

LOWER PAXTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2020



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

LOWER PAXTON TOWNSHIP

YEAR ENDED DECEMBER 31, 2020

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Independent Auditor's Report

Board of Supervisors
Lower Paxton Township
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lower Paxton Township (the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 unmodified audit opinions on the governmental activities, business-type activities and aggregate remaining fund information and a qualified opinion on the fiduciary activities.

Basis for Qualified Opinion on Fiduciary Funds

Management has not included the fiduciary activities related to the Township tax collector in the fiduciary fund financial statements. The Governmental Accounting Standards Board requires that the activity of the Township tax collector be included in the fiduciary fund financial statements when the taxes levied by other taxing bodies are collected by the Township tax collector. The amount by which this departure would affect the assets, liabilities, fiduciary net position and changes in fiduciary net position has not been determined.

Qualified Opinion on Fiduciary Funds

In our opinion, except for the effects of the matter described in the basis for qualified opinion on fiduciary funds paragraph, the financial statements referred to above present fairly, in all material respects, the respective net position of the fiduciary funds of the Township, as of December 31, 2020, and the respective changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on the Governmental Activities, Business-Type Activities, Each Major Fund and the Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; budgetary comparison information; schedules of changes in net pension liability and related ratio and employer contributions; schedules of investment returns for the pension plans and schedules of changes in total OPEB liability and related ratios on pages 4-15, 88-89, 90-95, 96 and 97, respectively, 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 inquiries 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 governmental fund financial statements and the combining statements of fiduciary funds on pages 98 through 101 are presented for purposes of additional analysis and are not a required part of the basic 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021 on our consideration of Lower Paxton 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 Lower Paxton Township's internal control over financial reporting and compliance.

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
October 28, 2021

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

The Management's Discussion and Analysis (MD&A) is a component of the reporting model adopted by the Government Accounting Standards Board (GASB), as referenced in Statement No. 34 issued in June 1999. The intent of the MD&A is to summarize Lower Paxton Township's (the Township) financial performance as a whole, in part, using comparative information from the current year analyzed against prior years.

The MD&A presents a narrative overview and analysis of the Township's financial performance for the fiscal year ended December 31, 2020. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the Township's financial condition as of December 31, 2020.

The financial statements of Lower Paxton Township include the financial position and results of operations of the Township and the financial position and results of operations of Lower Paxton Township Authority (the Authority), which is a blended component unit of the Township, and the Friendship Community Center (FCC).

Using these financial statements

The financial statements are organized to provide an understanding of Lower Paxton Township as an entire operating entity, while also providing a detailed look at specific financial activities. The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide short-term and long-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's operations. The governmental fund financial statements describe how general Township services are financed in the short term, as well as what remains for future spending. The other types of funds shown in the financial statements are enterprise and fiduciary funds. Enterprise fund statements provide financial information regarding funds for services that the Township operates like a business. Fiduciary fund statements provide financial information regarding funds where the Township acts solely as a trustee for the benefit of others.

Financial highlights:

The following items detail Lower Paxton Township's financial highlights for the fiscal year ended December 31, 2020:

- Earned income tax (EIT) revenues, the Township's single largest revenue source, have been difficult to budget over the past several years. At the end of the 2020 fiscal year, the Township had earned \$7,863,394, \$136,606 less than budgeted and 6.4% more than earned in 2019.
- The Township's real estate tax rate was 2.05 mills, in addition to the Local Services tax (LST) of \$52 per employee working in Lower Paxton Township

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Financial highlights (continued):

- The Township's bond rating was Aa2, as set by Moody's Investors Service.
- The Township issued \$69,395,000 of debt in 2020 to refinance \$43,235,000 in various outstanding bonds and to finance capital purchases and improvements of the Township, the Authority and FCC. \$59,745,000 of the 2020 borrowing is the responsibility of the Authority through a subsidy agreement, and \$9,650,000 is payable by the Township, of which \$935,000 is to be paid by the FCC.
- At December 31, 2020, the Township has \$165,463,419 in outstanding general obligation bond and loan debt. \$146,403,037 of this debt is the responsibility of the Lower Paxton Township Authority through subsidy agreements.
- The Township's General Fund ended the 2020 calendar year with revenues and other financing sources exceeding expenditures and other financing uses by \$3,036,487 resulting in a net increase in fund balance. The majority of the increase is attributable to the receipt of COVID-19 funds.
- The unassigned fund balance for the General Fund as of December 31, 2020, was \$8,220,611, or 24.90% of the total general fund operating expenditures.
- In December 2021, the Township entered into a 30-year lease agreement with the Harrisburg Area YMCA to lease and operate the Friendship Community Center.

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 related to pension and OPEB plans and combining schedules for certain funds.

