



March 30, 2015

Board of Supervisors
Patton Township
State College, Pennsylvania

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township (the Township) for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Patton Township are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended December 31, 2014. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimated useful lives over which to depreciate capital assets.
- Allocation of depreciation expense to the various functions in the statement of activities.
- Allocation of revenue amounts on the statement of activities.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were disclosures pertaining to fund balance classification and the defined benefit pension plan.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated March 30, 2015.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Patton Township's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Recent accounting pronouncements

Accounting pronouncements for the period January 1, 2014 to December 31, 2014

GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. The statement is effective for years beginning after June 15, 2013.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operation. Government combinations include a variety of transactions referred to as mergers, acquisitions and transfers of operations. This statement will be effective for financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that received nonexchange financial guarantees. This statement will also augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement is effective for periods beginning after June 15, 2013. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this statement are required to be applied retroactively.

Upcoming accounting pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, revises and established new financial reporting requirements for the Township concerning pension benefits provided for employees. The standard will improve the way the Township reports its pension liabilities and expenses. This statement will be effective for years beginning after June 15, 2014. The Township will be required to implement this statement for the year ending December 31, 2015. The Township is still evaluating the potential effects of this pronouncement on its financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amends GASB Statement No. 68. The issue relates to amounts associated with contributions made by state or local government employer entities to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement No. 68.

Other audit findings or issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, we made certain inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. The limited procedures performed on required supplementary information do not provide us with sufficient evidence to express an opinion or provide any assurance on the information.

This information is intended solely for the use of the Board of Supervisors and management of the Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brown Schultz Steindam & Fritz

PATTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2014

PATTON TOWNSHIP
YEAR ENDED DECEMBER 31, 2014

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YEAR ENDED DECEMBER 31, 2014

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Independent Auditors' 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, 2014 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 of 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, 2014 and the respective changes in financial position, where applicable, thereof 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 Steidman & Fritz

Camp Hill, Pennsylvania
March 30, 2015

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

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, 2014. 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, 2014. 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 fund shown in the financial statements is a fiduciary fund. This statement provides financial information regarding funds where the Township acts solely as a trustee for the benefits of others.

Financial highlights

- In 2014, real estate tax millage remained at 8.9 mills. Millage remained the same for 2015.
- The 2014 real estate tax collections, which represent the single largest source of revenue for the Township, came in at 102.9% of budget.
- Actual real estate transfer tax collections were 21.7% greater than budgeted because 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 2015 through 2019 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.

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STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
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December 31, 2014

- In 2014, the Township issued zoning permits for \$10.68 million of development (2013-\$18.59 million, 2012-\$46 million).
- A four-year Police contract is in effect for the period 2013-2016. The main terms consist of a 2.5% annual wage increase and no change to pension or health care contributions.
- The Township has \$5,950,406 in outstanding general obligation debt as of December 31, 2014. This amount was comprised of 2 borrowings: \$5,345,000 of outstanding debt on the General Obligation Bonds, Series 2010 and \$605,406 outstanding on the General Obligation Note, Series 2011 which was secured for engineering services for the Waddle Road Bridge project.
- 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, 2014 is \$1,984,869.
- In 2014, the Township was awarded a number of State grants for future construction projects.
 - PennDot will take over the Waddle Road Bridge Intersection project with construction to begin in 2015. The Township will fulfill its obligation under the project parameters of funding the preconstruction engineering services, right-of-way acquisition and utility relocation expenses.
 - The Pennsylvania Community Transportation Alternatives Grant will provide funding for the construction of the Circleville Road Bike and Pedestrian Path project. Construction is expected to begin in 2015.
 - The Township was notified that it would be the recipient of a PennDot Multimodal Grant of \$804,800 over two years to improve four intersections with left turn lanes along Valley Vista Drive.
- The fund balance for the Township's General Fund at December 31, 2014 decreased to \$2,757,138 from \$3,017,697 in 2013. Of this amount \$1,107,773 is unassigned and represents 13.8% of general fund expenditures. The remainder of the Fund Balance of the General Fund, \$1,649,365, is assigned to future projects, purchases and debt service. 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%. 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.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

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 liabilities. Changes in net position over time may be a useful indicator of the Township's financial position.

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.

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STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

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 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.

- *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 concerning the Township's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found after the notes to the financial statements.

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 by \$15,048,228 at the end of 2014 (\$15,101,398 for 2013).

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

A condensed summary of the Township's assets and deferred outflows and liabilities and net position at December 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
	Governmental activities	Governmental activities
Current assets	\$ 3,908,620	\$ 4,158,506
Capital assets, net of depreciation	17,698,090	17,967,215
Other assets	11,319	11,318
Deferred outflows	<u>258,737</u>	<u>278,640</u>
Total assets and deferred outflows	<u>\$ 21,876,766</u>	<u>\$ 22,415,679</u>
Current liabilities	\$ 864,243	\$ 908,665
Noncurrent liabilities	<u>5,964,296</u>	<u>6,405,616</u>
Total liabilities	<u>6,828,539</u>	<u>7,314,281</u>
Net position:		
Net investment in capital assets	12,605,905	12,248,607
Unrestricted	<u>2,442,322</u>	<u>2,852,791</u>
Total net position	<u>15,048,227</u>	<u>15,101,398</u>
Total liabilities and net position	<u>\$ 21,876,766</u>	<u>\$ 22,415,679</u>

By far, the largest portion of the Township's net position (83.8%) 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.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
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December 31, 2014

There are no externally imposed restrictions on any portion of the balance of net position. 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.

