

***PATTON TOWNSHIP***

***YEAR ENDED DECEMBER 31, 2017***

**PATTON TOWNSHIP**  
YEAR ENDED DECEMBER 31, 2017

CONTENTS

	Page
Independent auditors' report	1-2
Management's discussion and analysis (unaudited)	3-15
Financial statements:	
Government-wide financial statements:	
Statement of net position	16
Statement of activities	17
Fund financial statements and reconciliations:	
Balance sheet - governmental funds	18
Reconciliation of the governmental funds balance sheet to the statement of net position	19
Statement of revenues, expenditures and changes in fund balances - governmental funds	20-21
Reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities	22-23
Statement of fiduciary net position - all fiduciary funds	24
Statement of changes in fiduciary net position - all fiduciary funds	25
Notes to financial statements	26-53

(continued)

**PATTON TOWNSHIP**

YEAR ENDED DECEMBER 31, 2017

CONTENTS (CONTINUED)

	Page
Required supplementary information (unaudited):	
Schedule of revenues, expenditures and changes in fund balances - budget compared to actual - general fund	54
Schedule of changes in net pension liability and related ratios	55
Schedules of Township contributions and money weighted rate of return	56
Notes to required supplementary information	57-58
Supplementary information:	
Nonmajor funds:	
Combining balance sheet - all nonmajor governmental funds	59
Combining statement of revenues, expenditures and changes in fund balances - all nonmajor governmental funds	60



## 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, 2017 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 from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township as of December 31, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required supplementary information*

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

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Brown Schultz Steidan & Fritz*

Camp Hill, Pennsylvania  
April 18, 2018

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

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, 2017. 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, 2017. The intent of this MD&A is to summarize Patton Township's financial performance overall, by using comparative information from the current and prior years.

**USING THESE FINANCIAL STATEMENTS**

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

**Financial highlights**

- Effective January 1, 2015, the Township adopted and implemented new accounting standards related to pensions, specifically Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The Township must now report the unfunded pension liability on the statement of net position as a noncurrent liability. Due in part to better than average investment returns in 2017, the Township has a net pension asset at December 31, 2017 of \$130,839. The Township must also report a \$148,823 deferred inflow of resources related to the pension plan which represents the difference between the projected and actual earnings on pension plan investments as of December 31, 2017. Lastly, the Township must also report a \$129,452 deferred inflow of resources related to the pension plan which represents the difference in projected and actual experience as of December 31, 2017.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

- In 2017, real estate tax millage was 9.5 mills. The millage rate will remain 9.5 mills for 2018.
- The 2017 real estate tax collections, which represent the single largest source of revenue for the Township, came in at 99.1% of budget.
- Actual real estate transfer tax collections for 2017 were 93.4% of budget. This is a difficult revenue stream to predict.
- To assist with financial planning and to guide longer-term capital projects, the Township utilized two multi-year analysis and planning tools. The Financial Trends Monitoring report illustrates financial trends for the prior ten years. This tool helps identify shifts in financial conditions and provides alerts to management if trends are becoming unfavorable. The Board received the initial Capital Improvements Plan (CIP) in October and adopted the five-year CIP for the period 2018 through 2022 in December. The plan is a companion piece to the Budget documents, forecasting trends in revenues and expenditures, and providing a forum to consider and prioritize capital projects and staffing changes.
- In 2017, the Township issued zoning permits for \$53.19 million of development, up from \$15.61 million in 2016, mainly due to permits for the Stations of State College development.
- A three-year Police contract was signed in October, 2016 and is in effect for the period 2017-2019. The main terms consist of a 3% annual wage increase, employee contribution to pension from 5% of wages to 3% of wages and employee health care contributions from 10% to 11.5%.
- The Township has \$9,926,000 in outstanding debt as of December 31, 2017. This amount was comprised of two borrowings. \$9,126,000 of outstanding debt was on the General Obligation Note, Series of 2017, which was secured to purchase open space land and to refund General Obligation Bond, Series of 2010 and General Obligation Note, Series of 2012. \$800,000 of outstanding debt was on the loan from Pennsylvania Infrastructure Bank, which was secured to be used for traffic improvements at Valley Vista Drive.
- In addition to the Township's direct borrowing obligations, the Township is also guarantor on two intermunicipal loans for the Centre Region Recreation Authority. The total maximum obligation for these two loans at December 31, 2017 is \$1,669,040.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

- The Township was awarded a number of State grants for future construction projects.
  - The Pennsylvania Community Transportation Alternatives Grant of \$1,041,212 will provide funding for the construction of the Valley Vista Drive Bike Path project. Construction is to begin in 2018.
  - The Township was notified that it would be the recipient of a PennDot Multimodal Grant of \$800,000 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, 2017 increased to \$3,685,981 from \$2,800,980 in 2016. Of this amount \$2,081,024 is unassigned and represents 25.4% of general fund expenditures. The remainder of the Fund Balance in the General Fund, \$1,604,957, is assigned or committed 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% of general fund expenditures. The budget was generated to purposely reduce the fund balance over time, in line with the policy. Having a healthy fund balance has been accepted by the Board of Supervisors as prudent.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide financial statements**

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

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

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.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

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

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

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

- *Fiduciary funds* are used to account for resources held for the benefit of others outside of this government. Fiduciary funds are not reflected in the government-wide financial statements because these funds are not available to support Township programs. The Township's fiduciary funds are the pension trust funds for Township employees and the agency funds used to account for taxes collected by the Township's tax office for other taxing jurisdictions.

**Notes to the financial statements**

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

**Other supplementary information**

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

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

As noted earlier, over time net position may serve as a useful indicator of a government's financial position. In the case of the Township, assets and deferred outflows exceeded liabilities and deferred inflows by \$18,165,501 at the end of 2017 (\$16,191,401 for 2016).

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

A condensed summary of the Township's assets and deferred outflows and liabilities, deferred inflows and net position at December 31, 2017 and 2016 is shown below.

