times. The Township continues to update its five-year Capital Improvement Plan to address long-term capital and operational projects. We feel that we are well equipped to deal with the current economic climate.

In 2014, a referendum was approved by Patton Township voters to increase the Township's commitment to preserving open space. Voters approved a new borrowing of up to \$3.5 million to acquire additional open space in the Township. A task force was convened and identified the properties for acquisition. The properties were purchased at the end of December 2017. Borrowing was completed at the beginning of December 2017. A 6/10th of a mil additional tax was levied beginning in 2016 to pay the debt service cost of this borrowing.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
DECEMBER 31, 2019

The Township has begun to consider the effect of the "Cadillac Tax" that may be imposed, beginning in 2022, on the value of the health insurance plans offered to the employees. At this time, our plans do not meet the threshold for this tax but with the ever increasing cost of health insurance, we may exceed the threshold in 2022. Given that the Township has a collective bargaining agreement with the police, it may be difficult to change benefits enough to avoid the tax, which is 40% of the premium of the plan that exceeds the threshold limit.

Request for information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Finance Director
Patton Township
100 Patton Plaza
State College, PA 16803-2304

PATTON TOWNSHIP

STATEMENT OF NET POSITION
DECEMBER 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>
Current assets:	
Cash	\$ 2,884,981
Taxes receivable, net	228,459
Accounts receivable	51,185
	<hr/>
Total current assets	<u>3,164,625</u>
Noncurrent assets:	
Property, plant and equipment, net:	
Land and land improvements	9,782,303
Buildings and improvements	2,975,521
Park equipment	455,184
Vehicles	951,894
Infrastructure	9,027,465
Tools	414,122
Traffic signals	544,082
Construction in progress	1,292,646
	<hr/>
Total noncurrent assets, property, plant and equipment, net	<u>25,443,217</u>
Total assets	28,607,842
Deferred outflows of resources:	
Deferred charge on refunding	167,190
Pensions	229,221
	<hr/>
Total assets and deferred outflows of resources	<u><u>\$ 29,004,253</u></u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF NET POSITION
DECEMBER 31, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>Governmental activities</u>
Current liabilities:	
Accrued liabilities	\$ 261,573
Developer escrow	79,330
Current portion of notes payable	899,234
Interest payable	14,770
	<hr/>
Total current liabilities	1,254,907
	<hr/>
Noncurrent liabilities:	
Notes payable	7,533,630
Compensated absences	619,668
Net pension liability	178,471
	<hr/>
Total noncurrent liabilities	8,331,769
	<hr/>
Total liabilities	9,586,676
	<hr/>
Deferred inflows of resources, pensions	439,343
	<hr/>
Net position:	
Net investment in capital assets	17,177,543
Restricted for:	
Fire protection	18,101
State Liquid Fuels Tax projects	402,916
Streetlights	42,621
Unrestricted	1,337,053
	<hr/>
Total net position	18,978,234
	<hr/>
Total liabilities, deferred inflows of resources and net position	\$ 29,004,253
	<hr/> <hr/>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Expenses	Program revenues		Governmental activities - net expense, revenues and change in net position
		Charges for services	Operating grants and contributions	
Governmental activities:				
General government	\$ 667,783	\$ 32,080		\$ 435,646
Police department	3,776,486	161,674		3,614,812
Public works	3,704,780	111,555	\$ 634,042	2,159,183
Community services	1,186,905	47,346	12,838	1,026,721
Human services	41,426			41,426
Interest	173,273			173,273
Amortization	9,288			9,288
Total primary government	\$ 9,559,941	\$ 352,655	\$ 646,880	\$ 7,460,349
General revenues:				
Taxes:				
Property				5,054,581
Other				2,566,523
Grants, subsidies, other nonrestricted				454,742
Interest and rents				75,018
Loss on sale of assets				(4,119)
Transfers out				(40,148)
Miscellaneous				14,503
Total general revenues and transfers				8,121,100
Change in net position				660,751
Net position:				
January 1, 2019				18,317,483
December 31, 2019				\$ 18,978,234

See notes to financial statements.

PATTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019

ASSETS

	Major funds			Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund		
Cash	\$ 1,466,511	\$ 117,758	\$ 822,797	\$ 477,915	\$ 2,884,981
Receivables:					
Taxes	208,314			1,393	209,707
Other	51,185				51,185
Due from other funds	474,207	329,576	282,495		1,086,278
Total assets	\$ 2,200,217	\$ 447,334	\$ 1,105,292	\$ 479,308	\$ 4,232,151

See notes to financial statements.

PATTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019

LIABILITIES AND FUND BALANCE

	Major funds				Total
	General	Parks and	Open space	Nonmajor	governmental
	fund	recreation	bond	funds	funds
		fund	fund		
Liabilities:					
Accrued:					
Liabilities	\$ 73,848	\$ 5,029		\$ 15,670	\$ 94,547
Wages and taxes	167,026				167,026
Developer escrow	79,330				79,330
Due to other funds	612,251	423,799	\$ 50,228		1,086,278
Total liabilities	932,455	428,828	50,228	15,670	1,427,181
Fund balance:					
Restricted				463,638	463,638
Committed	18,909		196,946		215,855
Assigned	1,177,572	18,506	858,118		2,054,196
Unassigned	71,281				71,281
Total fund balance	1,267,762	18,506	1,055,064	463,638	2,804,970
Total liabilities and fund balance	\$ 2,200,217	\$ 447,334	\$ 1,105,292	\$ 479,308	\$ 4,232,151

See notes to financial statements.

PATTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
YEAR ENDED DECEMBER 31, 2019

Total fund balances, governmental funds \$ 2,804,970

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported as assets in governmental funds. The cost of assets is \$37,478,537, and the accumulated depreciation is \$12,035,320. 25,443,217

Property taxes receivable will be collected in the future but are not available soon enough to pay for the current period's expenditures; therefore, they are not recorded in the funds. 18,752

Certain government-wide amounts are not included in government funds because government funds use current financial resources:

Notes payable	\$ (8,432,864)	
Accrued interest on the debt	(14,770)	
Compensated absences	(619,668)	
Net pension liability	(178,471)	
	<u> </u>	(9,245,773)

Deferred outflows and inflows of resources are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflow of resources, refunding	167,190	
Deferred outflows of resources, pensions	229,221	
Deferred inflows of resources, pensions	(439,343)	
	<u> </u>	(42,932)

Total net position, governmental activities \$ 18,978,234

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Debt service fund		
Revenues:						
Taxes and assessments	\$ 6,968,385	\$ 329,576	\$ 282,495		\$ 69,901	\$ 7,650,357
Licenses and permits	315,760					315,760
Fines	47,390					47,390
Intergovernmental	1,115,850				502,418	1,618,268
Interest and rents	51,869	3,906	19,115		1,829	76,719
Charges for services	63,594					63,594
Contributions	266,313	100,000	12,838			379,151
Miscellaneous	6,682					6,682
Total revenues	8,835,843	433,482	314,448		574,148	10,157,921
Expenditures:						
General government	1,340,229					1,340,229
Police department	3,593,456					3,593,456
Public works	3,341,184				500,187	3,841,371
Community services	963,636	354,998	43,339		52,962	1,414,935
Human services	41,426					41,426
Debt service:						
Principal retirement				\$ 932,276		932,276
Interest				174,917		174,917
Total expenditures	9,279,931	354,998	43,339	1,107,193	553,149	11,338,610
Excess of revenues over (under) expenditures	(444,088)	78,484	271,109	(1,107,193)	20,999	(1,180,689)

(continued)

PATTON TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Debt service fund		
Other financing sources (uses):						
Proceeds from sale of assets	\$ 16,175					\$ 16,175
Refunds of prior year:						
Expenditures	131,671					131,671
Revenues	(5,449)					(5,449)
Interfund operating transfer	(644,973)	\$ (256,934)	\$ (245,434)	\$ 1,107,193		(40,148)
Total other financing sources (uses)	(502,576)	(256,934)	(245,434)	1,107,193		102,249
Net change in fund balances	(946,664)	(178,450)	25,675	-	\$ 20,999	(1,078,440)
Fund balances:						
January 1	2,214,426	196,956	1,029,389		442,639	3,883,410
December 31	\$ 1,267,762	\$ 18,506	\$ 1,055,064	\$ -	\$ 463,638	\$ 2,804,970

See notes to financial statements.

PATTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Total net change in fund balances, governmental funds \$ (1,078,440)

Amounts reported for governmental activities in the statement of activities are different because:

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 net capital outlays exceeded depreciation expense for the period.

Capital outlays, net	\$ 1,831,237	
Asset disposals	(15,673)	
Depreciation expense	<u>(854,392)</u>	
		961,172

Because some property taxes will not be collected for several months after the Township's year end, they are not considered to be available revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. (29,253)

Changes in compensated absences are not recorded as expenditures in the governmental funds but are included in the statement of activities. Compensated absences increased by this amount. (12,310)

(continued)

PATTON TOWNSHIP

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

YEAR ENDED DECEMBER 31, 2019

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, these transactions have no effect on net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of 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 effect of these transactions in the statement of activities is shown below:

Repayment of debt, notes payable	\$ 932,276	
Amortization of deferred charge on refunding	<u>(9,288)</u>	\$ 922,988
Change in accrued interest		1,644
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense.		
Net pension contributions	176,548	
Cost of benefits earned	<u>(281,598)</u>	<u>(105,050)</u>
Change in net position of governmental activities		<u>\$ 660,751</u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS
DECEMBER 31, 2019

ASSETS

	Pension trust funds		Agency fund
	Police pension	Nonuniform pension	Tax office
Cash			\$ 209,430
Investments	<u>\$ 7,021,088</u>	<u>\$ 3,997,003</u>	
Total assets	<u>\$ 7,021,088</u>	<u>\$ 3,997,003</u>	<u>\$ 209,430</u>

LIABILITIES AND NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Taxes collected due to:

Patton Township general fund			\$ 39,277
Other governments			170,153
Net position, restricted for pension benefits	<u>\$ 7,021,088</u>	<u>\$ 3,997,003</u>	
Total liabilities and net position	<u>\$ 7,021,088</u>	<u>\$ 3,997,003</u>	<u>\$ 209,430</u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2019

	<u>Police pension trust fund</u>	<u>Nonuniform pension trust fund</u>
Additions:		
Investment losses	\$ 1,133,431	\$ 712,546
Contributions:		
State	136,406	95,783
Employer	40,148	
Employee	41,293	51,575
	<u>1,351,278</u>	<u>859,904</u>
Total additions	1,351,278	859,904
Deductions:		
Administrative expense	49,149	
Distributions	189,575	38,059
	<u>238,724</u>	<u>38,059</u>
Total deductions	238,724	38,059
Net increase	1,112,554	821,845
Net position held in trust for pension benefits:		
January 1	<u>5,908,534</u>	<u>3,175,158</u>
December 31	<u><u>\$ 7,021,088</u></u>	<u><u>\$ 3,997,003</u></u>

See notes to financial statements.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies:

Patton Township (the Township) was incorporated in 1794. It is a second class township under the provisions of the Commonwealth of Pennsylvania's Second Class Township Code, P.L. 103, No. 69 as amended by P.L. 1481, No. 567. The Township is governed by a board of supervisors and provides or secures the following services as authorized by the Township Code: public safety, public works, culture, recreation and community development.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting entity:

The Township defines its reporting entity based upon the criteria established by the Governmental Accounting Standards Board. The Township includes in its reporting entity organizations for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Township are such that exclusions would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of reporting entity is based primarily on the notion of financial accountability. The Township is financially accountable to an organization if it appoints a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Township. The Township would also include any organization fiscally dependent on it. Based upon the criteria above, the Township has no agencies or entities which should be presented with the Township.

Basis of presentation, fund accounting and measurement focus:

Basis of presentation:

Government-wide statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Basis of presentation:

The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are also provided in the report for all of the governmental funds and the fiduciary funds of the Township. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund accounting:

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues and expenditures or expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Governmental funds:

Governmental funds are used to account for the Township's expendable financial resources and related liabilities. The measurement focus is based upon determination of changes in financial position. The following are the Township's governmental fund types:

General fund - The general fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to specified purposes. These funds include the liquid fuels fund, the streetlight fund and the hydrant fund, all of which are recorded as nonmajor funds.