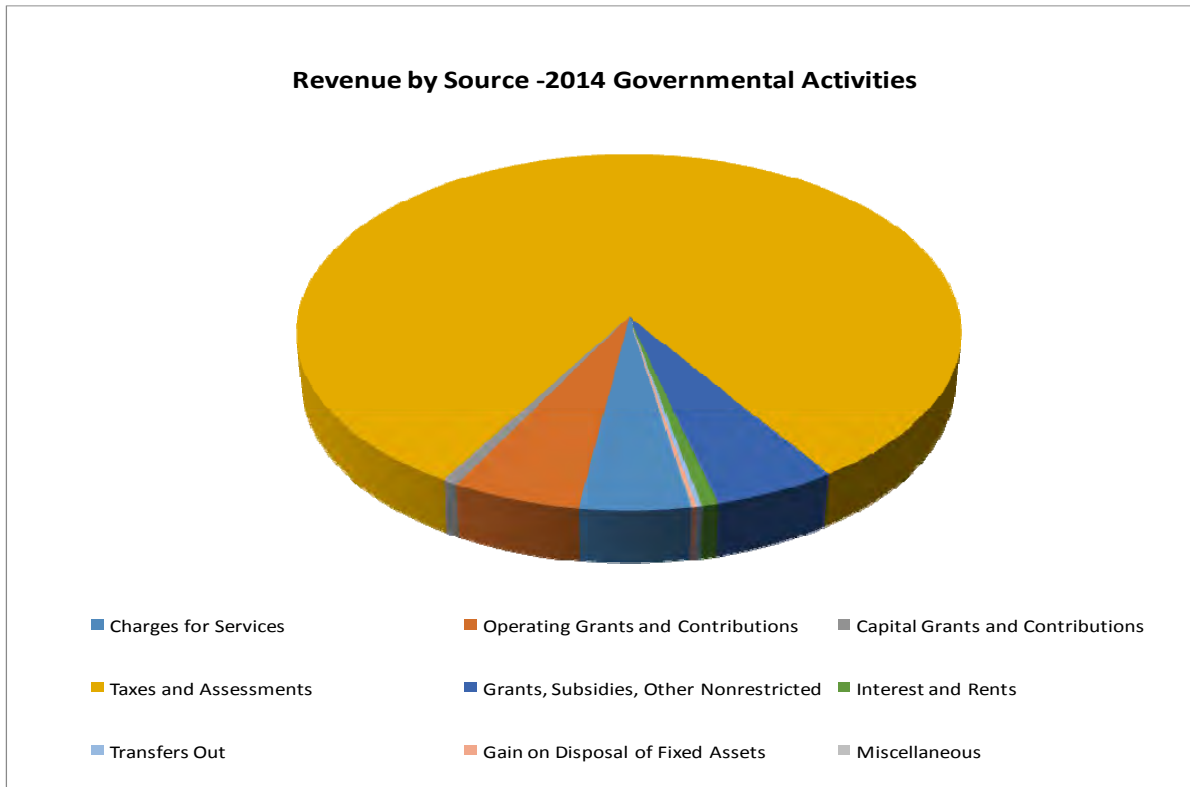
The Township's total assets and deferred outflows were \$21,876,766 of which 81% or \$17,698,090 is accounted for by its capital assets which includes infrastructure deeded to the Township. Historically, infrastructure has not been reported in the Township's financial statements nor had capital assets been depreciated in the Township's governmental financial statements. The recording of these types of transactions began in 2004.

A condensed summary of the Township's change in net position for the years ended December 31, 2014 and 2013 follows:

	2014 Governmental activities	2013 Governmental activities
	<u> </u>	<u> </u>
Revenues:		
Program revenues:		
Charges for services	\$ 416,401	\$ 171,804
Operating grants and contributions	482,119	473,661
Capital grants and contributions	58,439	58,573
General revenues:		
Taxes and assessments	6,881,187	6,673,650
Grants, subsidies, other nonrestricted	462,926	401,921
Interest and rents	61,211	62,164
Transfers out	(20,195)	
Gain on disposal of fixed assets	15,880	12,167
Miscellaneous	(3,151)	3,513
	<u>8,354,817</u>	<u>7,857,453</u>
Total revenues		
Expenses:		
General government	1,111,804	1,177,576
Police department	3,099,476	2,953,207
Public works	2,279,016	1,927,802
Community services	1,692,519	1,621,813
Human services	38,479	41,903
Debt service	168,117	175,508
Amortization	18,577	18,577
	<u>8,407,988</u>	<u>7,916,386</u>
Total expenses		
Decrease in net position	<u>\$ (53,171)</u>	<u>\$ (58,933)</u>

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
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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 2014, the Township's governmental funds reported combined ending fund balances of \$3,643,789 (\$3,892,130 in 2013). Approximately 30% of this total amount or \$1,107,773 constitutes *unassigned fund balance*, which is available for spending at the Township's discretion. The remainder of the fund balance is assigned, committed or restricted for specific uses such as vehicle replacements, road resurfacing projects, park projects and debt service; therefore, it is not available for new spending.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
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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 13.8% of total General Fund expenditures while the total General Fund's fund balance represents 34.3% 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 loan funds were not drawn in the time frame that seemed likely during the budget process. The project approval process as mandated by PennDot has taken significantly longer than originally anticipated.