	2017 Governmental activities	2016 Governmental activities
	<u>                    </u>	<u>                    </u>
Current assets	\$ 5,698,718	\$ 4,275,247
Capital assets, net of depreciation	23,352,485	18,621,421
Other assets	11,459	11,368
Net pension asset	130,839	
Deferred outflows	<u>185,766</u>	<u>542,329</u>
Total assets and deferred outflows	<u>\$ 29,379,267</u>	<u>\$ 23,450,365</u>
Current liabilities	\$ 950,960	\$ 948,205
Noncurrent liabilities, other than pension	9,984,531	5,860,170
Net pension liability		300,524
Deferred inflows	<u>278,275</u>	<u>150,065</u>
Total liabilities and deferred inflows	<u>11,213,766</u>	<u>7,258,964</u>
Net position:		
Net investment in capital assets	13,623,710	12,952,491
Unrestricted	<u>4,541,791</u>	<u>3,238,910</u>
Total net position	<u>18,165,501</u>	<u>16,191,401</u>
Total liabilities, deferred inflows and net position	<u>\$ 29,379,267</u>	<u>\$ 23,450,365</u>

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

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

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.

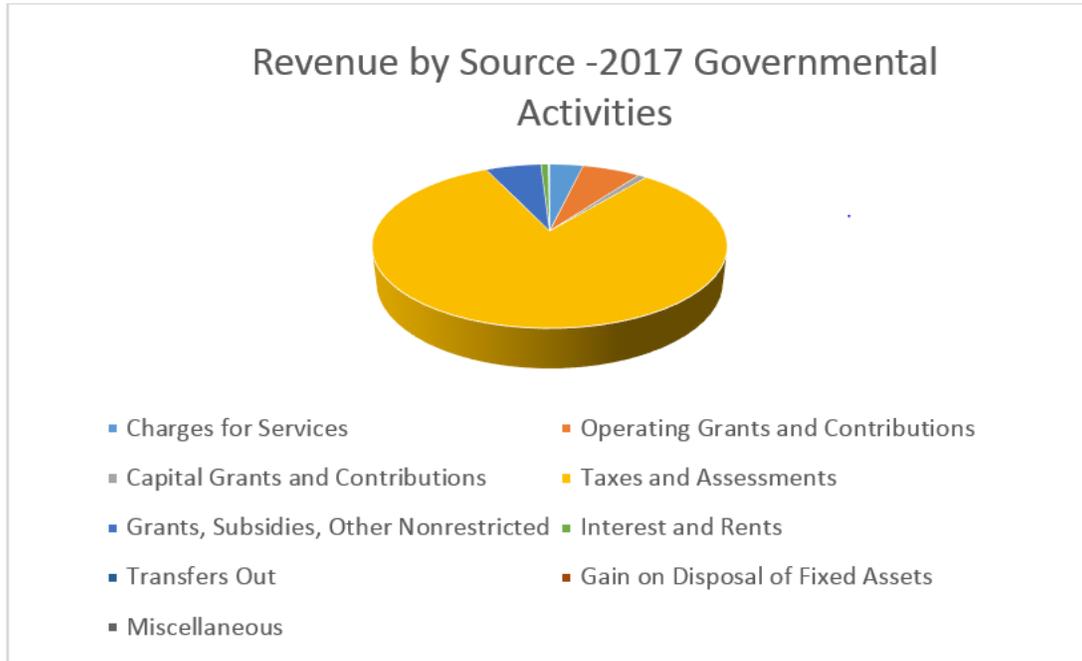
The Township's total assets and deferred outflows were \$29,379,267 of which 79.5% or \$23,352,485 is accounted for by its capital assets which includes infrastructure deeded to the Township.

A condensed summary of the Township's change in net position for the years ended December 31, 2017 and 2016 follows:

	<u>2017</u> Governmental activities	<u>2016</u> Governmental activities
Revenues:		
Program revenues:		
Charges for services	\$ 336,241	\$ 207,638
Operating grants and contributions	587,004	577,180
Capital grants and contributions	86,355	130,449
General revenues:		
Taxes and assessments	7,307,653	7,926,337
Grants, subsidies, other nonrestricted	2,406,354	413,629
Interest and rents	101,220	60,590
Transfers out	(31,105)	
Gain (loss) on disposal of fixed assets	(5,154)	49,501
Miscellaneous	5,543	5,943
Total revenues	<u>10,794,111</u>	<u>9,371,267</u>
Expenses:		
General government	1,329,081	524,381
Police department	3,279,989	3,338,559
Public works	2,597,783	2,936,822
Community services	1,340,793	1,357,014
Human services	41,059	47,542
Debt service	212,729	168,833
Amortization	18,577	18,577
Total expenses	<u>8,820,011</u>	<u>8,391,728</u>
Increase in net position	<u>\$ 1,974,100</u>	<u>\$ 979,539</u>

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017



**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

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

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

At the end of 2017, the Township's governmental funds reported combined ending fund balances of \$5,302,477 (\$3,956,377 in 2016). Approximately 39.2% of this total amount, or \$2,081,024, 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.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

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 25.4% of total General Fund expenditures while the total General Fund's fund balance represents 44.9% of the same amount. This represents planning for identified future expenditures and projects. In all of the other funds, the fund balance is assigned or restricted for specific purposes such as park construction or open space preservation and maintenance. The philosophy of the Township, given the healthy ending fund balance, is to prudently spend fund balance to balance expenditures rather than increase real estate tax rates beyond what is minimally necessary. Our longer term planning tools, such as the financial trend analysis and the capital improvement plan, allow us to look at tax rates into the future for better planning the use of fund balance.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

General Fund revenues, as reported in these financial statements, were less than budgetary estimates mainly because of grants of approximately \$2 million being budgeted for 2017 that were not awarded or have been deferred into future years.

There are a number of items that are reflected in the General Fund budget such as taxes that ultimately, for financial reporting purposes, get recorded as receipts in other funds. Examples are real estate taxes allocated to the Park Fund. In total, tax collections from all sources came in at 99.4% of budget. Total taxes collected for all funds were \$7,307,653.

Also budgeted this way, affecting Intergovernmental revenues, is State Pension aid which is shown in the Pension Trust Fund, and Liquid Fuels Tax revenue shown as revenue in a special revenue fund. These combined amounts account for \$733,796. These items are budgeted in the General Fund, yet for financial reporting purposes, they are shown in other funds.