Capital project funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. These funds include the parks and recreation fund and the open space bond fund, both included as major funds.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Governmental funds:

Debt service fund – The debt service fund accounts for the general obligation debt of the Township. Financing is provided through transfers from other funds. The debt service fund is included as a major fund.

Fiduciary funds:

These are the funds that account for the assets held by the Township as a trustee or agent for a governmental unit or for pension benefits and are, therefore, not available to support the Township's own programs. The funds included in this category are:

Pension trust fund - These funds include the police and nonuniform pension trusts.

Agency fund - This fund includes the tax office.

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities and deferred inflows) is used as a practical measure of economic resources and the statement of activities includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations, and accumulated depreciation is reported on the statement of net position.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Measurement focus and basis of accounting:

The governmental fund 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Amounts received from federal, state and other grants designated for payment of specific Township expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interfund transactions:

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services.

Investments:

Investments at Pennsylvania Local Government Investment Trust (PLGIT) and in the money market fund are stated at cost. The Township invests its pension assets in funds managed by two separate administrators.

Interest rate and credit risk:

The Township does not have a formal policy to monitor either interest rate risk or credit risk.

Deferred outflows of resources:

The statement of net position reports a separate section for deferred outflows of resources, which represents a consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has two items that qualify for this reporting:

A deferred charge on refunding resulting from the difference between the reacquisition price and the net carrying amount of the refunded debt which is amortized on the straight-line basis over the life of the issue.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Deferred outflows of resources:

Deferred outflows of resources related to the police pension plan represent a change of assumptions, amortized over a closed period using the average of the expected remaining service lives of all active and inactive employees that are provided pensions through the plan, including the current year.

Deferred inflows of resources:

The statement of net position reports a separate section for deferred inflows of resources, which represents the acquisition of net position or fund balance that applies to future periods, and thus, will not be recognized as an inflow of resources (revenue) until then. The Township has two items that qualify for this reporting:

Deferred inflows of resources related to the police pension represent the difference in projected and actual experience, amortized over a closed period using the average of the expected remaining service lives of all active and inactive employees that are provided pensions through the plan, including the current year.

Deferred outflows of resources related to the police pension plan represent the net difference between the projected and actual earnings on police pension plan investments amortized over a five-year period, including the current year.

Capital assets:

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Only infrastructure assets acquired after December 31, 2003 are capitalized. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Capital assets:

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Buildings	40
Vehicles	10 to 20
Tools and equipment	5 to 20
Park equipment	10
Traffic signals	25

Accrued compensated absences:

The Township allows employees to accumulate an unlimited amount of sick leave. Upon retirement or termination, the employee would be paid a certain amount, according to their contract, for these accumulated sick days. Earned vacation time is generally required to be used within one year of accrual. The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability as it matures and becomes due.

Pension plans:

The Township provides separate pension plans for nonuniformed employees and uniformed police personnel. The nonuniformed employees participate in a defined contribution plan in which both the employee and employer contribute annually. The employee is vested completely in the employer contributions by the end of the seventh year of employment. The uniformed police plan is a defined benefit plan. It is the policy of the Township to fund, after employee and state contributions, the amounts intended to cover normal cost and amortization of the unfunded actuarial accrued liability of the uniformed police plan as determined by the Township's actuary.

The financial information on the Township's plans is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the individual plans.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Pension plans:

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Funds are valued at quoted market prices.

Use of estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

GASB Statement No. 54:

The Township follows GASB Statement No. 54, which defines how fund balances of the governmental funds are presented in the financial statements.

Fund balance classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: Includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. None of the Township's fund balances were classified as nonspendable at December 31, 2019.

Restricted: Includes amounts that can be spent only for specific purposes because of the grantors or contributors' restrictions, the Township Ordinance, the city code, state or federal laws or externally imposed conditions by grantors or creditors.

Committed: Includes amounts that can be used only for specific purposes determined by a formal action by the Township's board (highest level of decision making authority) resolution. These amounts cannot be used for any other purpose unless the Township's board removes or changes the specified use by taking the same action (resolution) that was employed when the funds were initially committed.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Fund balance classification:

Assigned: Includes amounts that are designated by the Township's board for a specific purpose, but are not spendable until a formal action by the Township's board or an ordinance is passed. This classification includes amounts that are constrained by the Township's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Township's board or through the Township's board delegating this responsibility to the Township's manager through the budgetary process.

Unassigned: All amounts not included in other spendable classifications are considered to be available for general use by the Township.

Use of fund balance:

The restricted fund balance would typically be reduced to the extent that the underlying reason for the restriction has been eliminated. Assigned funds are reduced to the extent that expenditure authority has been budgeted or the assignment has been changed. Decreases to fund balance first reduce committed fund balance. In the event that committed fund balance becomes zero, then assigned and unassigned fund balances are used in that order.

Net position classifications:

Government-wide statements – Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

New GASB statement:

GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in the notes to the governmental financial statements related to debt, including direct borrowings and direct placements. The new pronouncement is reflected in the current year disclosures.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Organization and significant accounting policies (continued):

Pending GASB statements:

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. The provisions of GASB Statement No. 87 are effective for the Township's December 31, 2020 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the Township's December 31, 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The provisions of GASB Statement No. 91 are effective for the Township's December 31, 2021 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of GASB Statement No. 92 are effective for the Township's December 31, 2021 financial statements.

The effect of implementation of these statements has not yet been determined.