There are a number of other 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 for the General Fund came in at 102.9% of budget. Total taxes collected for all funds were \$6,488,707.

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 a special revenue fund. These combined amounts account for \$579,412. 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 the Waddle Road Bridge project is proceeding at a pace slower than expected because of PennDOT's review process. Certain other 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 2014.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Township's investment in capital assets for its governmental activities as of December 31, 2014 amounts to \$17,698,090, 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, 2014 and 2013 follows:

	<u>2014</u> Governmental activities	<u>2013</u> Governmental activities
Land and land improvements	\$ 4,623,687	\$ 4,615,717
Buildings	5,515,299	5,528,824
Infrastructure	6,292,393	6,236,680
Park equipment	4,943,346	4,943,346
Tools and equipment	810,277	738,286
Traffic signals	1,577,886	1,577,886
Vehicles	1,525,223	1,425,077
Construction in progress	<u>310,292</u>	<u>54,056</u>
Total capital assets	<u>25,598,403</u>	<u>25,119,872</u>
Less accumulated depreciation for:		
Land improvements	26,288	22,680
Buildings	2,097,636	1,958,697
Infrastructure	964,880	835,489
Park equipment	2,766,281	2,337,974
Tools and equipment	341,466	354,293
Traffic signals	844,958	789,071
Vehicles	<u>858,804</u>	<u>854,453</u>
Total accumulated depreciation	<u>7,900,313</u>	<u>7,152,657</u>
Total capital assets, net	<u>\$ 17,698,090</u>	<u>\$ 17,967,215</u>

More detailed information can be found in Note 4 of the financial statements.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplemental Information (RSI)
(unaudited)
December 31, 2014

Long-term debt

At the end of 2014, the Township had outstanding General Obligation debt of \$5,967,646 (net of original issue premium and/or discount) plus \$596,650 in obligations for accrued compensated absences. More information about the Township's general long-term debt can be found in Note 5 of the financial statements.

A condensed summary of the Township's long-term debt obligations at December 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 7,050,616	\$ 7,559,910
Increase in compensated absences	24,658	21,574
Debt proceeds	235,348	225,458
Principal retirement and amortization	<u>(746,326)</u>	<u>(756,326)</u>
Ending balance	<u>\$ 6,564,296</u>	<u>\$ 7,050,616</u>

Economic factors and next year's budget and rates

In 2010, we 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 has been convened to identify and rank potential properties for acquisition. It is expected this process will be completed in the fall of 2015 with the possibility that the property will be purchased before the end of the year. Borrowing could take place later this year. A 6/10th of a mill additional tax will be 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 Supplemental Information (RSI)
(unaudited)
December 31, 2014

The Township has begun to consider the effect of the "Cadillac Tax" that may be imposed, beginning in 2018, 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 2018. 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, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>
Current assets:	
Cash	\$ 3,509,895
Taxes receivable, net	203,513
Accounts receivable	195,212
	<hr/>
Total current assets	<u>3,908,620</u>
Noncurrent assets:	
Property, plant and equipment, net:	
Land and land improvements	4,597,399
Buildings and improvements	3,417,663
Park equipment	2,177,065
Vehicles	666,419
Infrastructure	5,327,513
Tools	468,811
Traffic signals	732,928
Construction in progress	<u>310,292</u>
Total property, plant and equipment, net	<u>17,698,090</u>
Investments held for long-term purposes	<u>11,319</u>
Total assets	21,618,029
Deferred outflows of resources, deferred charge on refunding	<u>258,737</u>
Total assets and deferred outflows of resources	<u><u>\$ 21,876,766</u></u>

See notes to financial statements.

LIABILITIES AND NET POSITION

	<u>Governmental activities</u>
Current liabilities:	
Accrued liabilities	\$ 229,790
Developer escrow	20,745
Current portion of notes payable	100,000
Current portion of bonds payable	500,000
Interest payable	<u>13,708</u>
Total current liabilities	<u>864,243</u>
Noncurrent liabilities:	
Notes payable	505,406
Bonds payable, net	4,862,240
Compensated absences	<u>596,650</u>
Total noncurrent liabilities	<u>5,964,296</u>
Total liabilities	<u>6,828,539</u>
Net position:	
Net investment in capital assets	12,605,905
Unrestricted	<u>2,442,322</u>
Total net position	<u>15,048,227</u>
Total liabilities and net position	<u><u>\$ 21,876,766</u></u>

PATTON TOWNSHIP
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Program revenues			Governmental activities - net expense, revenues and change in net position
Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:				
General government	\$ 1,111,804	\$ 31,720		\$ 1,027,758
Police department	3,099,476	71,299		3,028,177
Public works	2,279,016	266,444	\$ 466,624	1,539,835
Community services	1,692,519	46,938	15,495	1,630,086
Human services	38,479			38,479
Interest	168,117			168,117
Amortization	18,577			18,577
	<u>\$ 8,407,988</u>	<u>\$ 416,401</u>	<u>\$ 482,119</u>	<u>\$ 7,451,029</u>
Total primary government				
General revenues:				
Taxes:				
Property				4,420,723
Other				2,460,464
Grants, subsidies, other nonrestricted				462,926
Interest and rents				61,211
Gain on disposal of assets				15,880
Transfer				(20,195)
Miscellaneous				(3,151)
				<u>7,397,858</u>
Total general revenues				
Change in net position				(53,171)
Net position:				
January 1, 2014				<u>15,101,398</u>
December 31, 2014				<u>\$ 15,048,227</u>

See notes to financial statements.

PATTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS

DECEMBER 31, 2014

ASSETS

	Major funds				Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Nonmajor funds	
Cash	\$ 2,933,205	\$ 35,254	\$ 312,778	\$ 228,658	\$ 3,509,895
Investments		11,319			11,319
Receivables:					
Taxes	177,108			790	177,898
Other	195,212				195,212
Due from other funds	16,855	309,272		10,491	336,618
Total assets	<u>\$ 3,322,380</u>	<u>\$ 355,845</u>	<u>\$ 312,778</u>	<u>\$ 239,939</u>	<u>\$ 4,230,942</u>

See notes to financial statements.

LIABILITIES AND FUND BALANCE

	Major funds			Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund		
Liabilities:					
Accrued:					
Liabilities	\$ 128,951	\$ 39	\$ 55	\$ 4,962	\$ 134,007
Wages and taxes	95,783				95,783
Developer escrow	20,745				20,745
Due to other funds	319,763		16,855		336,618
Total liabilities	<u>565,242</u>	<u>39</u>	<u>16,910</u>	<u>4,962</u>	<u>587,153</u>
Fund balance:					
Restricted				234,977	234,977
Committed	9,280	11,319	198,011		218,610
Assigned	1,640,085	344,487	97,857		2,082,429
Unassigned	1,107,773				1,107,773
Total fund balance	<u>2,757,138</u>	<u>355,806</u>	<u>295,868</u>	<u>234,977</u>	<u>3,643,789</u>
Total liabilities and fund balance	<u>\$ 3,322,380</u>	<u>\$ 355,845</u>	<u>\$ 312,778</u>	<u>\$ 239,939</u>	<u>\$ 4,230,942</u>

PATTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2014

Total fund balances, governmental funds		\$ 3,643,789
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 \$25,598,403, and the accumulated depreciation is \$7,900,313.		
		17,698,090
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.		
		25,615
Certain government-wide amounts are not included in government funds because government funds use current financial resources:		
Notes payable	\$ (605,406)	
Bonds payable	(5,345,000)	
Accrued interest on the bonds	(13,708)	
Compensated absences	(596,650)	
Bond discount	54,923	
Bond premium	(72,163)	
Deferred amount on refunding	258,737	
		<u>(6,319,267)</u>
Total net position, governmental activities		<u>\$ 15,048,227</u>

See notes to financial statements.

PATTON TOWNSHIP

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED DECEMBER 31, 2014

	Major funds			Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund		
Revenues:					
Taxes and assessments	\$ 6,507,091	\$ 309,272		\$ 66,442	\$ 6,882,805
Licenses and permits	305,168				305,168
Fines	78,751				78,751
Intergovernmental	226,559			347,051	573,610
Interest and rents	45,101	91	\$ 15,732	287	61,211
Charges for services	58,689				58,689
Contributions	280,775		15,495		296,270
Miscellaneous	3,074	24,588			27,662
Total revenues	<u>7,505,208</u>	<u>333,951</u>	<u>31,227</u>	<u>413,780</u>	<u>8,284,166</u>
Expenditures:					
General government	1,132,967				1,132,967
Police department	3,163,216				3,163,216
Public works	1,968,132			323,385	2,291,517
Community services	1,220,678	21,497	34,125	18,032	1,294,332
Human services	38,479				38,479
Debt service:					
Principal retirement	421,185	205,000	118,815		745,000
Interest	101,604	34,200	31,809		167,613
Total expenditures	<u>8,046,261</u>	<u>260,697</u>	<u>184,749</u>	<u>341,417</u>	<u>8,833,124</u>
Excess of revenues over (under) expenditures	<u>(541,053)</u>	<u>73,254</u>	<u>(153,522)</u>	<u>72,363</u>	<u>(548,958)</u>

(continued)

PATTON TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

	Major funds			Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund		
Other financing sources:					
Proceeds from general long term debt	\$ 235,348				\$ 235,348
Proceeds from sale of assets	8,880		\$ 9,632		18,512
Refunds of prior year expenditures	75,288				75,288
Refund of prior year revenues	(8,336)				(8,336)
Interfund operating transfer	(30,686)			\$ 10,491	(20,195)
Total other financing sources	280,494		9,632	10,491	300,617
Net change in fund balances	(260,559)	\$ 73,254	(143,890)	82,854	(248,341)
Fund balances:					
January 1	3,017,697	282,552	439,758	152,123	3,892,130
December 31	\$ 2,757,138	\$ 355,806	\$ 295,868	\$ 234,977	\$ 3,643,789

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, 2014

Total net change in fund balances, governmental funds \$ (248,341)

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 depreciation expense exceeded net capital outlays for the period. Depreciation expense totaled \$918,585.