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

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

Other financing sources and uses were significantly below budget. The Township budgeted the borrowing of \$4.7 million, \$1.2 million to be used for road projects, and \$3.5 million would be transferred to the Open Space Bond Fund, to be used to acquire and preserve additional open space lands in the Township. The Township borrowed \$10.2 million in 2017, but the \$9.1 million proceeds from the General Obligation Note, Series of 2017, are shown in the Debt Service Fund. Approximately \$5.6 million was used to refund the General Obligation Bond, Series of 2010 and the General Obligation Note, Series of 2012, and \$3.5 million was transferred to the Open Space Bond Fund as originally budgeted in the General Fund.

Overall, staff is satisfied with the Township's financial position at the end of 2017.

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

The Township's investment in capital assets for its governmental activities as of December 31, 2017 amounts to \$23,352,485, 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, 2017 and 2016 follows:

	2017 Governmental activities	2016 Governmental activities
	<u>                    </u>	<u>                    </u>
Land and land improvements	\$ 9,820,186	\$ 4,610,113
Buildings	5,546,626	5,546,626
Infrastructure	7,478,444	7,478,444
Park equipment	4,950,208	4,946,985
Tools and equipment	878,305	866,288
Traffic signals	1,631,193	1,631,193
Vehicles	1,739,407	1,751,808
Construction in progress	<u>1,648,862</u>	<u>1,271,925</u>
Total capital assets	<u>33,693,231</u>	<u>28,103,382</u>
Less accumulated depreciation for:		
Land improvements	32,219	29,387
Buildings	2,514,086	2,375,612
Infrastructure	1,399,432	1,246,320
Park equipment	3,965,553	3,579,976
Tools and equipment	445,272	396,126
Traffic signals	1,008,969	957,385
Vehicles	<u>975,215</u>	<u>897,155</u>
Total accumulated depreciation	<u>10,340,746</u>	<u>9,481,961</u>
Total capital assets, net	<u>\$ 23,352,485</u>	<u>\$ 18,621,421</u>

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

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

**Long-term debt**

At the end of 2017, the Township had outstanding General Obligation debt of \$9,926,000 plus \$619,391 in obligations for accrued compensated absences. More information about the Township's general long-term debt can be found in Note 6 of the financial statements.

A condensed summary of the Township's long-term debt obligations at December 31, 2017 and 2016 follows:

	2017	2016
Beginning balance	\$ 6,490,170	\$ 6,605,048
Increase in compensated absences	28,450	17,805
Debt proceeds	10,214,916	483,643
Principal retirement and amortization	(6,188,145)	(616,326)
Ending balance	\$ 10,545,391	\$ 6,490,170

**Economic factors and next year's budget and rates**

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

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

**PATTON TOWNSHIP**  
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Required Supplemental Information (RSI)  
(unaudited)  
DECEMBER 31, 2017

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

**Request for information**

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

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

**PATTON TOWNSHIP**

STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>
Current assets:	
Cash	\$ 5,412,932
Taxes receivable, net	202,852
Accounts receivable	82,934
	<hr/>
Total current assets	<u>5,698,718</u>
Noncurrent assets:	
Property, plant and equipment, net:	
Land and land improvements	9,787,967
Buildings and improvements	3,032,540
Park equipment	984,655
Vehicles	764,192
Infrastructure	6,079,012
Tools	433,033
Traffic signals	622,224
Construction in progress	<u>1,648,862</u>
Total property, plant and equipment, net	23,352,485
Net pension asset	130,839
Investments held for long-term purposes	<u>11,459</u>
Total noncurrent assets	<u>23,494,783</u>
Total assets	29,193,501
Deferred outflows of resources, deferred charge on refunding	<u>185,766</u>
Total assets and deferred outflows of resources	<u><u>\$ 29,379,267</u></u>

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>Governmental activities</u>
Current liabilities:	
Accrued liabilities	\$ 300,214
Developer escrow	73,996
Current portion of notes payable	560,860
Interest payable	<u>15,890</u>
Total current liabilities	<u>950,960</u>
Noncurrent liabilities:	
Notes payable	9,365,140
Compensated absences	<u>619,391</u>
Total noncurrent liabilities	<u>9,984,531</u>
Total liabilities	<u>10,935,491</u>
Deferred inflows of resources, pensions	<u>278,275</u>
Net position:	
Net investment in capital assets	13,623,710
Unrestricted	<u>4,541,791</u>
Total net position	<u>18,165,501</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 29,379,267</u></u>

**PATTON TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities - net expense, revenues and change in net position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Governmental activities:				
General government	\$ 1,329,081	\$ 31,540		\$ 49,581
Police department	3,279,989	72,210		
Public works	2,597,783	158,858	\$ 574,418	36,774
Community services	1,340,793	73,633	12,586	
Human services	41,059			
Interest	212,729			
Amortization	18,577			
	<u>18,577</u>			<u>18,577</u>
Total primary government	<u>\$ 8,820,011</u>	<u>\$ 336,241</u>	<u>\$ 587,004</u>	<u>\$ 86,355</u>
General revenues:				
Taxes:				
Property				4,571,780
Other				2,735,873
Grants, subsidies, other nonrestricted				2,406,354
Interest and rents				101,220
Loss on disposal of assets				(5,154)
Transfers out				(31,105)
Miscellaneous				5,543
				<u>9,784,511</u>
Total general revenues and transfers				<u>9,784,511</u>
Change in net position				1,974,100
Net position:				
January 1, 2017				<u>16,191,401</u>
December 31, 2017				<u>\$ 18,165,501</u>

See notes to financial statements.

