

PATTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2020



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

PATTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2020

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Independent Auditor's Report

Board of Supervisors
Patton Township
State College, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township as of December 31, 2020 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 supplementary 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2021 on our consideration of Patton Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of the effectiveness of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Patton Township's internal control over financial reporting and compliance.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
April 26, 2021

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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, 2020. 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, 2020. The intent of this MD&A is to summarize Patton Township's financial performance overall, by using comparative information from the current and prior years.

USING THESE FINANCIAL STATEMENTS

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

Financial highlights

- Effective January 1, 2015, the Township adopted and implemented new accounting standards related to pensions, specifically Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The Township must now report the unfunded pension liability on the statement of net position as a noncurrent liability. The Township has a net pension asset at December 31, 2020 of \$385,691. The Township must also report a \$79,362 deferred outflow of resources related to the pension plan which represents the difference in projected and actual experience and a \$198,035 deferred outflow of resources related to the pension plan which represents a change in actuarial assumptions as of December 31, 2020. Lastly, the Township must also report a \$130,780 deferred inflow of resources related to the pension plan which represents the difference in projected and actual experience and a \$725,261 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, 2020.
- In 2020, real estate tax millage was 9.5 mils. The millage rate will remain 9.5 mils for 2021.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

- The 2020 real estate tax collections, which represent the single largest source of revenue for the Township, came in at 96% of budget.
- Actual real estate transfer tax collections for 2020 were 112.5% 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 2021 through 2025 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 2020, the Township issued zoning permits for \$23.88 million of development, up from \$15.09 million in 2019.
- A three-year police contract was signed in September 2019 and is in effect for the period 2020-2022. The main terms consist of a 3.25% annual wage increase, employee contribution to pension from 3% of wages to 2% of wages and employee healthcare contributions from 11.5% to 9%. In addition, there was a change to the healthcare plan to include a deductible, as well as increases to copays. Also, there was an increase in longevity payments.
- The Township has \$7,533,630 in outstanding debt as of December 31, 2020. This amount was comprised of two borrowings. Outstanding debt of \$6,973,420 was on the General Obligation Note, Series of 2017, which was secured to purchase open space land and to refund General Obligation Bond, Series of 2010 and General Obligation Note, Series of 2012. Outstanding debt of \$590,210 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, 2020 is \$1,488,031.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

- The Township was awarded a number of state and federal grants for current and future construction projects.
 - The Pennsylvania Community Transportation Alternatives Grant of \$1,041,212 is providing funding for the construction of the Valley Vista Drive Bike Path project. Construction began in 2020 and will be completed in 2021. This funding required a single audit to be completed on this project as these are federal funds.
 - The Township was notified that it would be the recipient of a Pennsylvania Department of Conservation & Natural Resources Grant of \$155,000 that will provide funding for the construction of the Bernel Road Park Phase 2A project. Construction is to begin in 2022.
 - The Township was notified that it would be the recipient of a Pennsylvania Department of Community & Economic Development Grant of \$370,000 for the construction of the Abington Equine Hospital. Construction is to begin in 2021.
- The fund balance for the Township's General Fund at December 31, 2020 decreased to \$659,243 from \$1,267,762 in 2019. Of this amount \$548,158 is unassigned and represents 5.6% of General Fund expenditures. The remainder of the fund balance in the General Fund, \$111,085, is assigned or committed to future projects and purchases. In all other funds, the fund balance is fully assigned, committed or reserved for future projects and obligations. The Township has a policy of maintaining a fund balance for the General Fund of between 8% and 12% of General Fund expenditures. However, due to the pandemic, the fund balance for the General Fund has fallen below the policy. Future budgets will reflect an increase in fund balance. Having a healthy fund balance has been accepted by the Board of Supervisors as prudent.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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.

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, the State Highway Aid Fund (Liquid Fuels) and nonmajor funds.

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

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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

Notes to the financial statements

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

Other supplementary information

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

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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 \$20,794,776 at the end of 2020 (\$18,978,234 for 2019).

A condensed summary of the Township's assets and deferred outflows and liabilities, deferred inflows and net position at December 31, 2020 and 2019 is shown below.

	2020	2019
	Governmental activities	Governmental activities
	<hr/>	<hr/>
Current assets	\$ 3,107,028	\$ 3,164,625
Capital assets, net of depreciation	26,772,035	25,443,217
Net pension asset	385,691	
Deferred outflows	435,299	396,411
	<hr/>	<hr/>
Total assets and deferred outflows	\$ 30,700,053	\$ 29,004,253
	<hr/>	<hr/>
Current liabilities	\$ 1,373,272	\$ 1,254,907
Noncurrent liabilities, other than pension	7,675,964	8,153,298
Net pension liability		178,471
Deferred inflows	856,041	439,343
	<hr/>	<hr/>
Total liabilities and deferred inflows	9,905,277	10,026,019
	<hr/>	<hr/>
Net position:		
Net investment in capital assets	19,396,307	17,177,543
Restricted for:		
Fire protection		18,101
State Liquid Fuels Tax projects	390,885	402,916
Streetlights	57,452	42,621
Unrestricted	950,132	1,337,053
	<hr/>	<hr/>
Total net position	20,794,776	18,978,234
	<hr/>	<hr/>
Total liabilities, deferred inflows and net position	\$ 30,700,053	\$ 29,004,253
	<hr/>	<hr/>

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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

The \$434,611 externally imposed restrictions on the balance of net position at December 31, 2020 are restricted for state liquid fuel projects and streetlights. At the end of the fiscal year, the Township reports a positive balance in net position for the government as a whole.