Capital outlays were \$662,985 less net disposals of \$13,525 totaled \$649,460. (269,125)

Because some property taxes will not be collected for several months after the Township's year-end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (1,618)

In the statement of activities, certain operating expenses, such as compensated absences, are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used. (24,658)

(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, 2014

Issuance of long-term debt provides current financial resources to governmental funds. 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 bond 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:

Issuance of debt, notes payable	\$ (235,348)	
Repayment of debt, bonds payable	745,000	
Amortization of:		
Bond discount	(4,225)	
Bond premium	5,551	
Deferred charge on refunding	<u>(19,903)</u>	
		\$ 491,075
Change in accrued interest expense on bonds payable		<u>(504)</u>
Change in net position of governmental activities		<u><u>\$ (53,171)</u></u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS

DECEMBER 31, 2014

ASSETS

	<u>Pension trust funds</u>		<u>Agency fund</u>
	<u>Police pension</u>	<u>Nonuniform pension</u>	<u>Tax office</u>
Cash			\$ 168,707
Investments	\$ 5,109,434	\$ 2,480,725	
Investment in transit	21,601		
Total assets	<u>\$ 5,131,035</u>	<u>\$ 2,480,725</u>	<u>\$ 168,707</u>

LIABILITIES AND NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Taxes collected due to:			
Patton Township general fund			\$ 45,314
Other governments			123,393
Net position, restricted for pension benefits	<u>\$ 5,131,035</u>	<u>\$ 2,480,725</u>	
Total liabilities and net position	<u>\$ 5,131,035</u>	<u>\$ 2,480,725</u>	<u>\$ 168,707</u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	<u>Police pension trust fund</u>	<u>Nonuniform pension trust fund</u>
Additions:		
Investment earnings	\$ 134,120	\$ 113,308
Contributions:		
State	154,750	77,611
Employer	20,195	
Employee	<u>63,016</u>	<u>41,792</u>
Total additions	<u>372,081</u>	<u>232,711</u>
Deductions:		
Administrative expense	37,941	
Distributions	<u>127,676</u>	<u>30,240</u>
Total deductions	<u>165,617</u>	<u>30,240</u>
Net increase	206,464	202,471
Net position held in trust for pension benefits:		
January 1	<u>4,924,571</u>	<u>2,278,254</u>
December 31	<u>\$ 5,131,035</u>	<u>\$ 2,480,725</u>

See notes to financial statements.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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 conformity 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 (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Basis of presentation (continued)

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 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.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Governmental funds (continued)

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.

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 - This fund includes the police and hourly 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) 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 (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Measurement focus and basis of accounting (continued)

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.

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. The funds include investments in bonds and mutual funds and are valued by the administrators at year-end at fair value.

Bond discounts:

Bond discounts are capitalized and amortized over the term of the related debt as required in government-wide financial statements. Bond discounts are recognized as expenditures in the current period as required in fund financial statements.

Deferred outflow of resources:

The statement of financial 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 one item that qualifies for this reporting. It is a deferred charge on refunding resulting from the difference between the reacquisition price and the net carrying amount of the refunded debt and is amortized on the straight-line basis over the life of the issue.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

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 estimated fair value at the date of donation.

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

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

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.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

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.

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 conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows and liabilities 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.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

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.

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.

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 or 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.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

1. Organization and significant accounting policies (continued):

Equity 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."

Subsequent events:

The Township has evaluated subsequent events through March 30, 2015, which is the date the financial statements were available to be issued.

2. Cash deposits and investments:

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 (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

2. Cash deposits and investments (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. The Township does not currently have an investment policy for custodial credit risk for either its deposits or investments. As of December 31, 2014, \$2,929,543 of the Township's bank balance of \$3,679,543 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.

Deposits:

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 2,929,543
PLGIT investments	60,300
Insured by Federal Deposit Insurance Corporation	750,000
Deposits in transit	44,375
Outstanding checks	(105,693)
Petty cash	<u>77</u>
Total deposits	<u><u>\$ 3,678,602</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

2. Cash deposits and investments (continued):

Investments:

As of December 31, 2014, the Township had the following investments:

	Ratings	Maturities	Fair value
Wilmington Trust:			
Cash			\$ 7,799
Money market	N/A	N/A	229,073
U.S. treasury bills	AAA	1-2 years	53,203
U.S. government agencies	AAA	less than 1 year	50,621
Corporate bonds	AA	less than 1 year	26,030
	BAA3	more than 10 years	76,922
Mutual funds:			
Fixed income funds	Unrated	N/A	1,570,433
Domestic equity funds	Unrated	N/A	1,683,785
International funds	Unrated	N/A	981,611
Closed end equity funds	Unrated	N/A	429,957
ICMA-RC:			
Mutual funds:			
Stable value funds	Unrated	N/A	22,184
Bond funds	Unrated	N/A	120,570
Balanced funds	Unrated	N/A	1,584,952
U.S. stock funds	Unrated	N/A	653,829
International stock funds	Unrated	N/A	99,190
PLGIT	N/A	N/A	11,319
Total investments			7,601,478
Total deposits			3,678,602
Total deposits and investments			\$ 11,280,080

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

2. Cash deposits and investments (continued):

Reconciliation to the financial statements:

Cash:	
Governmental funds	\$ 3,509,895
Fiduciary funds	168,707
Investments:	
Governmental funds	11,319
Fiduciary funds	<u>7,590,159</u>
	<u>\$ 11,280,080</u>

Interest rate and credit risk:

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

3. 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, 2014, upon which the 2014 levy was based, was \$444,724,855 with an estimated current market value of \$1,544,183,524.