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**PATTON TOWNSHIP**

BALANCE SHEET – GOVERNMENTAL FUNDS

DECEMBER 31, 2017

ASSETS

	Major funds				Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Nonmajor funds	
Cash	\$ 4,345,979	\$ 140,957	\$ 562,674	\$ 363,322	\$ 5,412,932
Investments		11,459			11,459
Receivables:					
Taxes	168,719			643	169,362
Other	78,006		4,928		82,934
Due from other funds	12,592	298,949	273,730		585,271
Total assets	<u>\$ 4,605,296</u>	<u>\$ 451,365</u>	<u>\$ 841,332</u>	<u>\$ 363,965</u>	<u>\$ 6,261,958</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	\$ 149,929	\$ 1,826	\$ 15,460	\$ 10,288	\$ 177,503
Wages and taxes	122,711				122,711
Developer escrow	73,996				73,996
Due to other funds	572,679	9,725	2,867		585,271
Total liabilities	<u>919,315</u>	<u>11,551</u>	<u>18,327</u>	<u>10,288</u>	<u>959,481</u>
Fund balance:					
Restricted				353,677	353,677
Committed	15,099	11,459	195,905		222,463
Assigned	1,589,858	428,355	627,100		2,645,313
Unassigned	2,081,024				2,081,024
Total fund balance	<u>3,685,981</u>	<u>439,814</u>	<u>823,005</u>	<u>353,677</u>	<u>5,302,477</u>
Total liabilities and fund balance	<u>\$ 4,605,296</u>	<u>\$ 451,365</u>	<u>\$ 841,332</u>	<u>\$ 363,965</u>	<u>\$ 6,261,958</u>

**PATTON TOWNSHIP**

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

YEAR ENDED DECEMBER 31, 2017

Total fund balances, governmental funds		\$ 5,302,477	
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 \$33,693,231, and the accumulated depreciation is \$10,340,746.			
			23,352,485
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.			
			33,490
Certain government-wide amounts are not included in government funds because government funds use current financial resources:			
Notes payable		\$(9,926,000)	
Accrued interest on the debt		(15,890)	
Compensated absences		(619,391)	
Net pension asset		130,839	
			(10,430,442)
Deferred outflows and inflows of resources are applicable to future periods and, therefore, are not reported in the funds			
Deferred outflow of resources, refunding		185,766	
Deferred inflows of resources, pensions		(278,275)	
			(92,509)
Total net position, governmental activities			<u>\$ 18,165,501</u>

See notes to financial statements.

**PATTON TOWNSHIP**

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

YEAR ENDED DECEMBER 31, 2017

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Debt service fund		
Revenues:						
Taxes and assessments	\$ 6,662,395	\$ 298,949	\$ 273,730		\$ 65,614	\$ 7,300,688
Licenses and permits	405,734					405,734
Fines	57,907					57,907
Intergovernmental	420,981				468,100	889,081
Interest and rents	55,880	1,573	43,412		355	101,220
Charges for services	61,795					61,795
Contributions	156,229		762,586			918,815
Miscellaneous	3,183					3,183
<b>Total revenues</b>	<b>7,824,104</b>	<b>300,522</b>	<b>1,079,728</b>		<b>534,069</b>	<b>9,738,423</b>
Expenditures:						
General government	1,242,357					1,242,357
Police department	3,303,087					3,303,087
Public works	2,112,601				329,534	2,442,135
Community services	900,714	28,656	4,342,547		22,274	5,294,191
Human services	41,059					41,059
Debt service:						
Principal retirement				\$ 630,000		630,000
Interest				182,185		182,185
<b>Total expenditures</b>	<b>7,599,818</b>	<b>28,656</b>	<b>4,342,547</b>	<b>812,185</b>	<b>351,808</b>	<b>13,135,014</b>
Excess of revenues over (under) expenditures	224,286	271,866	(3,262,819)	(812,185)	182,261	(3,396,591)

(continued)

**PATTON TOWNSHIP**

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

YEAR ENDED DECEMBER 31, 2017

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Debt service fund		
Other financing sources (uses):						
Proceeds from general long-term debt	\$ 1,088,916			\$ 9,126,000		\$ 10,214,916
Debt service, payment to refunded bond escrow agent				(5,572,703)		(5,572,703)
Debt issue cost				(46,906)		(46,906)
Proceeds from sale of assets	8,508					8,508
Refunds of prior year expenditures	169,981					169,981
Interfund operating transfer	(606,690)	\$ (236,600)	\$ 3,506,391	(2,694,206)		(31,105)
<b>Total other financing sources (uses)</b>	<b>660,715</b>	<b>(236,600)</b>	<b>3,506,391</b>	<b>812,185</b>		<b>4,742,691</b>
Net change in fund balances	885,001	35,266	243,572	-	\$ 182,261	1,346,100
Fund balances:						
January 1	2,800,980	404,548	579,433		171,416	3,956,377
December 31	<u>\$ 3,685,981</u>	<u>\$ 439,814</u>	<u>\$ 823,005</u>	<u>\$ -</u>	<u>\$ 353,677</u>	<u>\$ 5,302,477</u>

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, 2017**

Total net change in fund balances, governmental funds \$ 1,346,100

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net capital outlays exceeded depreciation expense for the period.

Capital outlays, net	\$ 5,658,245	
Depreciation expense	<u>(927,181)</u>	
		4,731,064

Because some property taxes will not be collected for several months after the Township's year end, they are not considered to be available revenues in the governmental funds. Unavailable tax revenues increased by this amount this year. 6,965

Changes in compensated absences are not recorded as expenditures in the governmental funds but are included in the statement of activities. Compensated absences increased by this amount. (28,450)

(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, 2017

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 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	\$ (10,214,916)	
Refunding of debt, bonds payable	5,543,557	
Repayment of debt, bonds payable	630,000	
Amortization of:		
Bond discount	(4,225)	
Bond premium	5,551	
Deferred charge on refunding	<u>(19,903)</u>	
		\$ (4,059,936)
 Change in accrued interest		 (1,398)
 Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense.		
Net pension contributions	175,626	
Cost of benefits earned	<u>(195,871)</u>	
		<u>(20,245)</u>
 Change in net position of governmental activities		 <u>\$ 1,974,100</u>

See notes to financial statements.

**PATTON TOWNSHIP**

STATEMENT OF FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS

DECEMBER 31, 2017

ASSETS

	<u>Pension trust funds</u>		<u>Agency fund</u>
	<u>Police pension</u>	<u>Nonuniform pension</u>	<u>Tax office</u>
Cash			\$ 133,260
Investments	\$ 6,290,976	\$ 3,284,814	
Investment in transit	3,816		
Total assets	<u>\$ 6,294,792</u>	<u>\$ 3,284,814</u>	<u>\$ 133,260</u>

LIABILITIES AND NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Taxes collected due to:			
Patton Township general fund			\$ 28,140
Other governments			105,120
Net position, restricted for pension benefits	<u>\$ 6,294,792</u>	<u>\$ 3,284,814</u>	
Total liabilities and net position	<u>\$ 6,294,792</u>	<u>\$ 3,284,814</u>	<u>\$ 133,260</u>

See notes to financial statements.