The Township's total assets and deferred outflows were \$30,700,053 of which 87.2% or \$26,772,035 is accounted for by its capital assets, which includes infrastructure deeded to the Township.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

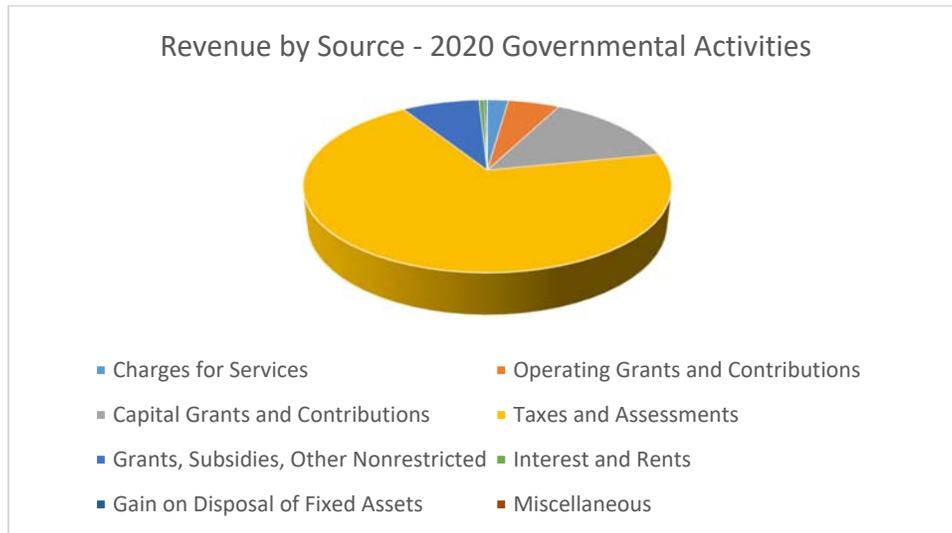
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

A condensed summary of the Township's change in net position for the years ended December 31, 2020 and 2019 follows:

	2020	2019
	Governmental activities	Governmental activities
	<u> </u>	<u> </u>
Revenues:		
Program revenues:		
Charges for services	\$ 249,151	\$ 352,655
Operating grants and contributions	609,392	646,880
Capital grants and contributions	1,613,957	1,100,057
General revenues:		
Taxes and assessments	7,815,998	7,621,104
Grants, subsidies, other nonrestricted	915,917	454,742
Interest and rents	60,766	75,018
Transfers out	(44,470)	(40,148)
Gain (loss) on disposal of fixed assets	27,793	(4,119)
Miscellaneous	8,560	14,503
	<u>11,257,064</u>	<u>10,220,692</u>
Total revenues	11,257,064	10,220,692
Expenses:		
General government	1,433,288	667,783
Police department	3,589,967	3,776,486
Public works	2,870,980	3,704,780
Community services	1,316,483	1,186,905
Human services	65,211	41,426
Debt service	155,305	173,273
Amortization	9,288	9,288
	<u>9,440,522</u>	<u>9,559,941</u>
Total expenses	9,440,522	9,559,941
Increase in net position	\$ 1,816,542	\$ 660,751

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020



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 2020, the Township's governmental funds reported combined ending fund balances of \$2,383,023 (\$2,804,970 in 2019). Approximately 23.0% of this total amount, or \$548,158, constitutes *unassigned fund balance*, which is available for spending at the Township's discretion and debt service payments. The remainder of the fund balance is assigned, committed or restricted for specific uses such as vehicle replacements, road resurfacing projects and park projects; therefore, it is not available for new spending.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

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 5.6% of total General Fund expenditures while the total General Fund's fund balance represents 6.7% of the same amount. This represents planning for identified future expenditures and projects. In all of the other funds, the fund balance is assigned or restricted for specific purposes such as park construction or open space preservation and maintenance. The philosophy of the Township, given the healthy ending fund balance, is to prudently spend fund balance to balance expenditures rather than increase real estate tax rates beyond what is minimally necessary. Our longer term planning tools, such as the financial trend analysis and the capital improvement plan, allow us to look at tax rates into the future for better planning of 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 \$3.1 million being budgeted for 2020 that were not awarded or have been deferred into future years. In addition, tax revenue was approximately \$272,000 under budget.

There are a number of items that are reflected in the General Fund budget such as taxes that ultimately, for financial reporting purposes, get recorded as receipts in other funds. Examples are real estate taxes allocated to the Park Fund. In total, tax collections from all sources came in at 96% of budget. Total taxes collected for all funds were \$7,704,112.

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 \$779,483. These items are budgeted in the General Fund, yet for financial reporting purposes, they are shown in other funds.

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

Overall, given the effects of the pandemic, staff is satisfied with the Township's financial position at the end of 2020.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Township's investment in capital assets for its governmental activities as of December 31, 2020 amounts to \$26,772,035, 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, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
	Governmental activities	Governmental activities
Land and land improvements	\$ 9,940,186	\$ 9,820,186
Buildings	5,817,058	5,772,245
Infrastructure	10,795,734	10,795,734
Park equipment	5,817,040	5,032,814
Tools and equipment	1,030,610	967,969
Traffic signals	1,873,091	1,657,321
Vehicles	2,388,174	2,139,622
Construction in progress	2,053,711	1,292,646
Total capital assets	<u>39,715,604</u>	<u>37,478,537</u>
Less accumulated depreciation for:		
Land improvements	40,002	37,883
Buildings	2,943,719	2,796,724
Infrastructure	1,989,051	1,768,269
Park equipment	4,835,868	4,577,630
Tools and equipment	623,588	553,847
Traffic signals	1,168,999	1,113,239
Vehicles	1,342,342	1,187,728
Total accumulated depreciation	<u>12,943,569</u>	<u>12,035,320</u>
Total capital assets, net	<u>\$ 26,772,035</u>	<u>\$ 25,443,217</u>

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

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

Long-term debt

At the end of 2020, the Township had outstanding long-term debt obligations of \$7,533,630; plus \$824,872 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, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 9,052,532	\$ 9,972,498
Increase in compensated absences	205,204	12,310
Principal retirement	<u>(899,234)</u>	<u>(932,276)</u>
Ending balance	<u><u>\$ 8,358,502</u></u>	<u><u>\$ 9,052,532</u></u>

Economic factors and next year's budget and rates

With the ongoing pandemic, the 2021 budget shows a very modest increase in revenues, with a corresponding modest increase in expenditures. During January 2021, President Joseph Biden signed the American Rescue Plan Act into law, which provides state and local governments funds to address costs of the ongoing pandemic. These funds do not appear in the 2021 budget, as they were unknown during the budget process in late 2020.

The local economy has been slow to recover, as many businesses and the Pennsylvania State University are slow to reopen. With the availability of vaccines, the economy and the Pennsylvania State University should be close to being fully open by the fall of 2021.