The Township levies taxes by authority of the Township Code of Pennsylvania, Section 3210 at \$8.90 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, 2014 was \$7.70 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, 2014 were 97.7% of the tax levy.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

4. Capital assets:

	<u>January 1, 2014</u>	<u>Additions</u>	<u>Transfers / Deletions</u>	<u>December 31, 2014</u>
Governmental activities:				
Land and land improvements	\$ 4,615,717	\$ 7,970		\$ 4,623,687
Buildings	5,528,824		\$ (13,525)	5,515,299
Infrastructure	6,236,680	55,713		6,292,393
Park equipment	4,943,346			4,943,346
Tools and equipment	738,286	138,579	(66,588)	810,277
Traffic signals	1,577,886			1,577,886
Vehicles	1,425,077	204,487	(104,341)	1,525,223
Construction in progress	54,056	256,236		310,292
	<u>25,119,872</u>	<u>662,985</u>	<u>(184,454)</u>	<u>25,598,403</u>
Less accumulated depreciation for:				
Land improvements	22,680	3,608		26,288
Buildings	1,958,697	138,939		2,097,636
Infrastructure	835,489	129,391		964,880
Park equipment	2,337,974	428,307		2,766,281
Tools and equipment	354,293	53,761	(66,588)	341,466
Traffic signals	789,071	55,887		844,958
Vehicles	854,453	108,692	(104,341)	858,804
Total accumulated depreciation	<u>7,152,657</u>	<u>918,585</u>	<u>(170,929)</u>	<u>7,900,313</u>
Governmental activities, capital assets, net	<u>\$ 17,967,215</u>	<u>\$ (255,600)</u>	<u>\$ (13,525)</u>	<u>\$ 17,698,090</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

4. Capital assets (continued):

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

Governmental activities:	
General government	\$ 328,027
Police department	38,864
Community services	429,715
Public works	<u>121,979</u>
Total governmental activities	<u><u>\$ 918,585</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

5. Long-term debt:

The following is a summary of debt transactions for the Township for the year ended December 31, 2014:

	<u>Principal balance, January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal balance, December 31, 2014</u>
General Obligation Note, Series 2011	\$ 470,058	\$ 235,348	\$ (100,000)	\$ 605,406
General Obligation Bonds: Series 2010	5,990,000		(645,000)	5,345,000
Original issue premium	77,714		(5,551)	72,163
Original issue discount	<u>(59,148)</u>		<u>4,225</u>	<u>(54,923)</u>
	<u>\$ 6,478,624</u>	<u>\$ 235,348</u>	<u>\$ (746,326)</u>	<u>\$ 5,967,646</u>
Current maturities, governmental activities:				
Notes payable				\$ 100,000
Bonds payable				500,000
Noncurrent debt, governmental activities:				
Notes payable				505,406
Bonds payable				<u>4,862,240</u>
Total maturities				<u>\$ 5,967,646</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

5. Long-term debt (continued):

The statement of net position includes:

General Obligation Bonds, Series of 2010, \$5,345,000 outstanding at December 31, 2014, due in annual principal installments ranging from \$295,000 to \$550,000 through June 1, 2027, interest rates range from 2.0% to 3.4%.

General Obligation Note, Series of 2011, a \$3,000,000 note of which \$605,406 is outstanding at December 31, 2014. Interest only payments are required until the close of the draw down period in 2015, at which time amortization of the debt will be calculated. The Township has elected to make principal payments during the draw down period. Interest is fixed at 3.13% through 2022, followed by a variable rate with a cap of 6.0% until maturity. The debt service requirement related to this note is included in the schedule below for the amount outstanding at December 31, 2014.

The total debt service requirements as of December 31, 2014 are listed below:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 600,000	\$ 156,367	\$ 756,367
2016	615,000	144,688	759,688
2017	630,000	131,065	761,065
2018	635,000	115,948	750,948
2019	650,000	97,880	747,880
2020-2024	1,840,406	283,948	2,124,354
2025-2029	980,000	48,460	1,028,460
	<u>\$ 5,950,406</u>	<u>\$ 978,356</u>	<u>\$ 6,928,762</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, 2014, there was no electoral debt outstanding. Non-electoral debt of \$5,950,406 is outstanding at December 31, 2014.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

5. 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 is 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, 2014, the Township's portion of the loan is \$1,067,098 principal and \$217,218 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 share of this loan is 21.08%. Interest is fixed at 3.15% through June 1, 2016 followed by a variable rate with a cap of 6.00%. Quarterly payments are due through December 2031.

On February 1, 2013, a second loan modification agreement reduced the amount available to borrow to \$6,611,300 and reduced the interest rate from 3.15% to 2.8% through December 1, 2022. The maximum variable rate was reduced from 6% to 5.35% for the period December 1, 2022 through December 1, 2031. Quarterly principal and interest payments are due through December 1, 2031 and commenced on March 1, 2014. As of December 31, 2014, \$3,323,308 was drawn on the bond, of which \$700,553 was the Township's portion.

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

6. 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.