2. Cash deposits:

The cash and investment policies of the Township are governed by Section 3204 of the Second Class Township Code. Cash must be held in insured depositories approved by the board of supervisors and must be fully collateralized. Permissible investments include United States treasury bills and short-term obligations of the United States government or its agencies or instrumentalities, bank common trust funds, government pools and fully insured or collateralized certificates of deposit issued by banks or savings and loan associations. For pension trust funds, any investment authorized by 20 PA C.S. Chapter 73 (relating to fiduciary investments) is a permissible investment, including corporate bonds and mutual funds. The ratings for the pension investments held at Wilmington Trust are based on Moody's ratings.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Cash deposits (continued):

Custodial credit risk:

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Township's deposits may not be returned to it. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Township will not be able to recover the value of its investments or collateral security that is in the possession of an outside party (specific to PLGIT). The Township does not currently have an investment policy for custodial credit risk for either its deposits or investments. As of December 31, 2019, \$2,137,251 of the Township's bank balance of \$2,887,251 was not covered by the Federal Deposit Insurance Corporation, but was collateralized in accordance with Act 72. This Act requires the institution to pool collateral for all its government deposits and to have the collateral held by an approved custodian in the institution's name.

Reconciliation to the financial statements:

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 2,137,251
PLGIT investments, money market	157,468
Insured by Federal Deposit Insurance Corporation	750,000
Deposits in transit	77,508
Outstanding checks	(27,893)
Petty cash	77
	<hr/>
Total cash deposits	\$ 3,094,411
	<hr/> <hr/>
Reconciliation to financial statements, cash:	
Governmental funds	\$ 2,884,981
Fiduciary funds	209,430
	<hr/>
	\$ 3,094,411
	<hr/> <hr/>

3. Investments:

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The Township does not have any investments that are measured using Level 2 or Level 3 inputs.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. Investments (continued):

Mutual funds: Valued at the closing price of the mutual fund.

As of December 31, 2019, the Township had the following Level 1 investments:

	Ratings	Maturities	Fair value
Pension trust funds' investments:			
Wilmington Trust:			
Cash			\$ 1,664
Money market	N/A	N/A	169,274
Mutual funds:			
Fixed income funds	Unrated	N/A	2,343,835
Domestic equity funds	Unrated	N/A	1,947,342
International funds	Unrated	N/A	786,702
Closed end equity funds	Unrated	N/A	1,195,528
Closed end international funds	Unrated	N/A	576,743
Total Wilmington Trust			7,021,088
ICMA-RC, mutual funds:			
Stable value funds	Unrated	N/A	55,257
Bond funds	Unrated	N/A	227,212
Balanced funds	Unrated	N/A	2,149,645
U.S. stock funds	Unrated	N/A	1,390,639
International stock funds	Unrated	N/A	159,609
Specialty funds	Unrated	N/A	14,641
Total ICMA-RC mutual funds			3,997,003
Total investments			\$ 11,018,091

See Note 1 for further description of how the fair value measurements were derived.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

4. Property taxes:

The Township's property tax is levied each March 1 on the assessed value as of the prior January 1 for all real property located in the Township. The assessed value at January 1, 2019, upon which the 2019 levy was based, was \$476,520,340 with an estimated current market value of \$1,726,522,971.

The Township levies taxes by authority of the Township Code of Pennsylvania, Section 3210 at \$9.50 per \$1,000 of assessed valuation. The combined tax rate to finance governmental services other than the payment of principal and interest on long-term debt for the year ended December 31, 2019 was \$8.30 per \$1,000 with an additional \$1.20 per \$1,000 for debt service.

Taxes are collected at a discount until April 30, at their face amount from May 1 until June 30 and include a penalty thereafter. Current tax collections, net of exonerations and exemptions, for the year ended December 31, 2019 were 97.9% of the tax levy.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

5. Capital assets:

	January 1, 2019	Additions	Transfers / Deletions	December 31, 2019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Land and land improvements	\$ 9,820,186			\$ 9,820,186
Buildings	5,636,652	\$ 4,655	\$ 130,938	5,772,245
Infrastructure	8,917,381	34,117	1,844,236	10,795,734
Park equipment	4,950,208	82,606		5,032,814
Tools and equipment	939,455	53,863	(25,349)	967,969
Traffic signals	1,657,321			1,657,321
Vehicles	1,877,234	319,662	(57,274)	2,139,622
Construction in progress	1,931,486	1,336,334	(1,975,174)	1,292,646
	<u>35,729,923</u>	<u>1,831,237</u>	<u>(82,623)</u>	<u>37,478,537</u>
Less accumulated depreciation for:				
Land improvements	35,051	2,832		37,883
Buildings	2,653,565	143,159		2,796,724
Infrastructure	1,566,933	201,336		1,768,269
Park equipment	4,334,160	243,470		4,577,630
Tools and equipment	507,696	67,537	(21,386)	553,847
Traffic signals	1,060,843	52,396		1,113,239
Vehicles	1,089,630	143,662	(45,564)	1,187,728
	<u>11,247,878</u>	<u>854,392</u>	<u>(66,950)</u>	<u>12,035,320</u>
Governmental activities, capital assets, net	<u>\$ 24,482,045</u>	<u>\$ 976,845</u>	<u>\$ (15,673)</u>	<u>\$ 25,443,217</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

5. Capital assets (continued):

Depreciation expense was charged to the following functions of the government as follows:

Governmental activities:	
General government	\$ 385,895
Police department	58,603
Community services	244,879
Public works	<u>165,015</u>
Total governmental activities	<u><u>\$ 854,392</u></u>

6. Long-term debt:

The following is a summary of debt transactions for the Township for the year ended December 31, 2019:

	<u>Principal balance, January 1, 2019</u>	<u>Repayments</u>	<u>Principal balance, December 31, 2019</u>
General Obligation Note, Series 2017	\$ 8,606,370	\$ (848,730)	\$ 7,757,640
Pennsylvania Infrastructure Bank loan	<u>758,770</u>	<u>(83,546)</u>	<u>675,224</u>
	<u><u>\$ 9,365,140</u></u>	<u><u>\$ (932,276)</u></u>	<u><u>\$ 8,432,864</u></u>
Current maturities, governmental activities, notes payable			\$ 899,234
Noncurrent debt, governmental activities, notes payable			<u>7,533,630</u>
Total maturities			<u><u>\$ 8,432,864</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

6. Long-term debt (continued):

In May 2017, the Township entered into a loan agreement with Pennsylvania Infrastructure Bank for \$800,000 to be used for traffic improvements at Valley Vista Drive. The loan requires interest only payments of \$7,000 to be paid on November 1, 2017 and May 1, 2018, followed by semi-annual payments beginning November 1, 2018 of \$48,230, including interest at 1.75% per annum through May 2027. The loan contains a provision that in the event of default, outstanding amounts become immediately due if the Township is unable to make payment.