**PATTON TOWNSHIP**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	<u>Police pension trust fund</u>	<u>Nonuniform pension trust fund</u>
Additions:		
Investment gains	\$ 846,103	\$ 469,833
Contributions:		
State	149,934	84,657
Employer	31,105	
Employee	<u>39,354</u>	<u>48,139</u>
Total additions	<u>1,066,496</u>	<u>602,629</u>
Deductions:		
Administrative expense	44,767	
Distributions	<u>152,513</u>	<u>24,000</u>
Total deductions	<u>197,280</u>	<u>24,000</u>
Net increase	869,216	578,629
Net position held in trust for pension benefits:		
January 1	<u>5,425,576</u>	<u>2,706,185</u>
December 31	<u>\$ 6,294,792</u>	<u>\$ 3,284,814</u>

See notes to financial statements.

# **PATTON TOWNSHIP**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2017**

### **1. Organization and significant accounting policies:**

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

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

#### *Reporting entity:*

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

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

#### *Basis of presentation, fund accounting and measurement focus:*

##### Basis of presentation

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

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **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 based upon determination of changes in financial position. The following are the Township's governmental fund types:

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

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

# PATTON TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

### 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.

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

#### Fiduciary funds

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

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

Agency fund - This fund includes the tax office.

#### Measurement focus and basis of accounting

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

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**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.

*Interfund transactions:*

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

*Investments:*

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

*Interest rate and credit risk:*

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

*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.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**1. Organization and significant accounting policies (continued):**

*Deferred outflows of resources:*

The statement of net position reports a separate section for deferred outflows of resources, which represents a consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources represent a deferred charge on refunding resulting from the difference between the reacquisition price and the net carrying amount of the refunded debt which is amortized on the straight-line basis over the life of the issue.

*Deferred inflows of resources:*

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

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

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

*Capital assets:*

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

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**1. Organization and significant accounting policies (continued):**

*Capital assets (continued):*

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.

*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.

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **1. Organization and significant accounting policies (continued):**

##### *Pension plans (continued):*

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

##### *GASB Statement No. 54:*

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

##### *Fund balance classification:*

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

Nonspendable: Includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. None of the Township's fund balances were classified as nonspendable at December 31, 2017.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**1. Organization and significant accounting policies (continued):**

*Fund balance classification (continued):*

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 nor committed. This intent can be expressed by the Township's board or through the Township's board delegating this responsibility to the Township's manager through the budgetary process.

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

*Use of fund balance:*

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

*Net position classifications:*

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

- a. Net investment in capital assets - Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **1. Organization and significant accounting policies (continued):**

*Net position classifications (continued):*

- 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. None of the Township's net position was classified as restricted net position at December 31, 2017.
- 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 April 18, 2018, which is the date the financial statements were available to be issued.

*Upcoming accounting pronouncements:*

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for reporting periods beginning after December 15, 2018.

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **1. Organization and significant accounting policies (continued):**

##### *Upcoming accounting pronouncements (continued):*

GASB Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, and fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits). This statement is effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for reporting periods beginning after June 15, 2018.

#### **2. Cash deposits:**

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

##### *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, 2017, \$3,326,869 of the Township's bank balance of \$4,076,869 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.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**2. Cash deposits (continued):**

*Reconciliation to the financial statements:*

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 3,326,869
PLGIT investments	1,563,962
Insured by Federal Deposit Insurance Corporation	750,000
Outstanding checks	(94,716)
Petty cash	77
	<hr/>
Total cash deposits	<u>\$ 5,546,192</u>
Reconciliation to financial statements, cash:	
Governmental funds	\$ 5,412,932
Fiduciary funds	133,260
	<hr/>
	<u>\$ 5,546,192</u>

**3. Investments:**

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

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

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**3. Investments (continued):**

As of December 31, 2017, the Township had the following Level 1 investments:

	<u>Ratings</u>	<u>Maturities</u>	<u>Fair value</u>
Pension trust funds' investments:			
Wilmington Trust:			
Cash			\$ 353
Money market	N/A	N/A	58,460
Mutual funds:			
Fixed income funds	Unrated	N/A	1,942,491
Domestic equity funds	Unrated	N/A	1,529,487
International funds	Unrated	N/A	978,169
Closed end fixed income funds	Unrated	N/A	235,158
Closed end equity funds	Unrated	N/A	1,309,048
Closed end international funds	Unrated	N/A	<u>237,810</u>
 Total Wilmington Trust			 <u>6,290,976</u>
 ICMA-RC, mutual funds:			
Stable value funds	Unrated	N/A	30,844
Bond funds	Unrated	N/A	158,971
Balanced funds	Unrated	N/A	1,909,653
U.S. stock funds	Unrated	N/A	1,042,569
International stock funds	Unrated	N/A	137,075
Specialty funds	Unrated	N/A	<u>5,702</u>
 Total ICMA-RC mutual funds			 <u>3,284,814</u>
 Governmental activities, PLGIT	 N/A	 N/A	 <u>11,459</u>
 Total investments			 <u><u>\$ 9,587,249</u></u>

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

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**4. Property taxes:**

The Township's property tax is levied each March 1 on the assessed value as of the prior January 1 for all real property located in the Township. The assessed value at January 1, 2017, upon which the 2017 levy was based, was \$463,882,620 with an estimated current market value of \$1,656,723,643.

The Township levies taxes by authority of the Township Code of Pennsylvania, Section 3210 at \$9.50 per \$1,000 of assessed valuation. The combined tax rate to finance governmental services other than the payment of principal and interest on long-term debt for the year ended December 31, 2017 was \$8.30 per \$1,000 with an additional \$1.20 per \$1,000 for debt service.