Defined contribution plan:

Plan description and funding policy

The Patton Township Employees Pension Plan (nonuniform) 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 2014, the employer and employee contributions amounted to \$77,611 or 6.5% and \$41,792 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, 2013, the most recent actuarial valuation available, the Employees Pension Plan membership consisted of the following:

Active members	25
Retirees and beneficiaries currently receiving benefits	<u>1</u>
Total	<u><u>26</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

6. 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 administered by the Township manager. All full-time uniformed employees are eligible to participate in the plan upon employment. When plan contributions are required, the Township police employees are required to contribute up to 5.0% 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.

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.

The Township makes actuarially determined contributions to the pension plan equal to the amount required by state statutes. For 2014, the required contribution was equal to 10.7% of covered payroll.

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

Plan membership

As of January 1, 2013, the most recent actuarial valuation available, the Police Pension Plan membership consisted of the following:

Active members	18
Retirees and beneficiaries currently receiving benefits	<u>5</u>
Total	<u><u>23</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

6. Pension plans (continued):

Contributory defined benefit plan (continued):

Other information

Annual pension cost for 2014 was equal to the annual required contribution of \$152,205. As of the latest available actuarial report for 2013, the net municipal obligation was \$0.

The annual required contribution for the current year was determined as part of the actuarial report dated January 1, 2013. The actuarial valuation uses the entry age normal cost method. The actuarial assumptions include a 7% investment rate of return and projected salary increases of 5% per year.

Trend information

<u>Year</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
2012	\$ 121,105	100%	-
2013	138,588	100%	-
2014	173,415	100%	-

The funded status of the plan at January 1, 2013, is as follows:

<u>Actuarial value of assets</u>	<u>Actuarial accrued liability</u>	<u>Assets in excess (deficient) of actuarial accrued liability</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>Assets in excess (deficient) of actuarial accrued liability as a percentage of covered payroll</u>
\$ 4,027,883	\$ 4,477,860	\$ (449,977)	90%	\$ 1,277,130	(35%)

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

6. Pension plans (continued):

Investment earnings:

Investment earnings for the Pension Plans consist of the following for 2014:

	<u>Nonuniform Pension plan</u>	<u>Police Pension plan</u>
Gains (realized and unrealized)	\$ 113,308	\$ 48,330
Interest income		<u>85,790</u>
Total investment earnings	<u>\$ 113,308</u>	<u>\$ 134,120</u>

7. Interfund activity:

Individual fund receivable and payable balances at December 31, 2014 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 16,855	\$ 319,763
Parks and recreation fund	309,272	
Liquid fuels	10,491	
Open space bond fund		<u>16,855</u>
	<u>\$ 336,618</u>	<u>\$ 336,618</u>

The general funds due from the open space fund relate to debt service payments, salaries, wages, benefits and minor miscellaneous expenditures. The parks and recreation funds due from the general fund relate to dedicated real estate tax revenues collected for the fund, and the liquid fuels funds due from the general fund are for minor expenditures made on behalf of the general fund that were reclassified.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

8. Fund balances:

As of December 31, 2014, fund balances are composed of the following:

	<u>General fund</u>	<u>Parks and recreation fund</u>	<u>Open space bond fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
Restricted:					
Fire protection				\$ 41,600	\$ 41,600
Liquid fuels				172,723	172,723
Streetlights				20,654	20,654
Committed, capital project	\$ 9,280	\$ 11,319	\$ 198,011		218,610
Assigned:					
Reserve funds:					
Revenue assigned to open space			97,857		97,857
Building refurbishment	93,184				93,184
Weather related emergencies	30,034				30,034
Waddle road traffic mitigation	68,923				68,923
Police cars	53,385				53,385
Road equipment	59,134				59,134
Road resurfacing	65,712				65,712
Compensated absences	49,312				49,312
Surety	20,187				20,187
Debt service payments	606,692	344,487			951,179
Fund balance used to balance 2015 budget	593,522				593,522
Unassigned	<u>1,107,773</u>				<u>1,107,773</u>
Total fund balances	<u>\$ 2,757,138</u>	<u>\$ 355,806</u>	<u>\$ 295,868</u>	<u>\$ 234,977</u>	<u>\$ 3,643,789</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

9. 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 \$1,321,919 for the year ended December 31, 2014.

In addition, 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 \$13,039 and \$75,832, respectively, for the year ended December 31, 2014.

10. 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, 2014, the Township was limited in liability for claims to \$40,000 per enrollee per claim and a maximum claims liability of \$615,133. Actual claims paid by the cooperative on behalf of the Township for the year ended December 31, 2014 were \$718,658, with \$147,081 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.

11. New pension accounting pronouncement:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for the Township concerning pension benefits provided for employees. The standard will improve the way the Township reports its pension liabilities and expenses. This statement will be effective for years beginning after June 15, 2014. The Township is still evaluating the potential effects of this pronouncement on its financial statements.