On December 5, 2017, General Obligation Note, Series of 2017 was issued in the amount of \$9,126,000. The proceeds of the note were used to pay the costs of issuing the note, refund General Obligation Bond, Series of 2010 and General Obligation Note, Series of 2012, and provide funding for the purchase of open space land. Annual principal payments on the note range from \$239,630 to \$848,730 with final payment due June 2, 2037. Interest rates on the note range from 1.98% to 4.85%. The present value savings of the issue of this note was approximately \$138,000.

The total debt service requirements as of December 31, 2019 are listed below:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 899,234	\$ 156,986	\$ 1,056,220
2021	682,538	141,531	824,069
2022	692,009	128,130	820,139
2023	701,516	114,545	816,061
2024	720,800	100,679	821,479
2025-2029	2,383,217	724,964	3,108,181
2030-2034	1,435,060	403,481	1,838,541
2035-2037	918,490	62,379	980,869
	<u>\$ 8,432,864</u>	<u>\$ 1,832,695</u>	<u>\$ 10,265,559</u>

The Township is subject to the Commonwealth of Pennsylvania's Local Government Unit Debt Act (Act of 1978-52) which limits the amount of non-electoral debt the Township may have outstanding. At December 31, 2019, there was no electoral debt outstanding. Non-electoral debt of \$8,432,864 is outstanding at December 31, 2019.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

6. Long-term debt (continued):

Regional pools loan:

The Township, as one of the participating municipalities in the Centre Region Council of Governments, has agreed to guarantee its proportionate share, based on the established funding formula, of a \$7.9 million, 20-year fixed bank loan, for the revitalization of two community pools. The maximum extent of the Township's obligation was limited to 20.54% or \$1,622,000. The Centre Region Council of Governments used the Centre Region Recreation Authority to issue this debt.

In November 2012, the loan was refinanced through the Series 2012 revenue bond. The Series 2012 revenue bond has a maximum principal amount of \$6,128,000, of which the Township's obligation is 20.54% or \$1,258,691. Interest is fixed at 2.43% until December 1, 2022, followed by a variable rate capped at 3.95% until maturity. At December 31, 2019, the Township's portion of the loan is \$754,170 principal and \$71,068 interest. The Township's annual share of principal and interest payments is approximately \$92,000.

Regional parks loan:

The Centre Region Recreation Authority issued Guaranteed Project Revenue Bond (regional parks projects), Series of 2011. Originally issued in the amount of \$7,578,000 with a draw period through June 2013, the terms were modified on November 28, 2011 to reduce the maximum amount available to be advanced to \$7,001,869 and extend the draw period through June 1, 2014. The Township's guaranteed share of this loan is 21.08%. Interest was fixed at 3.15% through June 1, 2016 followed by a variable rate with a cap of 6.00%.

A second loan modification agreement reduced the amount available to borrow to \$6,611,300 and reduced the interest rate from 3.15% to 2.80% through December 1, 2022. The maximum variable rate was reduced from 6% to 5.35%, and the minimum variable rate was reduced from 2.36% to 0%.

Third, fourth and fifth loan modification agreements extended the draw period from June 1, 2014 to June 1, 2020 and reduced the initial interest rate from 2.80% to 2.59% through December 1, 2022. As of December 31, 2019, \$3,716,477 was drawn on the bond, of which \$783,433 (21.08%) was the Township's guaranteed portion.

The notes referenced above are not presented on the statement of net position.

7. Pension plans:

The Township has two pension plans, one covering uniformed police and the other covering nonuniformed employees. The uniformed police plan was established by Township ordinance and the nonuniformed plan by resolution of the board of supervisors. The plans are reported as the pension trust funds on the statement of fiduciary net position - all fiduciary funds.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Defined contribution plan:

Plan description and funding policy:

The Patton Township Employees Pension Plan (nonuniformed) is a single employer defined contribution plan administered by the Township manager. Current Township employer and employee contribution requirements are equal to 6.5% and 3.5% of base covered salary, respectively. For 2019, the employer and employee contributions amounted to \$95,783 or 6.5% and \$51,575 or 3.5% of the employee's covered payroll, respectively. The plan provisions have been established and may be amended through a resolution of the board of supervisors.

The Township contributes with general fund cash and foreign casualty insurance premium taxes submitted by the Commonwealth of Pennsylvania, as available. Employees are 100% vested in their own contributions and gradually vest in the Township's contributions over seven years at which time they are 100% vested. Retirement benefits are the vested benefits at retirement, payable in lump sum or installments.

Plan membership:

As of January 1, 2019, the most recent actuarial valuation available, the Employees Pension Plan membership consisted of the following:

Active members	27
New members	3
Terminated with full vesting	(1)
Terminated without vesting	<u>(1)</u>
Total	<u><u>28</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Plan description and funding policy:

The Patton Township Police Pension Plan is a contributory single employer defined benefit plan that covers all full-time uniformed police officers of the Township and is administered by the Township manager. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended. The plan can be amended by the municipality through its Ordinances and union contracts. Township police employees are required to contribute up to 3% of annual base pay compensation. The Township is required to contribute the remaining amount necessary to fund the plan using the entry age normal cost method. The Township funds its contributions with general fund cash and foreign casualty insurance premium taxes obtained from the Commonwealth of Pennsylvania. The Township complied in full with the Commonwealth of Pennsylvania's Minimum Municipal Obligation (MMO) funding and reporting requirements for 2018.

Retirement benefits are 50% of the employees' average monthly pay (not including overtime) over the last 36 months of employment. Employees are eligible for retirement at age 55 with 25 years of service. Employees are 100% vested in their own contributions and are vested in the Township's contributions upon completion of 12 years of service. The plan provisions have been established by an ordinance of the board of supervisors and may be amended by same.