PATTON TOWNSHIP
STATE COLLEGE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
(unaudited)
YEAR ENDED DECEMBER 31, 2020

Request for information

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

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

PATTON TOWNSHIP

STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>
Current assets:	
Cash	\$ 2,652,382
Taxes receivable, net	295,132
Accounts receivable	<u>159,514</u>
Total current assets	<u>3,107,028</u>
Noncurrent assets:	
Property, plant and equipment, net:	
Land and land improvements	9,900,184
Buildings and improvements	2,873,339
Park equipment	981,172
Vehicles	1,045,832
Infrastructure	8,806,683
Tools	407,022
Traffic signals	704,092
Construction in progress	<u>2,053,711</u>
Total property, plant and equipment, net	26,772,035
Net pension asset	<u>385,691</u>
Total noncurrent assets	<u>27,157,726</u>
Total assets	30,264,754
Deferred outflows of resources:	
Deferred charge on refunding	157,902
Pensions	<u>277,397</u>
Total assets and deferred outflows of resources	<u>\$ 30,700,053</u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF NET POSITION
DECEMBER 31, 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>Governmental activities</u>
Current liabilities:	
Accrued liabilities	\$ 597,538
Developer escrow	80,018
Current portion of notes payable	682,538
Interest payable	13,178
	<hr/>
Total current liabilities	<u>1,373,272</u>
Noncurrent liabilities:	
Notes payable	6,851,092
Compensated absences	824,872
	<hr/>
Total noncurrent liabilities	<u>7,675,964</u>
Total liabilities	<u>9,049,236</u>
Deferred inflows of resources, pensions	<hr/> 856,041
Net position:	
Net investment in capital assets	19,396,307
Restricted for:	
State Liquid Fuels Tax projects	390,885
Streetlights	57,452
Unrestricted	950,132
	<hr/>
Total net position	<u>20,794,776</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 30,700,053</u></u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

		Program revenues			
Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions		Governmental activities - net expense, revenues and change in net position
Governmental activities:					
General government	\$ 1,433,288	\$ 36,610		\$ 141,601	\$ 1,255,077
Police department	3,589,967	84,729			3,505,238
Public works	2,870,980	69,607	\$ 596,649	1,372,356	832,368
Community services	1,316,483	58,205	12,743	100,000	1,145,535
Human services	65,211				65,211
Interest	155,305				155,305
Amortization	9,288				9,288
Total primary government	<u>\$ 9,440,522</u>	<u>\$ 249,151</u>	<u>\$ 609,392</u>	<u>\$ 1,613,957</u>	<u>6,968,022</u>
General revenues:					
Taxes:					
Property					5,336,457
Other					2,479,541
Grants, subsidies, other nonrestricted					915,917
Interest and rents					60,766
Gain on sale of assets					27,793
Transfers out					(44,470)
Miscellaneous					8,560
Total general revenues and transfers					<u>8,784,564</u>
Change in net position					1,816,542
Net position:					
January 1, 2020					<u>18,978,234</u>
December 31, 2020					<u>\$ 20,794,776</u>

See notes to financial statements.

PATTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2020

ASSETS

	Major funds					Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Liquid fuels fund	Nonmajor funds	
Cash	\$ 1,239,156	\$ 85,924	\$ 843,264	\$ 420,963	\$ 63,075	\$ 2,652,382
Receivables:						
Taxes	247,661				1,022	248,683
Other	159,514					159,514
Due from other funds	277,164	343,697	294,569			915,430
Total assets	\$ 1,923,495	\$ 429,621	\$ 1,137,833	\$ 420,963	\$ 64,097	\$ 3,976,009

See notes to financial statements.

PATTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2020

LIABILITIES AND FUND BALANCE

	Major funds					Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Liquid fuels fund	Nonmajor funds	
Liabilities:						
Accrued:						
Liabilities	\$ 462,848	\$ 561	\$ 560	\$ 30,078	\$ 20,371	\$ 514,418
Wages and taxes	83,120					83,120
Developer escrow	80,018					80,018
Due to other funds	638,266	245,829	31,335			915,430
Total liabilities	1,264,252	246,390	31,895	30,078	20,371	1,592,986
Fund balance:						
Restricted				390,885	57,452	448,337
Committed	32,836		197,289			230,125
Assigned	78,249	183,231	908,649			1,170,129
Unassigned	548,158				(13,726)	534,432
Total fund balance	659,243	183,231	1,105,938	390,885	43,726	2,383,023
Total liabilities and fund balance	\$ 1,923,495	\$ 429,621	\$ 1,137,833	\$ 420,963	\$ 64,097	\$ 3,976,009

See notes to financial statements.

PATTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
YEAR ENDED DECEMBER 31, 2020

Total fund balances, governmental funds		\$ 2,383,023
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 \$39,715,604, and the accumulated depreciation is \$12,943,569.		26,772,035
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.		46,449
Certain government-wide amounts are not included in government funds because government funds use current financial resources:		
Notes payable	\$ (7,533,630)	
Accrued interest on the debt	(13,178)	
Compensated absences	(824,872)	
Net pension asset	385,691	
		(7,985,989)
Deferred outflows and inflows of resources are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflow of resources:		
Refunding	157,902	
Pensions	277,397	
Deferred inflows of resources, pensions	(856,041)	
		(420,742)
Total net position, governmental activities		\$ 20,794,776