Taxes are collected at a discount until April 30, at their face amount from May 1 until June 30 and include a penalty thereafter. Current tax collections, net of exonerations and exemptions, for the year ended December 31, 2017 were 97.8% of the tax levy.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**5. Capital assets:**

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Transfers / Deletions</u>	<u>December 31, 2017</u>
Governmental activities:				
Land and land improvements	\$ 4,610,113	\$ 5,210,073		\$ 9,820,186
Buildings	5,546,626			5,546,626
Infrastructure	7,478,444			7,478,444
Park equipment	4,946,985	3,223		4,950,208
Tools and equipment	866,288	24,016	\$ (11,999)	878,305
Traffic signals	1,631,193			1,631,193
Vehicles	1,751,808	57,657	(70,058)	1,739,407
Construction in progress	1,271,925	376,937		1,648,862
	<u>28,103,382</u>	<u>5,671,906</u>	<u>(82,057)</u>	<u>33,693,231</u>
Less accumulated depreciation for:				
Land improvements	29,387	2,832		32,219
Buildings	2,375,612	138,474		2,514,086
Infrastructure	1,246,320	153,112		1,399,432
Park equipment	3,579,976	385,577		3,965,553
Tools and equipment	396,126	61,145	(11,999)	445,272
Traffic signals	957,385	51,584		1,008,969
Vehicles	897,155	134,457	(56,397)	975,215
	<u>9,481,961</u>	<u>927,181</u>	<u>(68,396)</u>	<u>10,340,746</u>
Total accumulated depreciation				
Governmental activities, capital assets, net	<u>\$ 18,621,421</u>	<u>\$ 4,744,725</u>	<u>\$ (13,661)</u>	<u>\$ 23,352,485</u>

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**5. Capital assets (continued):**

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

Governmental activities:	
General government	\$ 331,937
Police department	60,999
Community services	386,986
Public works	<u>147,259</u>
Total governmental activities	<u>\$ 927,181</u>

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**6. Long-term debt:**

The following is a summary of debt transactions for the Township for the year ended December 31, 2017:

	<u>Principal balance, January 1, 2017</u>	<u>Additions</u>	<u>Repayments</u>	<u>Refunded</u>	<u>Principal balance, December 31, 2017</u>
General Obligation Note, Series 2017		\$ 9,126,000			\$ 9,126,000
Pennsylvania Infrastructure Bank loan		800,000			800,000
General Obligation Note, Series 2011	\$ 1,554,641	288,916	\$ (100,000)	\$ (1,743,557)	
General Obligation Bonds, Series 2010	<u>4,330,000</u>		<u>(530,000)</u>	<u>(3,800,000)</u>	
	<u>\$ 5,884,641</u>	<u>\$ 10,214,916</u>	<u>\$ (630,000)</u>	<u>\$ (5,543,557)</u>	<u>\$ 9,926,000</u>
Current maturities, governmental activities, notes payable					\$ 560,860
Noncurrent debt, governmental activities, notes payable					<u>9,365,140</u>
Total maturities					<u>\$ 9,926,000</u>

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**6. Long-term debt (continued):**

In May 2017, the Township entered into a loan agreement with Pennsylvania Infrastructure Bank for \$800,000 to be used for traffic improvements at Valley Vista Drive. The loan requires interest only payments of \$7,000 to be paid on November 1, 2017 and May 1, 2018, followed by semi-annual payments beginning November 1, 2018 of \$48,230, including interest at 1.75% per annum through May 2027.

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

The total debt service requirements as of December 31, 2017 are listed below:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 560,860	\$ 187,543	\$ 748,403
2019	932,276	174,918	1,107,194
2020	899,234	156,987	1,056,221
2021	682,538	141,531	824,069
2022	692,009	128,130	820,139
2023-2027	3,322,134	688,165	4,010,299
2028-2032	1,302,380	536,168	1,838,548
2033-2037	<u>1,534,569</u>	<u>181,715</u>	<u>1,716,284</u>
	<u>\$ 9,926,000</u>	<u>\$ 2,195,157</u>	<u>\$ 12,121,157</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, 2017, there was no electoral debt outstanding. Non-electoral debt of \$9,926,000 is outstanding at December 31, 2017.

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **6. Long-term debt (continued):**

##### *Regional pools loan:*

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

In November 2012, the loan was refinanced through the Series 2012 revenue bond. The Series 2012 revenue bond has a maximum principal amount of \$6,128,000, of which the Township's obligation is 20.54% or \$1,258,691. Interest is fixed at 2.43% until December 1, 2022, followed by a variable rate capped at 3.95% until maturity. At December 31, 2017, the Township's portion of the loan is \$885,619 principal and \$123,221 interest. The Township's annual share of principal and interest payments is approximately \$92,000.

##### *Regional parks loan:*

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

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

Third, fourth and fifth loan modification agreements extended the draw period from June 1, 2014 to June 1, 2020 and reduced the initial interest rate from 2.80% to 2.59% through December 1, 2022. As of December 31, 2017, \$3,716,417 was drawn on the bond, of which \$783,421 (21.08%) was the Township's guaranteed 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, 2017

**7. Pension plans:**

The Township has two pension plans, one covering uniformed police and the other covering non-uniformed employees. The uniformed police plan was established by Township ordinance and the non-uniformed 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 (non-uniformed) 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 2017, the employer and employee contributions amounted to \$84,657 or 6.5% and \$48,139 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, 2017, the most recent actuarial valuation available, the Employees Pension Plan membership consisted of the following:

Active members	25
New members	5
Terminated with full vesting	<u>(4)</u>
Total	<u>26</u>

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **7. Pension plans (continued):**

##### *Contributory defined benefit plan:*

##### Plan description and funding policy

The Patton Township Police Pension Plan is a contributory single employer defined benefit plan that covers all full-time uniformed police officers of the Township and is administered by the Township manager. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended. Township police employees are required to contribute up to 3% of annual base pay compensation. The Township is required to contribute the remaining amount necessary to fund the plan using the entry age normal cost method. The Township funds its contributions with general fund cash and foreign casualty insurance premium taxes obtained from the Commonwealth of Pennsylvania.

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

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

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

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

The Township makes actuarially determined contributions to the pension plan equal to the amount required by state statutes. For 2017, the required contribution was equal to 12.4% of covered payroll.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**7. Pension plans (continued):**

*Contributory defined benefit plan (continued):*

Plan description and funding policy (continued)

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

Plan membership

As of December 31, 2017, the Police Pension Plan membership consisted of the following:

Active members	15
Terminated members entitled to benefits but not yet receiving them	1
Retirees and beneficiaries currently receiving benefits (including DROP members)	<u>7</u>
Total	<u><u>23</u></u>

Net pension liability

The Township's net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and by rolling forward the liabilities from the January 1, 2017 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

Actuarial assumptions

The total pension liability as of December 31, 2017 was determined using the following economic assumptions, applied to all periods included in the measurement.