A member is eligible to enter the DROP program on or after normal retirement date. Upon entering the DROP program, the member's retirement benefit is frozen and retirement benefit payments will be deposited into an account that will be credited with interest and paid to the participant in a lump sum at actual retirement in addition to monthly pension payments. The maximum period of participation in the DROP program is 36 months (12 months for members entering the DROP in 2017), and elections to enter the DROP program are irrevocable.

Disability benefits are 50% of the employees' salary at the time of disablement reduced by any Social Security disability benefits payable due to the same illness or injury.

Death benefits for a surviving spouse or eligible dependent of employees killed in the line of duty are 100% of members' salary at the time of death; however, effective October 9, 2009, this benefit will be paid from the general fund of the Commonwealth of Pennsylvania. If an employee dies, but is not killed in the line of duty, the surviving spouse or eligible dependent benefits are 50% of the pension the member would have received had they retired at the time of death.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Plan description and funding policy:

The Township makes actuarially determined contributions to the pension plan equal to the amount required by state statutes. For 2019, the annual required contribution was equal to 12.01% of covered payroll of \$1,469,901.

Funding of the plan was provided as follows for 2019:

<u>Description</u>		
Annual covered payroll	\$	1,469,901
Employee contribution rate		3.0% of annual base pay compensation
Employee contributions paid in 2019		41,293
Employer and state aid contributions paid in 2018		176,554
Total contributions made as a percentage of payroll		12.01%

There is no stand-alone financial report issued for this plan.

Plan membership:

As of December 31, 2019, the Police Pension Plan membership consisted of the following:

Active members	17
Terminated members entitled to benefits but not yet receiving them	1
Retirees and beneficiaries currently receiving benefits (including DROP members)	<u>8</u>
Total	<u><u>26</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Net pension liability:

The Township's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 and by rolling forward the liabilities from the January 1, 2019 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The components of the net pension liability of the Township measured as of December 31, 2019, were as follows:

Total pension liability	\$ 7,199,559
Plan fiduciary net position	7,021,088
Net pension liability	178,471
Plan fiduciary net position as a percentage of the total pension liability	97.52%

Actuarial assumptions:

The total pension liability as of December 31, 2019 was determined using the following economic assumptions, applied to all periods included in the measurement.

- Inflation - 2.0%
- Salary increases - 5.0%
- Investment rate of return - 7.0% (including inflation)

Mortality rates were based on the RP-2014 mortality tables for males and females, projected using Scale MP-2018.

The annual money-weighted rate of return for 2019 was 18.51%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Actuarial assumptions:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Cash	1%	-0.40%
U.S. Inv. Grade - Taxable	29%	1.10%
High Yield Corporate Bonds	1%	3.10%
U.S. Large - Cap Stocks	39%	5.80%
U.S. Small - Cap Stocks	6%	7.20%
Developed International Stocks	15%	5.90%
Emerging Markets Stocks	3%	7.90%
Domestic Inflation - Linked Bonds	2%	0.75%
Domestic Real Estate Investment Trusts	2%	5.20%
Global Real Estate Investment Trusts	2%	6.40%
	<u>100%</u>	

Discount rate:

The discount rate used to measure the total net pension liability was 7.0%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employers funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Changes in the net pension liability:

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) - (b)
Balances at January 1, 2019	\$ 6,457,522	\$ 5,908,534	\$ 548,988
Service cost	194,005		194,005
Interest cost	477,200		477,200
Changes in actuarial assumptions	260,407		260,407
Employer contributions		176,554	(176,554)
Employee contributions		41,293	(41,293)
Net investment income		1,133,431	(1,133,431)
Benefit payments, including contribution refunds	(189,575)	(189,575)	-
Administrative expense		(49,149)	49,149
Net changes	742,037	1,112,554	(370,517)
Balance at December 31, 2019	\$ 7,199,559	\$ 7,021,088	\$ 178,471

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Sensitivity of the net pension liability to changes in the discount rate:

The schedule below shows the impact on the net pension liability if it were calculated using a discount rate 1% higher and lower than the current discount rate:

	1% decrease in discount rate 6.00%	Current discount rate 7.00%	1% increase in discount rate 8.00%
	<u> </u>	<u> </u>	<u> </u>
Total pension liability	\$ 8,174,627	\$ 7,199,559	\$ 6,393,649
Plan fiduciary net position	<u>(7,021,088)</u>	<u>(7,021,088)</u>	<u>(7,021,088)</u>
Plan's net pension liability (asset)	<u>\$ 1,153,539</u>	<u>\$ 178,471</u>	<u>\$ (627,439)</u>

Pension expense and deferred outflows and inflows of resources related to pensions:

For the year ended December 31, 2019, the Township recognized pension expense from the following sources:

Service cost	\$ 194,005
Interest cost	477,200
Differences between expected and actual experience	(32,420)
Changes in assumptions	31,186
Employee contributions	(41,293)
Projected earnings on pension plan investments	(412,866)
Difference between projected and actual earnings on investments	16,637
Administrative expense	<u>49,149</u>
Total pension expense	<u>\$ 281,598</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. Pension plans (continued):

Contributory defined benefit plan:

Pension expense and deferred outflows and inflows of resources related to pensions:

At December 31, 2019, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience		\$ 163,200
Change in assumptions	\$ 229,221	-
Net difference between projected and actual earnings on pension plan investments		276,143
Totals	\$ 229,221	\$ 439,343

Pension expense and deferred outflows and inflows of resources related to pensions:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2019 will be recognized in pension expense as follows:

Year ended	Deferred outflows of resources	Deferred inflows of resources
2020	\$ 31,186	\$ 91,356
2021	31,186	115,526
2022	31,186	22,406
2023	31,186	176,535
2024	31,186	17,581
thereafter	73,291	15,939
	\$ 229,221	\$ 439,343

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

8. Interfund activity:

Individual fund receivable and payable balances at December 31, 2019 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 474,207	\$ 612,251
Parks and recreation fund	329,576	423,799
Open space bond fund	<u>282,495</u>	<u>50,228</u>
	<u>\$ 1,086,278</u>	<u>\$ 1,086,278</u>

The general funds due from the parks and recreation fund and open space fund relate to debt service payments, salaries, wages, benefits and minor miscellaneous expenditures. The general funds due to the parks and recreation fund and open space fund relate to dedicated real estate tax revenues collected for the respective fund.

