

Township of Penn, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2017



BAKER TILLY

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Township of Penn, Pennsylvania

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Independent Auditors' Report

Board of Supervisors
Township of Penn, Pennsylvania

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Township of Penn, Pennsylvania, (the "Township") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the Township of Penn, Pennsylvania, as of December 31, 2017, and the respective changes in financial position - modified cash basis and related cash flows - modified cash basis for the year then ended on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules presented on pages 21 and 22 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2018 on our consideration of the 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 internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
March 23, 2018

Township of Penn, Pennsylvania

Statement of Net Position - Modified Cash Basis

December 31, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current Asset			
Cash	<u>\$ 172,297</u>	<u>\$ 49,924</u>	<u>\$ 222,221</u>
Noncurrent Assets			
Capital assets:			
Land	10,000	15,000	25,000
Construction in Progress	-	162,935	162,935
Infrastructure	1,365,372	1,505,279	2,870,651
Vehicles	182,191	-	182,191
Accumulated depreciation	<u>(561,309)</u>	<u>(580,598)</u>	<u>(1,141,907)</u>
Capital assets, net of accumulated depreciation	<u>996,254</u>	<u>1,102,616</u>	<u>2,098,870</u>
Total	<u>\$ 1,168,551</u>	<u>\$ 1,152,540</u>	<u>\$ 2,321,091</u>
Liabilities and Net Position			
Current Liabilities			
Current portion of long-term debt	<u>\$ 12,428</u>	<u>\$ 9,371</u>	<u>\$ 21,799</u>
Deposits	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total current liabilities	<u>18,428</u>	<u>9,371</u>	<u>27,799</u>
Noncurrent Liability			
Long-term debt, net of current portion	<u>12,774</u>	<u>183,850</u>	<u>196,624</u>
Total liabilities	<u>31,202</u>	<u>193,221</u>	<u>224,423</u>
Net Position			
Net investment in capital assets	971,052	909,395	1,880,447
Restricted	2,389	-	2,389
Unrestricted	<u>163,908</u>	<u>49,924</u>	<u>213,832</u>
Total net position	<u>1,137,349</u>	<u>959,319</u>	<u>2,096,668</u>
Total liabilities and net position	<u>\$ 1,168,551</u>	<u>\$ 1,152,540</u>	<u>\$ 2,321,091</u>

See notes to financial statements

Township of Penn, Pennsylvania

Statement of Activities - Modified Cash Basis
Year Ended December 31, 2017

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ (78,214)	\$ -	\$ -	\$ -	\$ (78,214)	\$ -	\$ (78,214)
Public safety	(22,102)	10,410	-	-	(11,692)	-	(11,692)
Public works - sanitation	(1,310)	-	-	-	(1,310)	-	(1,310)
Public works - highways	(302,687)	-	167,265	-	(135,422)	-	(135,422)
Public works - other services	(517)	-	-	-	(517)	-	(517)
Culture and recreation	(1,388)	-	-	-	(1,388)	-	(1,388)
Employer paid benefits and insurance	(51,603)	-	-	-	(51,603)	-	(51,603)
Total governmental activities	(457,821)	10,410	167,265	-	(280,146)	-	(280,146)
Business-type Activities							
Water	(12,759)	35,171	-	138,398	-	\$ 160,810	160,810
Sewer	(78,995)	52,250	-	-	-	(26,745)	(26,745)
Total business-type activities	(91,754)	87,421	-	-	-	134,065	134,065
Total	\$ (549,575)	\$ 97,831	\$ 167,265	\$ -	(280,146)	134,065	(146,081)
General Revenues							
Taxes:							
Property tax	108,090	-	-	-	108,090	-	108,090
Per capita tax	6,756	-	-	-	6,756	-	6,756
Transfer tax	8,022	-	-	-	8,022	-	8,022
Earned income tax	105,510	-	-	-	105,510	-	105,510
Fines	1,951	-	-	-	1,951	-	1,951
Interest income	506	-	-	-	506	107	613
Contributions and donations	939	-	-	-	939	-	939
Total general revenues	231,774	-	-	-	231,774	107	231,881
Changes in Net Position							
	(48,372)				(48,372)	134,172	85,800
Net Position - Beginning	1,185,721				1,185,721	825,147	2,010,868
Net Position - Ending	\$ 1,137,349				\$ 1,137,349	\$ 959,319	\$ 2,096,668