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020

	Major funds					Nonmajor funds	Total governmental funds
	General fund	Parks and recreation fund	Open space bond fund	Liquid fuels fund	Debt service fund		
Revenues:							
Taxes and assessments	\$ 7,065,846	\$ 343,697	\$ 294,569			\$ 84,187	\$ 7,788,299
Licenses and permits	317,691						317,691
Fines	35,705						35,705
Intergovernmental	1,830,504			\$ 488,977			2,319,481
Interest and rents	43,003	185	35,164	1,173			79,525
Charges for services	61,642						61,642
Contributions	62,748	100,000	12,843				175,591
Miscellaneous	5,204			76			5,280
Total revenues	9,422,343	443,882	342,576	490,226		84,187	10,783,214
Expenditures:							
General government	1,577,231						1,577,231
Police department	3,600,075						3,600,075
Public works	3,549,197			502,257		28,943	4,080,397
Community services	1,003,176	30,586	44,986			72,240	1,150,988
Human services	65,211						65,211
Debt service:							
Principal retirement					\$ 899,234		899,234
Interest					156,897		156,897
Total expenditures	9,794,890	30,586	44,986	502,257	1,056,131	101,183	11,530,033
Excess of revenues over (under) expenditures	(372,547)	413,296	297,590	(12,031)	(1,056,131)	(16,996)	(746,819)
Other financing sources (uses):							
Proceeds from sale of assets	27,793						27,793
Refunds of prior year:							
Expenditures	342,830						342,830
Revenues			(1,281)				(1,281)
Interfund operating transfer	(606,595)	(248,571)	(245,435)		1,056,131		(44,470)
Total other financing sources (uses)	(235,972)	(248,571)	(246,716)		1,056,131		324,872
Net change in fund balances	(608,519)	164,725	50,874	(12,031)	-	(16,996)	(421,947)
Fund balances:							
January 1	1,267,762	18,506	1,055,064	402,916		60,722	2,804,970
December 31	\$ 659,243	\$ 183,231	\$ 1,105,938	\$ 390,885	\$ -	\$ 43,726	\$ 2,383,023

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, 2020

Total net change in fund balances, governmental funds \$ (421,947)

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	\$ 2,237,067	
Depreciation expense	<u>(908,249)</u>	
		1,328,818

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

27,697

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.

(205,204)

(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, 2020

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, these transactions have no effect on net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these transactions in the statement of activities is shown below:

Repayment of debt, notes payable	\$ 899,234	
Amortization of deferred charge on refunding	<u>(9,288)</u>	\$ 889,946
Change in accrued interest		1,592
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	235,096	
Cost of benefits earned	<u>(39,456)</u>	<u>195,640</u>
Change in net position of governmental activities		<u><u>\$ 1,816,542</u></u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS
DECEMBER 31, 2020

ASSETS

	Pension trust funds		Agency fund
	Police pension	Nonuniform pension	Tax office
Cash			\$ 201,766
Investments	\$ 8,078,187	\$ 4,671,792	
Investment in transit	1,147		
Total assets	<u><u>\$ 8,079,334</u></u>	<u><u>\$ 4,671,792</u></u>	<u><u>\$ 201,766</u></u>

LIABILITIES AND NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Taxes collected due to:

Patton Township general fund			\$ 65,320
Other governments			136,446
Net position, restricted for pension benefits	<u><u>\$ 8,079,334</u></u>	<u><u>\$ 4,671,792</u></u>	
Total liabilities and net position	<u><u>\$ 8,079,334</u></u>	<u><u>\$ 4,671,792</u></u>	<u><u>\$ 201,766</u></u>

See notes to financial statements.

PATTON TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – ALL FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2020

	<u>Police pension trust fund</u>	<u>Nonuniform pension trust fund</u>
Additions:		
Investment income and gains	\$ 1,124,086	\$ 626,535
Contributions:		
State	190,626	106,378
Employer	44,470	
Employee	30,518	63,631
Total additions	<u>1,389,700</u>	<u>796,544</u>
Deductions:		
Administrative expense	50,758	
Distributions	280,696	121,755
Total deductions	<u>331,454</u>	<u>121,755</u>
Net increase	1,058,246	674,789
Net position held in trust for pension benefits:		
January 1	7,021,088	3,997,003
December 31	<u>\$ 8,079,334</u>	<u>\$ 4,671,792</u>

See notes to financial statements.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies:

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

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

Reporting entity:

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

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

Basis of presentation, fund accounting and measurement focus:

Basis of presentation:

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Basis of presentation:

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

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

Fund accounting:

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

Governmental funds:

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

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

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Governmental funds:

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

Fiduciary funds:

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

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

Agency fund - This fund includes the tax office.

Measurement focus and basis of accounting:

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus:

Measurement focus and basis of accounting:

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

Interfund transactions:

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

Investments:

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

Deferred outflows of resources:

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Deferred outflows of resources:

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

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 until then. The Township has two items that qualify for this reporting:

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

Capital assets:

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

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Capital assets:

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

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

Accrued compensated absences:

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

Pension plans:

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Pension plans:

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

Use of estimates:

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

Fund balance classification:

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

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, 2020.

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Fund balance classification:

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

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

Use of fund balance:

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

Net position classifications:

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

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

Pending Government Accounting Standards Board (GASB) statements:

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments by requiring all leases be reported as assets and liabilities, thereby enhancing the relevance and consistency of information about the government's leasing activities. The provisions of GASB Statement No. 87 are effective for the Township's December 31, 2022 financial statements.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Pending Government Accounting Standards Board (GASB) statements:

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the Township's December 31, 2021 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The provisions of GASB Statement No. 91 are effective for the Township's December 31, 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of GASB Statement No. 92 are effective for the Township's December 31, 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for the Township's December 31, 2022 financial statements. All other requirements of the Statement are effective for the Township's December 31, 2023 financial statements.

In January 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement is to improve financial reporting by addressing issues related to public-private and public-public partnerships arrangements (PPPs). The provisions of GASB Statement No. 94 are effective for the Township's December 31, 2023 financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The provisions of GASB No. 96 are effective for the Township's December 31, 2023 financial statements.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Organization and significant accounting policies (continued):

Pending Government Accounting Standards Board (GASB) statements:

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of GASB Statement No. 97 related to (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans or other employee benefit plans and (2) that limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The provisions of GASB Statement No. 97 related to Section 457 plans are effective for the Township's December 31, 2021 financial statements.

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

2. Cash deposits:

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

2. Cash deposits (continued):

Custodial credit risk:

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Township's deposits may not be returned to it. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Township will not be able to recover the value of its investments or collateral security that is in the possession of an outside party (specific to PLGIT). The Township does not currently have an investment policy for custodial credit risk for either its deposits or investments. As of December 31, 2020, \$2,007,381 of the Township's bank balance of \$2,757,381 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.