9. Deferred compensation plan:

In September 1992, the Township entered into an agreement with ICMA Retirement Corporation to provide a deferred compensation plan in accordance with Internal Revenue Code, Section 457 on a voluntary basis to full-time employees. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is only available to participants at employment termination, retirement, death or unforeseeable emergencies. In 2016, an employee loan provision was added to the plan. The Township does not make any employer contributions to the plan. In accordance with federal law, a trust fund was established for the deposit of Section 457 assets. The trust fund is for the exclusive benefit of plan participants and beneficiaries. Because the assets are not owned by the Township, but are held in a trust, the deferred compensation assets and related liabilities are not recorded in the Township's financial statements. The Township's responsibilities are to submit participant payroll deductions and enrollment change forms to the plan administrator (ICMA Retirement Corporation) and review the quarterly statements for accuracy. Investments are managed by the plan's trustee, with various investment options available. The choice of the investment options is made by the employee.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

10. Fund balances:

As of December 31, 2019, fund balances are composed of the following:

	General fund	Parks and recreation fund	Open space bond fund	Nonmajor funds	Total governmental funds
Restricted:					
Fire protection				\$ 18,101	\$ 18,101
Liquid fuels				402,916	402,916
Streetlights				42,621	42,621
					463,638
Committed, capital projects	\$ 18,909		\$ 196,946		215,855
Assigned:					
Reserve funds:					
Revenue assigned to open space			858,118		858,118
Parks and recreation		\$ 18,506			18,506
Surety	77,961				77,961
Fund balance used to balance 2020 budget	1,099,611				1,099,611
					2,054,196
Unassigned	71,281				71,281
Total fund balances	\$ 1,267,762	\$ 18,506	\$ 1,055,064	\$ 463,638	\$ 2,804,970

11. Jointly governed organizations:

The Township, in conjunction with College, Ferguson, Halfmoon and Harris Townships and State College Borough, has created the Centre Region Council of Governments (COG) to provide regionwide services such as parks and recreation, library facilities and fire protection. COG's general forum is composed of the board members from each of these municipalities. The Township's expenditures for COG's regional programs were \$1,486,328 for the year ended December 31, 2019.

The Township, in conjunction with College, Ferguson and Harris Townships and State College Borough, created the Centre Area Transportation Authority (CATA). CATA's board consists of five members, one appointed by each of the five participating municipalities. The Township's contributions toward CATA's capital and operating expenses were \$14,461 and \$89,953, respectively, for the year ended December 31, 2019.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

11. Jointly governed organizations (continued):

In addition to CATA, the above-mentioned townships and borough also operate the Schlow Centre Region Library to serve the educational, recreational, cultural and informational needs of the region. During 2019, the Township contributed \$285,290 for the operations of the library.

12. Participation in risk sharing pool:

The Township participates in a self-funded health insurance cooperative to provide medical benefits to its employees. Under this program, the Township pays monthly premiums to the cooperative to cover medical claims to Capital Blue Cross, as well as to cover reinsurance and administrative management fees. For the year ended December 31, 2019, the Township was limited in liability for claims to \$45,000 per enrollee per claim and a maximum claims liability of \$879,976. Actual claims paid by the cooperative on behalf of the Township for the year ended December 31, 2019 were \$679,886, with \$11,767 of this amount being reimbursed through reinsurance. In the event that claims exceed the Township's maximum liability, the excess is paid through the cooperative's cross sharing pool. If claims are less than the maximum claim liability, the Township will receive a refund of the excess contributions less the Township's cross sharing obligation.

13. Subsequent events:

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Township beginning in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Township expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Township's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Township's services, all of which are highly uncertain and cannot be predicted.

The Township has evaluated subsequent events through April 29, 2020, which is the date the financial statements were available to be issued.

PATTON TOWNSHIP

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET COMPARED TO ACTUAL – GENERAL FUND

(Required supplementary information)
(unaudited)

YEAR ENDED DECEMBER 31, 2019

(See independent auditor's report)

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 8,661,957	\$ 8,661,957	\$ 6,968,385	\$ (1,693,572)
Licenses and permits	353,972	353,972	315,760	(38,212)
Fines	63,040	63,040	47,390	(15,650)
Intergovernmental	5,757,606	5,757,606	1,115,850	(4,641,756)
Interest and rents	73,135	73,135	51,869	(21,266)
Charges for services	67,517	67,517	63,594	(3,923)
Contributions	114,759	114,759	266,313	151,554
Miscellaneous	19,611	19,611	6,682	(12,929)
Total revenues	15,111,597	15,111,597	8,835,843	(6,275,754)
Expenditures:				
General government	1,439,760	1,439,760	1,340,229	99,531
Police department	3,975,780	3,975,780	3,593,456	382,324
Public works	8,226,838	8,226,838	3,341,184	4,885,654
Community service	1,387,627	1,387,627	963,636	423,991
Human services	75,435	75,435	41,426	34,009
Debt service	1,107,194	1,107,194		1,107,194
Total expenditures	16,212,634	16,212,634	9,279,931	6,932,703
Excess of expenditures over revenues	(1,101,037)	(1,101,037)	(444,088)	656,949
Other financing sources			147,846	147,846
Other financing uses			(650,422)	(650,422)
Net change in fund balances	\$ (1,101,037)	\$ (1,101,037)	\$ (946,664)	\$ 154,373

See notes to required supplementary information.