Township of Penn, Pennsylvania

Balance Sheet - Modified Cash Basis

Governmental Funds

December 31, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash	<u>\$ 167,584</u>	<u>\$ 2,389</u>	<u>\$ 2,324</u>	<u>\$ 172,297</u>
Liabilities and Fund Balances				
Current liabilities:				
Deposits	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,000</u>
Fund balances:				
Restricted	-	2,389	-	2,389
Assigned	-	-	2,324	2,324
Unassigned	<u>161,584</u>	<u>-</u>	<u>-</u>	<u>161,584</u>
Total fund balances	<u>161,584</u>	<u>2,389</u>	<u>2,324</u>	166,297
Total	<u>\$ 167,584</u>	<u>\$ 2,389</u>	<u>\$ 2,324</u>	

Reconciliation to Statement of Net Position - Modified Cash Basis

Amounts reported for governmental activities in the statement of net position - modified cash basis are different because:

Long-term liabilities, including notes payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds.

(25,202)

Capital assets used in governmental activities of \$1,557,563 net of accumulated depreciation of \$561,309, are not financial resources and, therefore, are not reported in the fund.

996,254

Net position of governmental activities

\$ 1,137,349

Township of Penn, Pennsylvania

Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis

Governmental Funds

Year Ended December 31, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 228,378	\$ -	\$ -	\$ 228,378
Fines and forfeits	1,951	-	-	1,951
Interest and rent	374	128	4	506
Intergovernmental revenues	91,889	75,376	-	167,265
Charges for services	10,410	-	-	10,410
	<u>333,002</u>	<u>75,504</u>	<u>4</u>	<u>408,510</u>
Total revenues				
Expenditures				
General government	78,214	-	-	78,214
Public safety	22,102	-	-	22,102
Public works - sanitation	1,310	-	-	1,310
Public works - highways	159,630	100,189	-	259,819
Public works - other services	517	-	-	517
Culture and recreation	1,388	-	-	1,388
Employer paid benefits and insurance	51,603	-	-	51,603
	<u>314,764</u>	<u>100,189</u>	<u>-</u>	<u>414,953</u>
Total expenditures				
Excess (Deficiency) of Revenues Over Expenditures	<u>18,238</u>	<u>(24,685)</u>	<u>4</u>	<u>(6,443)</u>
Other Financing Sources (Uses)				
Contributions and donations	939	-	-	939
Interfund transfers	(470)	-	470	-
	<u>469</u>	<u>-</u>	<u>470</u>	<u>939</u>
Total other financing sources, net				
Net Changes in Fund Balances	18,707	(24,685)	474	(5,504)
Fund Balances, Beginning	<u>142,877</u>	<u>27,074</u>	<u>1,850</u>	<u>171,801</u>
Fund Balances, Ending	<u>\$ 161,584</u>	<u>\$ 2,389</u>	<u>\$ 2,324</u>	<u>\$ 166,297</u>

Township of Penn, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances - Modified Cash Basis to the Statement of Activities - Modified Cash Basis -
Governmental Funds
Year Ended December 31, 2017

Net Change in Fund Balances - Governmental Funds \$ (5,504)

Amounts reported for governmental activities in the statement of activities
- modified cash basis are different because:

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

Capital outlays	4,784	
Depreciation expense	<u>(59,743)</u>	
		(54,959)

The payment of long-term debt uses current financial resources
of governmental funds. This transaction does not have an
effect on net position.

12,091

Change in Net Position of Governmental Activities \$ (48,372)

Township of Penn, Pennsylvania

Statement of Net Position - Modified Cash Basis

Proprietary Funds

Year Ended December 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current asset			
Cash	\$ 3,106	\$ 46,818	\$ 49,924
Noncurrent assets			
Capital assets, net of accumulated depreciation	187,951	914,665	1,102,616
Total	<u>\$ 191,057</u>	<u>\$ 961,483</u>	<u>\$ 1,152,540</u>
Current Liability			
Current portion of long-term debt	\$ -	\$ 9,371	\$ 9,371
Noncurrent Liability			
Long-term debt, net of current portion	-	183,850	183,850
Total liabilities	<u>-</u>	<u>193,221</u>	<u>193,221</u>
Net Position			
Net investment in capital assets	187,951	721,444	909,395
Unrestricted	3,106	46,818	49,924
Total net position	<u>191,057</u>	<u>768,262</u>	<u>959,319</u>
Total liabilities and net position	<u>\$ 191,057</u>	<u>\$ 961,483</u>	<u>\$ 1,152,540</u>