Interest rate and credit risk:

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

Reconciliation to the financial statements:

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 2,007,381
PLGIT investments, money market	125,823
Insured by Federal Deposit Insurance Corporation	750,000
Outstanding checks	(29,133)
Petty cash	77
Total cash deposits	<u>\$ 2,854,148</u>
Reconciliation to financial statements, cash:	
Governmental funds	\$ 2,652,382
Fiduciary funds	<u>201,766</u>
	<u>\$ 2,854,148</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

3. Investments:

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

As of December 31, 2020, 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			\$ 280
Money market	N/A	N/A	113,992
Mutual funds:			
Fixed income funds	Unrated	N/A	2,348,744
Domestic equity funds	Unrated	N/A	2,897,307
International funds	Unrated	N/A	782,180
Closed-end equity funds	Unrated	N/A	854,865
Closed-end international funds	Unrated	N/A	<u>1,080,819</u>
Total Wilmington Trust			<u>8,078,187</u>
ICMA-RC, mutual funds:			
Stable value funds	Unrated	N/A	308,154
Bond funds	Unrated	N/A	482,123
Balanced funds	Unrated	N/A	1,974,163
U.S. stock funds	Unrated	N/A	1,697,959
International stock funds	Unrated	N/A	191,478
Specialty funds	Unrated	N/A	<u>17,915</u>
Total ICMA-RC mutual funds			<u>4,671,792</u>
Total investments			<u><u>\$ 12,749,979</u></u>

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

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, 2020, upon which the 2020 levy was based, was \$497,506,340 with an estimated current market value of \$1,951,005,255.

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, 2020 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, 2020 were 97.4% of the tax levy.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

5. Capital assets:

	January 1, 2020	Additions	Transfers/ Deletions	December 31, 2020
Governmental activities:				
Land and land improvements	\$ 9,820,186	\$ 120,000		\$ 9,940,186
Buildings	5,772,245	44,813		5,817,058
Infrastructure	10,795,734			10,795,734
Park equipment	5,032,814		\$ 784,226	5,817,040
Tools and equipment	967,969	62,641		1,030,610
Traffic signals	1,657,321	3,643	212,127	1,873,091
Vehicles	2,139,622	248,552		2,388,174
Construction in progress	1,292,646	1,757,418	(996,353)	2,053,711
	<u>37,478,537</u>	<u>2,237,067</u>	<u>-</u>	<u>39,715,604</u>
Less accumulated depreciation for:				
Land improvements	37,883	2,119		40,002
Buildings	2,796,724	146,995		2,943,719
Infrastructure	1,768,269	220,782		1,989,051
Park equipment	4,577,630	258,238		4,835,868
Tools and equipment	553,847	69,741		623,588
Traffic signals	1,113,239	55,760		1,168,999
Vehicles	1,187,728	154,614		1,342,342
Total accumulated depreciation	<u>12,035,320</u>	<u>908,249</u>		<u>12,943,569</u>
Governmental activities, capital assets, net	<u>\$ 25,443,217</u>	<u>\$ 1,328,818</u>	<u>\$ -</u>	<u>\$ 26,772,035</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

5. Capital assets (continued):

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

Governmental activities:	
General government	\$ 415,758
Police department	54,979
Community services	259,645
Public works	<u>177,867</u>
Total governmental activities	<u>\$ 908,249</u>

6. Long-term debt:

The following is a summary of debt transactions for the Township for the year ended December 31, 2020:

	Principal balance, January 1, 2020	Repayments	Principal balance, December 31, 2020
General Obligation Note, Series 2017	\$ 7,757,640	\$ (814,220)	\$ 6,943,420
Pennsylvania Infrastructure Bank loan	<u>675,224</u>	<u>(85,014)</u>	<u>590,210</u>
	<u>\$ 8,432,864</u>	<u>\$ (899,234)</u>	<u>\$ 7,533,630</u>
Current maturities, governmental activities, notes payable			\$ 682,538
Noncurrent debt, governmental activities, notes payable			<u>6,851,092</u>
Total maturities			<u>\$ 7,533,630</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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 that interest only payments of \$7,000 were paid on November 1, 2017 and May 1, 2018, followed by semi-annual payments beginning November 1, 2018 of \$48,230, including interest at 1.75% per annum through May 2027. The loan contains a provision that in the event of default, outstanding amounts become immediately due.

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 from the issue of this note was approximately \$138,000.

The total debt service requirements as of December 31, 2020 are listed below:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 682,538	\$ 141,531	\$ 824,069
2022	692,009	128,130	820,139
2023	701,516	114,545	816,061
2024	720,800	100,679	821,479
2025	677,963	143,253	821,216
2026-2030	1,965,115	689,556	2,654,671
2031-2035	1,506,400	332,150	1,838,550
2036-2037	587,289	25,865	613,154
	<u>\$ 7,533,630</u>	<u>\$ 1,675,709</u>	<u>\$ 9,209,339</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, 2020, there was no electoral debt outstanding. Non-electoral debt of \$7,533,630 is outstanding at December 31, 2020.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

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, 2020, the Township's portion of the loan is \$680,766 principal and \$52,837 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, 2020, \$3,829,532 was drawn on the bond, of which \$807,265 (21.08%) was the Township's guaranteed portion.

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

7. Pension plans:

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Defined contribution plan:

Plan description and funding policy:

The Patton Township Employees Pension Plan (nonuniformed) is a single employer defined contribution plan administered by the Township manager. Current Township employer and employee contribution requirements are equal to 6.5% and 3.5% of base covered salary, respectively. For 2020, the employer and employee contributions amounted to \$106,378 or 6.5% and \$63,631 or 3.5% of the employee's covered payroll, respectively. The plan provisions have been established and may be amended through a resolution of the board of supervisors.

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

Plan membership:

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

Plan description and funding policy:

The Patton Township Police Pension Plan is a contributory single employer defined benefit plan that covers all full-time uniformed police officers of the Township and is administered by the Township manager. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended. The plan can be amended by the municipality through its Ordinances and union contracts. Township police employees are required to contribute up to 2% of annual base pay compensation. The Township is required to contribute the remaining amount necessary to fund the plan using the entry age normal cost method. The Township funds its contributions with general fund cash and foreign casualty insurance premium taxes obtained from the Commonwealth of Pennsylvania. The Township complied in full with the Commonwealth of Pennsylvania's Minimum Municipal Obligation (MMO) funding and reporting requirements for 2020.