PATTON TOWNSHIP
UNIFORMED POLICE PENSION PLAN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
(Required supplementary information)
(unaudited)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	2019	2018	2017	2016	2015
Total pension liability:					
Service cost	\$ 194,005	\$ 177,273	\$ 182,128	\$ 176,535	\$ 168,129
Interest	477,200	436,142	408,238	390,759	363,450
Differences between expected and actual experience		(98,588)		(170,678)	
Changes of assumptions	260,407				
Benefit payments, including refunds of member contributions	(189,575)	(221,258)	(152,513)	(152,513)	(147,181)
Net change in total pension liability	742,037	293,569	437,853	244,103	384,398
Total pension liability:					
Beginning of year	6,457,522	6,163,953	5,726,100	5,481,997	5,097,599
End of year (a)	\$ 7,199,559	\$ 6,457,522	\$ 6,163,953	\$ 5,726,100	\$ 5,481,997
Plan fiduciary net position:					
Contributions:					
Employer	\$ 176,554	\$ 175,934	\$ 181,039	\$ 144,040	\$ 171,124
Member	41,293	39,822	39,354	68,024	65,424
Net investment income	1,133,431	(331,907)	846,103	241,360	(16,923)
Benefit payments, including refunds of member contributions	(189,575)	(221,258)	(152,513)	(152,513)	(147,181)
Administrative expense	(49,149)	(48,849)	(44,767)	(39,987)	(38,827)
Net change in plan fiduciary net position	1,112,554	(386,258)	869,216	260,924	33,617
Total fiduciary net position:					
Beginning of year	5,908,534	6,294,792	5,425,576	5,164,652	5,131,035
End of year (b)	\$ 7,021,088	\$ 5,908,534	\$ 6,294,792	\$ 5,425,576	\$ 5,164,652
Net pension liability, end of year (a) - (b)	\$ 178,471	\$ 548,988	\$ (130,839)	\$ 300,524	\$ 317,345
Plan fiduciary net position as a percentage of the total pension liability	97.52%	91.50%	102.12%	94.75%	94.21%
Covered employee payroll	\$ 1,469,901	\$ 1,375,199	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Net pension liability as a percentage of covered employee payroll	12.14%	39.92%	-11.10%	21.61%	22.15%

See notes to required supplementary information.

PATTON TOWNSHIP
UNIFORMED POLICE PENSION PLAN

SCHEDULES OF TOWNSHIP CONTRIBUTIONS AND MONEY WEIGHTED RATE OF RETURN
(Required supplementary information)
(unaudited)
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

Description	2019	2018	2017	2016	2015
Actuarially determined employer contribution	\$ 176,554	\$ 175,934	\$ 177,223	\$ 144,040	\$ 167,443
Contributions in relation to the actuarially determined contribution	176,554	175,934	177,223	144,040	167,443
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,469,901	\$ 1,375,199	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Total contributions made as a percentage of payroll	12.01%	12.79%	15.04%	10.36%	11.69%
Money weighted rate of return	18.51%	-6.11%	14.85%	4.68%	-0.33%

See notes to required supplementary information.

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2019 (See independent auditor's report)

1. Budgetary data:

The Township follows these procedures in establishing the budget:

At least 30 days prior to January 1, the Township manager submits to the board of supervisors a proposed operating budget for the general fund for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.

A public hearing is conducted to obtain citizen comments on the proposed budget. Prior to December 31, the budget is adopted through passage of a resolution by the board of supervisors.

The board of supervisors is authorized to transfer unencumbered monies from one Township account to another, but no monies shall be transferred from the fund allocated for the payment of debts or from any fund raised by a special tax levy for a particular purpose. Transfers of unencumbered monies shall not be made during the first three months of the fiscal year. The board of supervisors may at any time by resolution make supplemental appropriations. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended. Encumbrances are not reported; however, fund balances are designated in amounts equal to the subsequent year's anticipated budget deficit, if any. The Township prepares its budget on a modified accrual basis of accounting.

The budgetary comparison schedule, included in the required supplementary information, presents a comparison of budgetary data to actual results of operations for the general fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results. During 2019, the board of supervisors did not approve any additional budgetary expenditure amendments for the general fund.

Debt service activity budgeted in the general fund was paid out of the debt service fund.

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

2. Uniformed police pension plan:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2019. Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method:	Entry Age
Amortization method:	Level Dollar, Closed
Remaining amortization period:	Not applicable. Contribution requirement is reduced by 10% of the excess of the actuarial value of assets over the actuarial accrued liability.
Asset valuation method:	Market value as determined by the trustee
Inflation:	2.00%
Salary increases:	5.00%
Investment rate of return:	7.00%
Retirement age:	Normal retirement age
Mortality:	RP-2014 tables for males and females, projected using Scale MP-2018
Change in benefit terms:	None since January 1, 2019

PATTON TOWNSHIP

COMBINING BALANCE SHEET – ALL NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2019

(See independent auditor's report)

	<u>Liquid fuels fund</u>	<u>Streetlight fund</u>	<u>Hydrant fund</u>	<u>Total</u>
Assets:				
Cash	\$ 402,916	\$ 44,482	\$ 30,517	\$ 477,915
Assessment receivable		537	856	1,393
Total assets	<u>\$ 402,916</u>	<u>\$ 45,019</u>	<u>\$ 31,373</u>	<u>\$ 479,308</u>
Liabilities, accounts payable		\$ 2,398	\$ 13,272	\$ 15,670
Fund balances, restricted	<u>\$ 402,916</u>	<u>42,621</u>	<u>18,101</u>	<u>463,638</u>
Total liabilities and fund balances	<u>\$ 402,916</u>	<u>\$ 45,019</u>	<u>\$ 31,373</u>	<u>\$ 479,308</u>

See notes to financial statements.

PATTON TOWNSHIP

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
ALL NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019
(See independent auditor’s report)

	Liquid fuels fund	Streetlight fund	Hydrant fund	Total
Revenues:				
Intergovernmental	\$ 502,418			\$ 502,418
Interest income	1,829			1,829
Assessments		\$ 43,908	\$ 25,993	69,901
Miscellaneous				
Total revenues	504,247	43,908	25,993	574,148
Expenditures:				
Hydrant service			52,962	52,962
Highways and streets	471,939			471,939
Electricity		28,248		28,248
Total expenditures	471,939	28,248	52,962	553,149
Net change in fund balances	32,308	15,660	(26,969)	20,999
Fund balances:				
January 1	370,608	26,961	45,070	442,639
December 31	\$ 402,916	\$ 42,621	\$ 18,101	\$ 463,638

See notes to financial statements.