See notes to financial statements

Township of Penn, Pennsylvania

Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis

Proprietary Funds

Year Ended December 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for services	\$ 35,171	\$ 52,250	\$ 87,421
Operating Expenses			
Depreciation	2,469	49,443	51,912
Operating expenses	9,973	24,197	34,170
Salaries and benefits	-	2,984	2,984
Purchased services and supplies	317	388	705
Total operating expenses	12,759	77,012	89,771
Operating income (loss)	22,412	(24,762)	(2,350)
Nonoperating Revenues (Expenses)			
Capital grants	138,398	-	138,398
Interest income	30	77	107
Interest expense	-	(1,983)	(1,983)
Total nonoperating revenues (expenses), net	138,428	(1,906)	136,522
Changes in Net Position	160,840	(26,668)	134,172
Net Position, Beginning	30,217	794,930	825,147
Net Position, Ending	\$ 191,057	\$ 768,262	\$ 959,319

See notes to financial statements

Township of Penn, Pennsylvania

Statement of Cash Flows - Modified Cash Basis

Proprietary Funds

Year Ended December 31, 2017

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Cash Flows from Operating Activities			
Cash received from customers	\$ 35,171	\$ 52,250	\$ 87,421
Cash paid to suppliers	(10,290)	(24,585)	(34,875)
Cash paid to employees	-	(2,984)	(2,984)
Net cash provided by operating activities	<u>24,881</u>	<u>24,681</u>	<u>49,562</u>
Cash Flows from Capital and Related Financing Activities			
Capital grants received	138,398	-	138,398
Purchase of fixed asset	(162,935)	-	(162,935)
Repayments on capital debt	-	(9,277)	(9,277)
Interest paid on capital debt	-	(1,983)	(1,983)
Net cash used in capital and related financing activities	<u>(24,537)</u>	<u>(11,260)</u>	<u>(35,797)</u>
Cash Flows Provided by Investing Activities			
Cash received from interest	<u>30</u>	<u>77</u>	<u>107</u>
Increase in Cash	374	13,498	13,872
Cash, Beginning	<u>2,732</u>	<u>33,320</u>	<u>36,052</u>
Cash, Ending	<u>\$ 3,106</u>	<u>\$ 46,818</u>	<u>\$ 49,924</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 22,412	\$ (24,762)	\$ (2,350)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities,			
Depreciation	<u>2,469</u>	<u>49,443</u>	<u>51,912</u>
Net Cash Provided by Operating Activities	<u>\$ 24,881</u>	<u>\$ 24,681</u>	<u>\$ 49,562</u>

Township of Penn, Pennsylvania

Notes to Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Township of Penn, Pennsylvania (the "Township") is a municipal sub-division of the Commonwealth of Pennsylvania. This second-class township serves its residents, maintains its road system, provides public water, and operates a waste water treatment facility.

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Government Accounting Standard Board ("GASB") Statement 14 (as amended by GASB 39, 61 and 80). The specific criteria used in determining whether other organizations should be included in the Township's financial reporting entity are financial accountability, fiscal dependency, and legal separation.

As defined above, there are no other related organizations that should be included in the Township's financial statements.

The Township is a basic level of government which has oversight responsibility and control of the Township. The Township receives funding from local and state sources and must comply with concomitant requirements of these funding entities.

However, the Township is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. No other entities are included in these financial statements.

Measurement Focus and Basis of Accounting

The Township's financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP") as established by the GASB. Such principles require that the modified accrual basis of accounting be used for governmental fund types and the full accrual basis of accounting be used for proprietary fund types. These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of measurement and recognition criteria of the modified cash basis of accounting. Accordingly, revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred.

More specifically, the Township's modified cash basis of accounting accounts for cash and the changes therein resulting from cash receipts and disbursements, modified for the recording of the following account balances resulting from cash transactions or events:

- Capital assets and related depreciation and accumulated depreciation
- Long term bonds and notes
- Cash deposits held for customers

Township of Penn, Pennsylvania

Notes to Financial Statements

December 31, 2017

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable, expenses for goods or services received but not yet paid, accrued expenses and liabilities and net pension liability) *are not recorded* in these financial statements.