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

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

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

Plan description and funding policy:

The Township makes actuarially determined contributions to the pension plan equal to the amount required by state statutes. For 2020, the annual required contribution was equal to 14.79% of covered payroll of \$1,589,389.

Funding of the plan was provided as follows for 2020:

<u>Description</u>		
Annual covered payroll	\$	1,589,389
Employee contribution rate		2.0% of annual base pay compensation
Employee contributions paid in 2020		30,518
Employer and state aid contributions paid in 2020		235,096
Total contributions made as a percentage of payroll		14.79%

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

Plan membership:

As of December 31, 2020, the Police Pension Plan membership consisted of the following:

Active members	18
Terminated members entitled to benefits but not yet receiving them	1
Retirees and beneficiaries currently receiving benefits (including DROP members)	<u>8</u>
Total	<u><u>27</u></u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

Net pension liability:

The Township's net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The components of the net pension liability of the Township measured as of December 31, 2020, were as follows:

Total pension liability	\$ 7,693,643
Plan fiduciary net position	8,079,334
Net pension asset	385,691
Plan fiduciary net position as a percentage of the total pension liability	105.01%

Actuarial assumptions:

The total pension liability as of December 31, 2020 was determined using the following economic assumptions, applied to all periods included in the measurement.

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

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

The annual money-weighted rate of return for 2020 was 14.97%.

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

Actuarial assumptions:

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Cash	1%	1.56%
U.S. Inv. Grade - Taxable	29%	2.29%
High Yield Corporate Bonds	1%	4.53%
U.S. Large - Cap Stocks	39%	6.28%
U.S. Small - Cap Stocks	6%	6.86%
Developed International Stocks	15%	6.86%
Emerging Markets Stocks	3%	7.65%
Domestic Inflation - Linked Bonds	2%	2.91%
Domestic Real Estate Investment Trusts	2%	4.22%
Global Real Estate Investment Trusts	2%	6.08%
	<u>100%</u>	

Discount rate:

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

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

Changes in the net pension liability (asset):

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) - (b)
Balances at January 1, 2020	\$ 7,199,559	\$ 7,021,088	\$ 178,471
Service cost	177,421		177,421
Interest cost	506,412		506,412
Difference between expected and actual experience	90,948		90,948
Employer contributions		235,096	(235,096)
Employee contributions		30,518	(30,518)
Net investment income		1,124,087	(1,124,087)
Benefit payments, including contribution refunds	(280,697)	(280,697)	-
Administrative expense		(50,758)	50,758
Net changes	494,084	1,058,246	(564,162)
Balance at December 31, 2020	\$ 7,693,643	\$ 8,079,334	\$ (385,691)

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

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

	1% decrease in discount rate 6.00%	Current discount rate 7.00%	1% increase in discount rate 8.00%
Plan's net pension liability (asset)	\$ 652,071	\$ (385,691)	\$ (1,251,997)

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

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

For the year ended December 31, 2020, pension expense was comprised of the following:

Service cost	\$ 177,421
Interest cost	506,412
Differences between expected and actual experience	(20,834)
Changes in assumptions	31,186
Employee contributions	(30,518)
Projected earnings on pension plan investments	(489,020)
Difference between projected and actual earnings on investments	(185,949)
Administrative expense	50,758
Total pension expense	<u>\$ 39,456</u>

At December 31, 2020, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 79,362	\$ 130,780
Change in assumptions	198,035	
Net difference between projected and actual earnings on pension plan investments		725,261
Totals	<u>\$ 277,397</u>	<u>\$ 856,041</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. Pension plans (continued):

Contributory defined benefit plan:

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2020 will be recognized in pension expense as follows:

Year ended	Deferred outflows of resources	Deferred inflows of resources
2021	\$ 42,772	\$ 242,539
2022	42,772	149,419
2023	42,772	303,548
2024	42,772	144,596
2025	42,772	11,807
thereafter	63,537	4,132
	\$ 277,397	\$ 856,041

8. Interfund activity:

Individual fund receivable and payable balances at December 31, 2020 are as follows:

	Due from other funds	Due to other funds
General fund	\$ 277,164	\$ 638,266
Parks and recreation fund	343,697	245,829
Open space bond fund	294,569	31,335
	\$ 915,430	\$ 915,430

The general fund's 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 fund's due to the parks and recreation fund and open space fund relate to dedicated real estate tax revenues collected for the respective fund.

During the year ended December 31, 2020, the general fund transferred \$44,470 to the police pension trust fund to cover employer contributions to the police pension plan.

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

9. Deferred compensation plan:

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

10. Fund balances:

As of December 31, 2020, fund balances are composed of the following:

	<u>General fund</u>	<u>Parks and recreation fund</u>	<u>Open space bond fund</u>	<u>Liquid fuels fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
Restricted:						
Liquid fuels				\$ 390,885		\$ 390,885
Streetlights					\$ 57,452	<u>57,452</u>
						<u>448,337</u>
Committed, capital projects	\$ 32,836		\$ 197,289			<u>230,125</u>
Assigned:						
Reserve funds:						
Revenue assigned to open space			908,649			908,649
Parks and recreation		\$ 183,231				183,231
Surety	78,249					<u>78,249</u>
						<u>1,170,129</u>
Unassigned	<u>548,158</u>				<u>(13,726)</u>	<u>534,432</u>
Total fund balances	<u>\$ 659,243</u>	<u>\$ 183,231</u>	<u>\$ 1,105,938</u>	<u>\$ 390,885</u>	<u>\$ 43,726</u>	<u>\$ 2,383,023</u>

PATTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

10. Fund balances (continued):

The Township has a fund deficit in the fire protection fund of \$13,726 as a result of not assessing enough revenue compared to the increased expenses. The Township will increase its assessments revenue in 2021 to cover this deficit.

11. Jointly governed organizations:

The Township, in conjunction with College, Ferguson, Halfmoon and Harris Townships and State College Borough, has created the Centre Region Council of Governments (COG) to provide regionwide services such as parks and recreation, library facilities and fire protection. COG's general forum is composed of the board members from each of these municipalities. The Township's expenditures for COG's regional programs were \$1,599,365 for the year ended December 31, 2020.