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, 2014

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>budgetary</u>	<u>final budget</u>
			<u>activities</u>	<u>positive</u>
				<u>(negative)</u>
Revenues:				
Taxes and assessments	\$ 6,310,426	\$ 6,310,426	\$ 6,507,091	\$ 196,665
Licenses and permits	296,165	296,165	305,168	9,003
Fines	98,179	98,179	78,751	(19,428)
Intergovernmental	899,570	899,570	226,559	(673,011)
Interest and rents	45,589	45,589	45,101	(488)
Charges for services	46,564	46,564	58,689	12,125
Contributions	100,054	100,054	280,775	180,721
Miscellaneous	38,389	38,389	3,074	(35,315)
	<u>7,834,936</u>	<u>7,834,936</u>	<u>7,505,208</u>	<u>(329,728)</u>
Total revenues				
Expenditures:				
General government	1,138,025	1,138,025	1,132,967	5,058
Police department	3,369,643	3,369,643	3,163,216	206,427
Public works	4,399,868	4,399,868	1,968,132	2,431,736
Community service	1,197,120	1,197,120	1,220,678	(23,558)
Human services	55,999	55,999	38,479	17,520
Debt service	599,926	599,926	522,789	77,137
	<u>10,760,581</u>	<u>10,760,581</u>	<u>8,046,261</u>	<u>2,714,320</u>
Total expenditures				
Excess of expenditures over revenues	(2,925,645)	(2,925,645)	(541,053)	2,384,592
Other financing sources	2,079,400	2,079,400	319,516	(1,759,884)
Other financing uses	<u>(12,153)</u>	<u>(12,153)</u>	<u>(39,022)</u>	<u>(26,869)</u>
Net change in fund balances	<u>\$ (858,398)</u>	<u>\$ (858,398)</u>	<u>\$ (260,559)</u>	<u>\$ 597,839</u>

PATTON TOWNSHIP
POLICE PENSION PLAN
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

Valuation date, January 1,	Actuarial value of assets	Actuarial accrued liability	Assets in excess (deficient) of actuarial accrued liability	Funded ratio	Annual covered payroll	Assets in excess (deficient) of actuarial accrued liability as a percentage of covered payroll
2009	\$ 2,866,494	\$ 3,402,857	\$ (536,363)	84%	\$ 1,198,174	(45%)
2011	3,584,001	4,032,182	(448,181)	89%	1,292,268	(35%)
2013	4,027,883	4,477,860	(449,977)	90%	1,277,130	(35%)

The following changes affect the comparability of costs:

Actuarial valuation date	Reason(s)	Change in actuarial accrued liability
1/1/2009	Modification to actuarial assumptions	\$ (447,749)
1/1/2011	Modification to active member benefits	(8,083)
1/1/2013	Modification to actuarial assumptions	(31,775)

(continued)

PATTON TOWNSHIP

POLICE PENSION PLAN (CONTINUED)
(Required supplementary information)
(unaudited)

SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS

	<u>Annual required contribution</u>	<u>Contributions from employer and state</u>	<u>Percentage contributed</u>
2010	\$ 123,056	\$ 146,785	119%
2011	160,371	186,310	116%
2012	121,105	158,460	131%
2013	138,588	162,973	118%
2014	173,415	174,945	101%

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

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 2014, the board of supervisors did not approve any additional budgetary expenditure amendments for the general fund.

(continued)

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

2. Police pension plan:

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

	<u>Police pension plan</u>
Valuation	January 1, 2013
Actuarial cost method	Entry age
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value as determined by the trustee
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Mortality	RP-2000 table

PATTON TOWNSHIP

COMBINING BALANCE SHEET – ALL NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	<u>Liquid fuels fund</u>	<u>Streetlight fund</u>	<u>Hydrant fund</u>	<u>Total</u>
Assets:				
Cash	\$ 162,830	\$ 20,096	\$ 45,732	\$ 228,658
Assessment receivable		579	211	790
Due from other funds	<u>10,491</u>			<u>10,491</u>
Total assets	<u>\$ 173,321</u>	<u>\$ 20,675</u>	<u>\$ 45,943</u>	<u>\$ 239,939</u>
Liabilities and fund balances:				
Accounts payable	\$ 598	\$ 21	\$ 4,343	\$ 4,962
Fund balances, restricted	<u>172,723</u>	<u>20,654</u>	<u>41,600</u>	<u>234,977</u>
Total liabilities and fund balances	<u>\$ 173,321</u>	<u>\$ 20,675</u>	<u>\$ 45,943</u>	<u>\$ 239,939</u>

PATTON TOWNSHIP

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
ALL NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	<u>Liquid fuels fund</u>	<u>Streetlight fund</u>	<u>Hydrant fund</u>	<u>Total</u>
Revenues:				
Intergovernmental	\$ 347,051			\$ 347,051
Interest income	287			287
Assessments		<u>\$ 43,162</u>	<u>\$ 23,280</u>	<u>66,442</u>
Total revenues	<u>347,338</u>	<u>43,162</u>	<u>23,280</u>	<u>413,780</u>
Expenditures:				
Hydrant service			18,032	18,032
Highways and streets	284,530			284,530
Electricity		<u>38,855</u>		<u>38,855</u>
Total expenditures	<u>284,530</u>	<u>38,855</u>	<u>18,032</u>	<u>341,417</u>
Excess of revenues under expenditures	62,808	4,307	5,248	72,363
Other financing sources, interfund operating transfer	<u>10,491</u>			<u>10,491</u>
Net change in fund balances	73,299	4,307	5,248	82,854
Fund balances:				
January 1	<u>99,424</u>	<u>16,347</u>	<u>36,352</u>	<u>152,123</u>
December 31	<u><u>\$ 172,723</u></u>	<u><u>\$ 20,654</u></u>	<u><u>\$ 41,600</u></u>	<u><u>\$ 234,977</u></u>