Basis of Presentation - Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Basis of Presentation - Fund Financial Statements

The accounts of the Township are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund balances, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The following fund types are used by the Township.

Governmental Fund Types

General Fund

The General Fund is the principal fund of the Township and accounts for all financial activities not accounted for in other funds. The majority of current operating expenditures of the Township other than proprietary fund activities are financed through revenues of the General Fund. The General Fund is always considered a major fund for government-wide reporting purposes.

Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for debt service and major capital projects) that are legally restricted to expenditures for specified purposes. This fund accounts for state aid revenues used for building and improving roads and bridges, and is considered a major fund for government-wide reporting purposes.

Township of Penn, Pennsylvania

Notes to Financial Statements
December 31, 2017

Capital Projects Fund

The Capital Projects Fund is a capital projects fund and is used to account for capital improvements of the Township. This fund is shown as a major fund at the preference of Township management.

Proprietary Fund Types

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Proprietary funds distinguish operating revenues from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Interest income and interest expense are considered non-operating. The following is a description of the Township's proprietary fund:

Enterprise Funds

Enterprise funds are used for activities that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing services to the public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has determined that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The Township's enterprise fund type consists of its water and sewer operations.

Capital Assets

Capital assets are stated at cost. Capital assets are defined by the Township as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Improvements to property are capitalized, whereas recurring maintenance costs are expensed. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budget

The Township is required by State law to adopt an annual budget for the General Fund and the Special Revenue Fund. Each budget is prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Township of Penn, Pennsylvania

Notes to Financial Statements

December 31, 2017

Pension Plan

The Township provides a separate agent-employer defined benefit pension plan for non-police personnel. It is the Township's policy to fund the normal cost of the defined benefit pension plan as required through an actuarial valuation. Pursuant to the modified cash basis of accounting, the net pension liability, associated disclosures, schedule of changes in net pension liability and related ratios and schedule of employer contributions required supplementary information have not been included in these financial statements.

Governmental Fund Balances

The Township classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the Supervisors which do not lapse at year-end
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township, but not through a formal action of the Supervisors
- *Unassigned* - includes position fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the Township's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed, assigned, and then unassigned fund balances.

Recent Accounting Standards

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The adoption of this standard did not have a significant impact on the Township's financial statements.

Township of Penn, Pennsylvania

Notes to Financial Statements
December 31, 2017

2. Cash

The Township Code, Section 902.1, authorizes investments in U.S. Treasury bills, savings accounts, obligations of the United States or its agencies, and shares of investment companies registered under the Investment Company Act of 1940. Act 72 requires all governmental (public fund) deposits not insured by Federal Depository Insurance Corporation ("FDIC") be collateralized by the financial institution.

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. At December 31, 2017, the Township's total bank deposits were \$309,035. \$250,000 of this amount was insured by the FDIC and \$59,035 was insured under Act 72.

3. Tax Revenue

The Township has three main sources of tax revenue: property tax, per capita tax, and earned income tax. The property tax is levied at 4.25 mills of 50% of the property's assessed value. The property tax is levied on March 1. The 2% discount period extends through April 30, face collections through June 30 and the 10% penalty applies to collections thereafter. The per capita tax is \$10.00 per adult. The earned income tax is 1/2% of taxable wages of an individual.

4. Capital Assets

The useful lives of capital fixed assets are as follows:

	<u>Years</u>
Water and sewer system	40
Infrastructure	10 - 15
Vehicles	7

Township of Penn, Pennsylvania

Notes to Financial Statements
December 31, 2017

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2017</u>
Governmental activities:				
Capital assets:				
Land, not being depreciated	\$ 10,000	\$ -	\$ -	\$ 10,000
Infrastructure	1,365,372	-	-	1,365,372
Vehicles	177,407	4,784	-	182,191
Total capital assets	<u>1,552,779</u>	<u>4,784</u>	<u>-</u>	<u>1,557,563</u>
Accumulated depreciation:				
Infrastructure	(377,286)	(48,096)	-	(425,382)
Vehicles	(124,280)	(11,647)	-	(135,927)
Total accumulated depreciation	<u>(501,566)</u>	<u>(59,743)</u>	<u>-</u>	<u>(561,309)</u>
Governmental activities capital assets, net	<u>\$ 1,051,213</u>	<u>\$ (54,959)</u>	<u>\$ -</u>	<u>\$ 996,254</u>
Business-type activities:				
Capital assets:				
Land, not being depreciated	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress, not being depreciated	-	162,935	-	162,935
Waste water treatment facility	1,468,240	-	-	1,468,240
Equipment	37,039	-	-	37,039
Total capital assets	<u>1,520,279</u>	<u>162,935</u>	<u>-</u>	<u>1,683,214</u>
Accumulated depreciation:				
Waste water treatment facility	(519,133)	(49,442)	-	(568,575)
Equipment	(9,553)	(2,470)	-	(12,023)
Total accumulated depreciation	<u>(528,686)</u>	<u>(51,912)</u>	<u>-</u>	<u>(580,598)</u>
Business-type activities capital assets, net	<u>\$ 991,593</u>	<u>\$ 111,023</u>	<u>\$ -</u>	<u>\$ 1,102,616</u>

Township of Penn, Pennsylvania

Notes to Financial Statements

December 31, 2017

5. Line of Credit

The Township had a \$75,000 unsecured line of credit arrangement with a local financial institution at December 31, 2017. Interest is charged at the bank's prime rate plus 0.5% (5.0% as of December 31, 2017) with a floor of 4.5% and a ceiling of 18.0%. There were no borrowings at December 31, 2017.

There was no interest expense on this borrowing for 2017.

6. Long-Term Debt

In 2002, the Township entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PENNVEST") to finance the construction of a waste water treatment facility.

In 2005, the Township entered into a second loan agreement with PENNVEST to finance the additional construction at the waste water treatment facility.

In 2014, the Township entered into a loan agreement with a local banking institution to finance the purchase of a dump truck.

Long-term debt consists of the following at December 31, 2017:

Business-type debt:

1.000% note payable; monthly payment of principal and interest of \$356; matures October 2036; secured by a lien on waste water treatment facilities	\$ 73,354
1.000% note payable; monthly payment of principal and interest of \$582; matures October 2036; secured by a lien on waste water treatment facilities	<u>119,867</u>
Total business-type debt	193,221

Governmental debt,

2.750% note payable; annual payment of principal and interest of \$13,130.74; matures April 2019; secured by a lien on dump truck	<u>25,202</u>
	<u>\$ 218,423</u>

Township of Penn, Pennsylvania

Notes to Financial Statements
December 31, 2017

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

	<u>Business-type</u>	<u>Governmental</u>	<u>Total</u>
Long-term debt at January 1, 2017	\$ 202,498	\$ 37,293	\$ 239,791
Payments	(9,277)	(12,091)	(21,368)
Long-term debt at December 31, 2017	193,221	25,202	218,423
Current portion	(9,371)	(12,428)	(21,799)
Long-term debt, net	<u>\$ 183,850</u>	<u>\$ 12,774</u>	<u>\$ 196,624</u>

Annual debt service requirements with respect to these notes are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 21,799	\$ 2,592	\$ 24,391
2019	22,240	2,152	24,392
2020	9,560	1,700	11,260
2021	9,656	1,604	11,260
2022	9,753	1,507	11,260
2023-2027	50,254	6,045	56,299
2028-2032	52,830	3,470	56,300
2033-2036	42,331	833	43,164
Total	<u>\$ 218,423</u>	<u>\$ 19,903</u>	<u>\$ 238,326</u>

7. Pension Plan

Plan Description

General and Eligibility

The Township's pension plan is an agent-employer defined benefit pension plan which is administered by the Pennsylvania State Association of Township Supervisors ("PSATS"). The Plan provides retirement benefits for all employees who work 35 hours or more per week. After ten years of credited service or age 65, an employee becomes fully vested in the plan. The plan does not issue a separate plan financial statement.

Plan Membership

Members of the plan was as follows:

Inactive plan members currently receiving benefits	-
Inactive plan members entitled to benefits but not yet receiving them	-
Current employees	<u>3</u>
Total membership	<u>3</u>
Number of participating employers	<u>1</u>

Township of Penn, Pennsylvania

Notes to Financial Statements
December 31, 2017

Benefits Provided

Normal Retirement

The Plan provides pension benefits for normal retirement at age 65 based on the monthly average of total pay received for the three latest years prior to retirement.

Average monthly compensation is based upon the last 36 months of employment.

Late Retirement

If a member continues working after his normal retirement date, his pension does not start until he actually retires. The monthly late retirement pension is equal to the benefit accrued to the late retirement date.