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 \$10,810 and \$70,029, respectively, for the year ended December 31, 2020.

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 2020, the Township contributed \$300,834 for the operations of the library.

12. Participation in risk sharing pool:

The Township participates in a self-funded health insurance cooperative to provide medical benefits to its employees. Under this program, the Township pays monthly premiums to the cooperative to cover medical claims to Capital Blue Cross, as well as to cover reinsurance and administrative management fees. For the year ended December 31, 2020, the Township was limited in liability for claims to \$50,000 per enrollee per claim and a maximum claims liability of \$954,749. Actual claims paid by the cooperative on behalf of the Township for the year ended December 31, 2020 were \$364,343, with none 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

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

13. Risks and uncertainties:

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

14. Subsequent events:

In January 2021, the Township received a loan from the Pennsylvania Infrastructure Bank for \$1,837,500 to be used to improve access and safety to University Park Airport and to Penn State University sporting and community complexes by the realignment of roads located within the Township. The loan requires annual payments beginning January 1, 2022 of \$212,466, including interest at 2.75% per annum through January 2031. The loan contains a provision that in the event of default, outstanding amounts become immediately due.

On March 11, 2021 the American Rescue Plan Act of 2021 (the American Rescue Plan), a \$1.9 trillion COVID-19 relief package, was signed into law. The American Rescue Plan will provide additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The American Rescue Plan will provide \$130 billion in emergency funding for local governments to enable them to continue to support the public health response and lay the foundation for a strong and equitable economic recovery. The Township will be allocated an estimated \$1,563,000 of this funding.

The Township has evaluated subsequent events through April 26, 2021, which is the date the financial statements were available to be issued.

PATTON TOWNSHIP

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

(Required supplementary information)

(unaudited)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report)

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 7,764,064	\$ 7,764,064	\$ 7,065,846	\$ (698,218)
Licenses and permits	362,552	362,552	317,691	(44,861)
Fines	52,765	52,765	35,705	(17,060)
Intergovernmental	5,517,098	5,517,098	1,830,504	(3,686,594)
Interest and rents	56,685	56,685	43,003	(13,682)
Charges for services	61,903	61,903	61,642	(261)
Contributions	63,699	63,699	62,748	(951)
Miscellaneous	20,470	20,470	5,204	(15,266)
Total revenues	13,899,236	13,899,236	9,422,343	(4,476,893)
Expenditures:				
General government	1,476,571	1,476,571	1,577,231	(100,660)
Police department	4,380,752	4,380,752	3,600,075	780,677
Public works	6,597,612	6,597,612	3,549,197	3,048,415
Community service	1,403,753	1,403,753	1,003,176	400,577
Human services	83,938	83,938	65,211	18,727
Debt service	1,056,221	1,056,221		1,056,221
Total expenditures	14,998,847	14,998,847	9,794,890	5,203,957
Excess of expenditures over revenues	\$ (1,099,611)	\$ (1,099,611)	(372,547)	\$ 727,064
Other financing sources			370,623	
Other financing uses			(606,595)	
Net change in fund balances			\$ (608,519)	

See notes to required supplementary information.

PATTON TOWNSHIP
UNIFORMED POLICE PENSION PLAN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
(Required supplementary information)
(unaudited)
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

	2020	2019	2018	2017	2016	2015
Total pension liability:						
Service cost	\$ 177,421	\$ 194,005	\$ 177,273	\$ 182,128	\$ 176,535	\$ 168,129
Interest	506,412	477,200	436,142	408,238	390,759	363,450
Differences between expected and actual experience	90,948		(98,588)		(170,678)	
Changes of assumptions		260,407				
Benefit payments, including refunds of member contributions	(280,697)	(189,575)	(221,258)	(152,513)	(152,513)	(147,181)
Net change in total pension liability	494,084	742,037	293,569	437,853	244,103	384,398
Total pension liability:						
Beginning of year	7,199,559	6,457,522	6,163,953	5,726,100	5,481,997	5,097,599
End of year (a)	\$ 7,693,643	\$ 7,199,559	\$ 6,457,522	\$ 6,163,953	\$ 5,726,100	\$ 5,481,997
Plan fiduciary net position:						
Contributions:						
Employer	\$ 235,096	\$ 176,554	\$ 175,934	\$ 181,039	\$ 144,040	\$ 171,124
Member	30,518	41,293	39,822	39,354	68,024	65,424
Net investment income	1,124,087	1,133,431	(331,907)	846,103	241,360	(16,923)
Benefit payments, including refunds of member contributions	(280,697)	(189,575)	(221,258)	(152,513)	(152,513)	(147,181)
Administrative expense	(50,758)	(49,149)	(48,849)	(44,767)	(39,987)	(38,827)
Net change in plan fiduciary net position	1,058,246	1,112,554	(386,258)	869,216	260,924	33,617
Total fiduciary net position:						
Beginning of year	7,021,088	5,908,534	6,294,792	5,425,576	5,164,652	5,131,035
End of year (b)	\$ 8,079,334	\$ 7,021,088	\$ 5,908,534	\$ 6,294,792	\$ 5,425,576	\$ 5,164,652
Net pension (asset) liability, end of year (a) - (b)	\$ (385,691)	\$ 178,471	\$ 548,988	\$ (130,839)	\$ 300,524	\$ 317,345
Plan fiduciary net position as a percentage of the total pension liability	105.01%	97.52%	91.50%	102.12%	94.75%	94.21%
Covered employee payroll	\$ 1,589,389	\$ 1,469,901	\$ 1,375,199	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Net pension liability as a percentage of covered employee payroll	-24.27%	12.14%	39.92%	-11.10%	21.61%	22.15%

The schedule of changes in net pension (asset) liability and related ratios for the required ten-year timeframe will be added as available.

See notes to required supplementary information.