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

Mortality rates were based on the RP-2000 mortality tables for males and females.

The annual money-weighted rate of return for 2017 was 14.85%.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**7. Pension plans (continued):**

*Contributory defined benefit plan (continued):*

Actuarial assumptions (continued)

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

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Cash	1.00%	-0.40%
U.S. Inv. Grade - Taxable	29.00%	1.10%
High Yield Corporate Bonds	1.00%	3.10%
US Large - Cap Stocks	39.00%	5.80%
US Small - Cap Stocks	6.00%	7.20%
Developed International Stocks	15.00%	5.90%
Emerging Markets Stocks	3.00%	7.90%
Domestic Inflation - Linked Bonds	2.00%	0.75%
Domestic Real Estate Investment Trusts	2.00%	5.20%
Global Real Estate Investment Trusts	2.00%	6.40%
	<u>100.00%</u>	

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**7. Pension plans (continued):**

*Contributory defined benefit plan (continued):*

Discount rate

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

Changes in the net pension liability

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) - (b)
Balances at January 1, 2017	\$ 5,726,100	\$ 5,425,576	\$ 300,524
Service cost	182,128		182,128
Interest cost	408,238		408,238
Employer contributions		181,039	(181,039)
Employee contributions		39,354	(39,354)
Net investment income		846,103	(846,103)
Benefit payments, including contribution refunds	(152,513)	(152,513)	
Administrative expense		(44,767)	44,767
Net changes	437,853	869,216	(431,363)
Balance at December 31, 2017	\$ 6,163,953	\$ 6,294,792	\$ (130,839)

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**7. Pension plans (continued):**

*Contributory defined benefit plan (continued):*

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

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

	<u>1% decrease in discount rate 6.00%</u>	<u>Current discount rate 7.00%</u>	<u>1% increase in discount rate 8.00%</u>
Total pension liability	\$ 6,975,528	\$ 6,163,953	\$ 5,484,420
Plan fiduciary net position	<u>(6,294,792)</u>	<u>(6,294,792)</u>	<u>(6,294,792)</u>
Plan's net pension liability (asset)	<u>\$ 680,736</u>	<u>\$ (130,839)</u>	<u>\$ (810,372)</u>

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

For the year ended December 31, 2017, the Township recognized pension expense of \$195,871. At December 31, 2017, the Township reported deferred inflows of resources related to pensions from the following sources:

	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 129,452
Net difference between projected and actual earnings on pension plan investments	<u>148,823</u>
Totals	<u>\$ 278,275</u>

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**7. Pension plans (continued):**

*Contributory defined benefit plan (continued):*

Pension expense and deferred outflows and inflows of resources related to pensions (continued)

Amounts reported as deferred inflows of resources related to pensions at December 31, 2017 will be recognized in pension expense as follows:

Year ended	Deferred inflows of resources
2018	\$ 13,989
2019	13,990
2020	89,563
2021	113,733
2022	20,613
thereafter	26,387
	\$ 278,275

**8. Interfund activity:**

Individual fund receivable and payable balances at December 31, 2017 are as follows:

	Due from other funds	Due to other funds
General fund	\$ 12,592	\$ 572,679
Parks and recreation fund	298,949	9,725
Open space bond fund	273,730	2,867
	\$ 585,271	\$ 585,271

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**8. Interfund activity (continued):**

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

The parks and recreation fund account is a result of a dedicated 0.7 mills of real estate tax to the park acquisition and improvement fund. Current year collections are \$298,949. In 2010, the Township borrowed \$2,105,000 to fund construction at Bernel Road Park. These funds are used mainly to pay debt service costs. On December 5, 2017, this debt was refunded using proceeds from the General Obligation Note, Series of 2017.

On November 4, 2014, the voters approved a referendum authorizing the borrowing of \$3,500,000 to acquire and preserve additional open space lands in the Township. The debt will be paid through a dedicated real estate millage of 6/10ths of a mill levied beginning in 2016. Current year collections for 2017 are \$273,730. In December 2017, the Township purchased open space lands for \$4,298,073, using proceeds from the General Obligation Note, Series of 2017, and a \$750,000 donation from the Hamer Foundation.

**PATTON TOWNSHIP**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**9. Fund balances:**

As of December 31, 2017, 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				\$ 47,678	\$ 47,678
Liquid fuels				301,377	301,377
Streetlights				4,622	<u>4,622</u>
					<u>353,677</u>
Committed, capital projects	\$ 15,099	\$ 11,459	\$ 195,905		<u>222,463</u>
Assigned:					
Reserve funds:					
Revenue assigned to open space			627,100		627,100
Building refurbishment	143,106				143,106
Weather related emergencies	32,602				32,602
Waddle road traffic mitigation	195,910				195,910
Police cars	35,328				35,328
Road equipment	54,472				54,472
Road resurfacing	28,423				28,423
Compensated absences	24,826				24,826
Surety	54,126				54,126
Debt service payments	1,000,309	428,355			1,428,664
Fund balance used to balance 2018 budget	20,756				<u>20,756</u>
					<u>2,645,313</u>
Unassigned	<u>2,081,024</u>				<u>2,081,024</u>
Total fund balances	<u>\$ 3,685,981</u>	<u>\$ 439,814</u>	<u>\$ 823,005</u>	<u>\$ 353,677</u>	<u>\$ 5,302,477</u>

## **PATTON TOWNSHIP**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

#### **10. 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 \$1,359,545 for the year ended December 31, 2017.

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 \$23,115 and \$80,329, respectively, for the year ended December 31, 2017.

In addition to CATA, the above mentioned townships and borough also operate the Schlow Centre Region Library to serve the educational, recreational, cultural and informational needs of the region. During 2017, the Township contributed \$270,689 for the operations of the library.

#### **11. 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, 2017, the Township was limited in liability for claims to \$45,000 per enrollee per claim and a maximum claims liability of \$495,798. Actual claims paid by the cooperative on behalf of the Township for the year ended December 31, 2017 were \$478,305, with \$48,131 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.