Death Benefits

If a member is eligible for retirement at the time of death, a monthly death benefit is payable to his surviving spouse, equal to 50% of the monthly benefit the member would have been receiving had he been retired at the time of death.

Funding Policy and Contributions

The Township's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The employer contribution rate is determined based on the annual required contribution. Employees do not contribute. The annual required contribution was determined by the actuary based on the actuarial valuation as of January 1, 2017. The contribution requirement of the Township is established and may be amended by the Board of Supervisors. The Township funded 100% of required contributions.

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

During the year ended December 31, 2017, the Township contributed \$17,576 to this plan, which included \$13,765 of state aid.

8. Interfund Transfers

The General Fund transferred \$470 to the Capital Projects Fund for cash flow purposes.

Township of Penn, Pennsylvania

Notes to Financial Statements

December 31, 2017

9. Pending Changes in Accounting Principles

Township's management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and separate criteria to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. To the extent applicable, the Township is required to adopt Statement No. 84 for its fiscal 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. Statement No. 85 addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement, and postemployment benefits, that have been identified during implementation and application of certain GASB Statements. To the extent applicable, the Township is required to adopt Statement No. 85 for its fiscal 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. To the extent applicable, the Township is required to adopt Statement No. 86 for its fiscal 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. To the extent applicable, the Township is required to adopt Statement No. 87 for its fiscal 2020 financial statements.

Township of Penn, Pennsylvania

Budgetary Comparison Schedule - Modified Cash Basis

General Fund

Year Ended December 31, 2017

	(Unaudited) Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
	<u>Original and Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
Revenues			
Taxes	\$ 224,470	\$ 228,378	\$ 3,908
Fines and forfeits	1,725	1,951	226
Interest and rent	258	374	116
Intergovernmental revenues	71,892	91,889	19,997
Charges for services	18,486	10,410	(8,076)
	<u>316,831</u>	<u>333,002</u>	<u>16,171</u>
Total revenues			
Expenditures			
General government	74,428	78,214	(3,786)
Public safety	28,045	22,102	5,943
Health and welfare	200	-	200
Public works - sanitation	14,966	1,310	13,656
Public works - highways	142,661	159,630	(16,969)
Public works - other	-	517	(517)
Culture and recreation	1,919	1,388	531
Employer paid benefits and insurance	55,562	51,603	3,959
	<u>317,781</u>	<u>314,764</u>	<u>3,017</u>
Total expenditures			
(Deficit) Excess of Revenues Over Expenditures			
	<u>(950)</u>	<u>18,238</u>	<u>19,188</u>
Other Financing Sources (Uses)			
Contributions and donations	950	939	(11)
Interfund transfers	-	(470)	(470)
	<u>950</u>	<u>469</u>	<u>(481)</u>
Total other financing sources, net			
Net Changes in Fund Balance			
	<u>\$ -</u>	<u>18,707</u>	<u>\$ 18,707</u>
Fund Balance, Beginning			
		<u>142,877</u>	
Fund Balance, Ending			
		<u>\$ 161,584</u>	

Township of Penn, Pennsylvania

Budgetary Comparison Schedule - Modified Cash Basis

Special Revenue Fund

Year Ended December 31, 2017

	(Unaudited) Budgeted Amounts	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	<u>Original and Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
Revenues			
Interest and rent	\$ 108	\$ 128	\$ 20
Intergovernmental revenue	<u>74,008</u>	<u>75,376</u>	<u>1,368</u>
Total revenues	74,116	75,504	1,388
Expenditures			
Public works - highways	<u>74,116</u>	<u>100,189</u>	<u>(26,073)</u>
Total expenditures	<u>74,116</u>	<u>100,189</u>	<u>(26,073)</u>
Excess of Expenditures Over Revenues	-	(24,685)	(24,685)
Net Changes in Fund Balance	<u>\$ -</u>	<u>(24,685)</u>	<u>\$ (24,685)</u>
Fund Balance, Beginning		<u>27,074</u>	
Fund Balance, Ending		<u>\$ 2,389</u>	

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

Board of Supervisors
Township of Penn, Pennsylvania

We have audited, in accordance with the 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, the business-type activities, and each major fund of the Township of Penn, Pennsylvania (the "Township"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated March 23, 2018. Our report disclosed that the Township's financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
March 23, 2018