PATTON TOWNSHIP
UNIFORMED POLICE PENSION PLAN

SCHEDULES OF TOWNSHIP CONTRIBUTIONS AND MONEY-WEIGHTED RATE OF RETURN
(Required supplementary information)
(unaudited)
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

Description	2020	2019	2018	2017	2016	2015
Actuarially determined employer contribution	\$ 234,969	\$ 176,554	\$ 175,934	\$ 177,223	\$ 144,040	\$ 167,443
Contributions in relation to the actuarially determined contribution	<u>235,096</u>	<u>176,554</u>	<u>175,934</u>	<u>177,223</u>	<u>144,040</u>	<u>167,443</u>
Contribution deficiency (excess)	<u>\$ (127)</u>	<u>\$ -</u>				
Covered employee payroll	\$ 1,589,389	\$ 1,469,901	\$ 1,375,199	\$ 1,178,251	\$ 1,390,904	\$ 1,432,794
Total contributions made as a percentage of payroll	14.79%	12.01%	12.79%	15.04%	10.36%	11.69%
Money-weighted rate of return	14.97%	18.51%	-6.11%	14.85%	4.68%	-0.33%

The schedule of Township contributions for the required ten-year timeframe will be added as available.

See notes to required supplementary information.

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2020 (See independent auditor's report)

1. Budgetary data:

The Township follows these procedures in establishing the budget:

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

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

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

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

The budgetary comparison schedule, included in the required supplementary information, presents a comparison of budgetary data to actual results of operations for the general fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results. During 2020, the board of supervisors did not approve any additional budgetary expenditure amendments for the general fund.

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

PATTON TOWNSHIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

2. Uniformed police pension plan:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of December 31, 2020. Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method:	Entry Age
Amortization method:	Level Dollar, Closed
Remaining amortization period:	15 years
Asset valuation method:	The actuarial value of assets is equal to the market value adjusted to recognize investment gains and losses over a five-year period, limited to 20% above or below the market value
Inflation:	2.00%
Salary increases:	5.00%
Investment rate of return:	7.00%
Retirement age:	Members are assumed retire or join the DROP plan on their normal retirement date, or on the valuation date, if later
Mortality:	RP-2014 tables for males and females, projected using Scale MP-2018
Change in benefit terms:	None since January 1, 2019

PATTON TOWNSHIP

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2020

(See independent auditor's report)

	<u>Streetlight fund</u>	<u>Hydrant fund</u>	<u>Total</u>
Assets:			
Cash	\$ 59,236	\$ 3,839	\$ 63,075
Assessment receivable	527	495	1,022
Total assets	<u>\$ 59,763</u>	<u>\$ 4,334</u>	<u>\$ 64,097</u>
Liabilities, accounts payable	<u>\$ 2,311</u>	<u>\$ 18,060</u>	<u>\$ 20,371</u>
Fund balances:			
Restricted	57,452		57,452
Unrestricted		(13,726)	(13,726)
Total fund balances	<u>57,452</u>	<u>(13,726)</u>	<u>43,726</u>
Total liabilities and fund balances	<u>\$ 59,763</u>	<u>\$ 4,334</u>	<u>\$ 64,097</u>

PATTON TOWNSHIP

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

	Streetlight fund	Hydrant fund	Total
Revenues, assessments	\$ 43,774	\$ 40,413	\$ 84,187
Expenditures:			
Hydrant service		72,240	72,240
Electricity	28,943		28,943
Total expenditures	28,943	72,240	101,183
Net change in fund balances	14,831	(31,827)	(16,996)
Fund balances:			
January 1	42,621	18,101	60,722
December 31	\$ 57,452	\$ (13,726)	\$ 43,726

PATTON TOWNSHIP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Federal expenditures</u>
U.S. Department of Treasury, passed through Centre County, COVID-19 Coronavirus Relief Fund	21.019	N/A	\$ 150,245
U.S. Department of Transportation, passed through the Pennsylvania Department of Transportation, Highway Planning and Construction Cluster (Federal-Aid Highway Program)	20.205	N/A	<u>1,203,610</u>
Total federal expenditures			<u><u>\$ 1,353,855</u></u>

PATTON TOWNSHIP

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

Notes to schedule of expenditures of federal awards:

Basis of presentation:

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Township and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in this schedule may differ from the amounts presented in the preparation of the basic financial statements.

None of the federal awards received have been passed through to subrecipients.

Indirect costs:

The Township elected not to use the 10% de minimis indirect cost rate.

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards*

Board of Supervisors
Patton Township
State College, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Patton Township as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise Patton Township's basic financial statements, and have issued our report thereon dated April 26, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
April 26, 2021

Independent Auditor's Report on Compliance for the Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance

Board of Supervisors
Patton Township
State College, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited Patton Township's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Patton Township's major federal program for the year ended December 31, 2020. Patton Township's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Patton Township's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Patton Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, Patton Township complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a material weakness.

Patton Township's Response to Internal Control Over Compliance Finding

Patton Township's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Patton Township's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of this Report

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

Brown Schultz Steindam's Fritz

Camp Hill, Pennsylvania
April 26, 2021

PATTON TOWNSHIP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020

I. SUMMARY OF AUDITOR'S RESULTS:

Financial statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

PATTON TOWNSHIP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2020

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

Internal control over compliance

Finding number 2020-001

Highway Planning and Construction Cluster

Condition and criteria:

Although the Township has effective internal controls over compliance of grant expenditures to prevent and detect noncompliance related to the compliance requirements specific to the grant contracts, management was not aware that some of the grant funds being spent were federal funds and that a Uniform Guidance audit was required.

Cause:

For the year ended December 31, 2020, the Township was not aware the grant funding for the Valley Vista Shared Use Path project was federally sourced.

Effect:

Without being aware of the source of the grant funding, there is the potential for material noncompliance to occur as it relates to federal programs, including federal awards being used for unallowed activities or unallowed costs, or not following other applicable compliance requirements material to federal programs.

Recommendation:

The Township should determine whether or not the sources of grant funding are federal so that it can properly account for federal expenditures and develop effective internal controls over compliance specific to the federal awards received and spent to ensure all applicable and material compliance requirements for federal programs are followed.

Patton Township's response:

The Township took appropriate steps to set up appropriate internal controls over compliance to appropriately identify federal awards and the necessary compliance requirements.

PATTON TOWNSHIP

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2020

There were no prior year findings.