**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, 2017

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 7,353,839	\$ 7,353,839	\$ 6,662,395	\$ (691,444)
Licenses and permits	331,744	331,744	405,734	73,990
Fines	78,276	78,276	57,907	(20,369)
Intergovernmental	2,518,484	2,518,484	420,981	(2,097,503)
Interest and rents	46,763	46,763	55,880	9,117
Charges for services	59,581	59,581	61,795	2,214
Contributions	114,574	114,574	156,229	41,655
Miscellaneous	30,794	30,794	3,183	(27,611)
Total revenues	<u>10,534,055</u>	<u>10,534,055</u>	<u>7,824,104</u>	<u>(2,709,951)</u>
Expenditures:				
General government	1,217,622	1,217,622	1,242,357	(24,735)
Police department	3,426,608	3,426,608	3,303,087	123,521
Public works	5,356,620	5,356,620	2,112,601	3,244,019
Community service	1,310,965	1,310,965	900,714	410,251
Human services	75,236	75,236	41,059	34,177
Debt service	886,295	886,295	-	886,295
Total expenditures	<u>12,273,346</u>	<u>12,273,346</u>	<u>7,599,818</u>	<u>4,673,528</u>
Excess of expenditures over revenues	(1,739,291)	(1,739,291)	224,286	1,963,577
Other financing sources	4,710,000	4,710,000	1,267,405	(3,442,595)
Other financing uses	<u>(3,525,000)</u>	<u>(3,525,000)</u>	<u>(606,690)</u>	<u>2,918,310</u>
Net change in fund balances	<u>\$ (554,291)</u>	<u>\$ (554,291)</u>	<u>\$ 885,001</u>	<u>\$ 1,439,292</u>

**PATTON TOWNSHIP  
UNIFORMED POLICE PENSION PLAN**

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

YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:			
Service cost	\$ 182,128	\$ 176,535	\$ 168,129
Interest	408,238	390,759	363,450
Differences between expected and actual experience		(170,678)	
Benefit payments, including refunds of member contributions	<u>(152,513)</u>	<u>(152,513)</u>	<u>(147,181)</u>
Net change in total pension liability	437,853	244,103	384,398
Total pension liability:			
Beginning of year	<u>5,726,100</u>	<u>5,481,997</u>	<u>5,097,599</u>
End of year (a)	<u>\$ 6,163,953</u>	<u>\$ 5,726,100</u>	<u>\$ 5,481,997</u>
Plan fiduciary net position:			
Contributions - employer	\$ 181,039	\$ 144,040	\$ 171,124
Contributions - member	39,354	68,024	65,424
Net investment income	846,103	241,360	(16,923)
Benefit payments, including refunds of member contributions	(152,513)	(152,513)	(147,181)
Administrative expense	<u>(44,767)</u>	<u>(39,987)</u>	<u>(38,827)</u>
Net change in plan fiduciary net position	869,216	260,924	33,617
Total fiduciary net position:			
Beginning of year	<u>5,425,576</u>	<u>5,164,652</u>	<u>5,131,035</u>
End of year (b)	<u>\$ 6,294,792</u>	<u>\$ 5,425,576</u>	<u>\$ 5,164,652</u>
Net pension liability, end of year (a) - (b)	<u>\$ (130,839)</u>	<u>\$ 300,524</u>	<u>\$ 317,345</u>
Plan fiduciary net position as a percentage of the total pension liability	102.12%	94.75%	94.21%
Covered employee payroll	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Net pension liability as a percentage of covered employee payroll	-11.10%	21.61%	22.15%

**PATTON TOWNSHIP  
UNIFROMED POLICE PENSION PLAN**

SCHEDULES OF TOWNSHIP CONTRIBUTIONS AND MONEY WEIGHTED RATE OF RETURN  
(Required supplementary information)  
(unaudited)

YEAR ENDED DECEMBER 31, 2017

Description	2017	2016	2015
Actuarially determined employer contribution	\$ 177,223	\$ 144,040	\$ 167,443
Contributions in relation to the actuarially determined contribution	<u>177,223</u>	<u>144,040</u>	<u>167,443</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Total contributions made as a percentage of payroll	15.04%	10.36%	11.69%
Money weighted rate of return	14.85%	4.68%	-0.33%

**PATTON TOWNSHIP**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

**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 2017, the board of supervisors did not approve any additional budgetary expenditure amendments for the general fund.

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

(continued)

**PATTON TOWNSHIP**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

**2. Uniformed police pension plan:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2017. Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method:	Entry Age
Amortization method:	Level Dollar, Closed
Remaining amortization period:	5 years
Asset valuation method:	Market value as determined by the trustee
Inflation:	2.00%
Salary increases:	5.00%
Investment rate of return:	7.00%
Retirement age:	Normal retirement age
Mortality	RP-2000 table
Change in benefit terms:	None since January 1, 2017

**PATTON TOWNSHIP**

COMBINING BALANCE SHEET – ALL NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	<u>Liquid fuels fund</u>	<u>Streetlight fund</u>	<u>Hydrant fund</u>	<u>Total</u>
Assets:				
Cash	\$ 305,898	\$ 4,200	\$ 53,224	\$ 363,322
Assessment receivable		<u>469</u>	<u>174</u>	<u>643</u>
Total assets	<u>\$ 305,898</u>	<u>\$ 4,669</u>	<u>\$ 53,398</u>	<u>\$ 363,965</u>
Liabilities and fund balances:				
Accounts payable	\$ 4,521	\$ 47	\$ 5,720	\$ 10,288
Fund balances, restricted	<u>301,377</u>	<u>4,622</u>	<u>47,678</u>	<u>353,677</u>
Total liabilities and fund balances	<u>\$ 305,898</u>	<u>\$ 4,669</u>	<u>\$ 53,398</u>	<u>\$ 363,965</u>

**PATTON TOWNSHIP**

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

YEAR ENDED DECEMBER 31, 2017

	Liquid fuels fund	Streetlight fund	Hydrant fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:				
Intergovernmental	\$ 468,100			\$ 468,100
Interest income	355			355
Assessments		\$ 42,840	\$ 22,774	65,614
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	468,455	42,840	22,774	534,069
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Expenditures:				
Hydrant service			22,274	22,274
Highways and streets	270,653			270,653
Electricity		58,881		58,881
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	270,653	58,881	22,274	351,808
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net change in fund balances	197,802	(16,041)	500	182,261
Fund balances:				
January 1	103,575	20,663	47,178	171,416
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
December 31	\$ 301,377	\$ 4,622	\$ 47,678	\$ 353,677
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>