Government-wide statements:

The government-wide financial statements of the Township are divided into two categories: governmental activities and business activities. The government-wide statements report information about the Township and its blended component unit using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets and liabilities. All the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is paid or received. The two government-wide statements report the Township's net position and how it has changed. An increase or decrease in the Township's net position is an indication of whether its financial health overall is improving or deteriorating. The two business-type activities of Lower Paxton Township are the Lower Paxton Township Authority and the Friendship Community Center.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Fund financial statements:

The Township's fund financial statements provide more detailed information about the most significant funds, not the Township as a whole. The fund financial statements include:

- *Governmental funds* financial statements, which explain how services, such as public safety and public works, are financed. The governmental funds include the General Fund, General Improvement Fund and the Fire Equipment Capital Fund as well as the nonmajor State Highway Aid and Firemen's Length of Service Award Program (LOSAP) funds.
- *Enterprise funds* financial statements offer information about the activities that the Township operates like a business. There are two Township enterprise funds: the Lower Paxton Township Authority and Friendship Community Center.
- *Fiduciary funds* financial statements reflect activities involving resources that are held by the Township as trustee for future employee pension payments. The Township has two pension funds: one covering sworn police officers and one for full-time, non-uniformed employees. Fiduciary funds are not reflected in the government-wide statements because resources cannot be used to support the Township's operations. The fiduciary activity of the Township's tax collector has not been included in these financial statements.
- The Township's total net position was \$66,706,323 and \$63,486,686 at December 31, 2020 and 2019, respectively.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Financial analysis of the Township as a whole:

Table A-1 is a condensed summary of the statement of net position:

Table A-1
Statements of net position
December 31, 2020 and 2019

	2020			2019		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Current assets	\$ 9,605,489	\$ 30,725,839	\$ 40,331,328	\$ 6,646,911	\$ 29,477,725	\$ 36,124,636
Capital assets	36,093,468	156,809,982	192,903,450	35,030,655	152,108,486	187,139,141
Other noncurrent assets	4,098,775	36,769,332	40,868,107	4,751,249	11,786,103	16,537,352
Total assets	\$ 49,797,732	\$ 224,305,153	\$ 274,102,885	\$ 46,428,815	\$ 193,372,314	\$ 239,801,129
Deferred outflows of resources	\$ 4,474,999	\$ 2,737,480	\$ 7,212,479	\$ 5,917,793	\$ 284,986	\$ 6,202,779
Current liabilities	\$ 2,743,246	\$ 9,717,847	\$ 12,461,093	\$ 3,628,228	\$ 9,415,050	\$ 13,043,278
Long-term liabilities	42,221,669	153,242,644	195,464,313	39,216,663	123,927,516	163,144,179
Total liabilities	\$ 44,964,915	\$ 162,960,491	\$ 207,925,406	\$ 42,844,891	\$ 133,342,566	\$ 176,187,457
Deferred inflows of resources	\$ 6,683,635	\$ -	\$ 6,683,635	\$ 6,329,765	\$ -	\$ 6,329,765
Net investment in capital assets	\$ 17,014,658	\$ 37,298,085	\$ 54,312,743	\$ 15,245,593	\$ 33,148,260	\$ 48,393,853
Restricted	3,321,294	10,799,332	14,120,626	4,025,795	11,786,103	15,811,898
Unrestricted	(17,711,771)	15,984,725	(1,727,046)	(16,099,436)	15,380,371	(719,065)
Total net position	\$ 2,624,181	\$ 64,082,142	\$ 66,706,323	\$ 3,171,952	\$ 60,314,734	\$ 63,486,686

Over time, net position may serve as a useful indication of a government's financial position. In the case of Lower Paxton Township, total assets and deferred outflows of resources exceeded total liabilities by \$66,706,323. The largest portion of the Township's net position, 81.42%, is net investment in capital assets which reflects total capital assets offset by debt incurred to acquire the assets. Restricted net position of \$14,120,626 or 21.17%, represents unspent bond proceeds, escrow funds and restricted investments. The remaining balance of net position (deficit) of (\$1,727,046) or -2.59%, represents resources that may be used (or are needed) to meet the government's ongoing obligations to its citizens.

The results of this year's operations as a whole are reported in the statement of activities. All expenses are reported in the first column of the statement of activities. Specific charges, grants and subsidies that directly relate to specific expense categories are presented to determine the final amount of the Township's activities that are supported by general revenues. The two largest sources of general revenues are earned income tax and real estate tax.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Financial analysis of the Township as a whole (continued):

Table A-2 takes the information from the statement of activities and rearranges it to depict the changes in net position. There was an increase in net position from 2019 to 2020 in the amount of \$3,219,637.

Table A-2
Statements of changes in net position
December 31, 2020 and 2019

	2020			2019		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Revenues:						
Program revenues:						
Charges for service	\$ 7,134,481	\$ 21,408,546	\$ 28,543,027	\$ 6,803,364	\$ 21,931,687	\$ 28,735,051
Operating grants and contributions	1,390,718		1,390,718	1,604,979		1,604,979
Capital grants and contributions	1,966,116		1,966,116	1,665,232		1,665,232
General revenues:						
Property taxes	6,703,566		6,703,566	6,274,780		6,274,780
Other taxes	10,620,233		10,620,233	9,997,272		9,997,272
Grants	2,609,043		2,609,043			
Interest and rents	107,643	110,876	218,519	171,317	1,102,127	1,273,444
Net investment gain (loss)	(3,506,253)		(3,506,253)	(2,511,185)		(2,511,185)
Miscellaneous	16,351		16,351	61,135		61,135
Transfers and other revenues (expense):						
Transfers	(1,177,756)	1,177,756	-	(125,000)	125,000	-
Other	80,643	77,562	158,205	45,000	40,642	85,642
Total revenues	25,944,785	22,774,740	48,719,525	23,986,894	23,199,456	47,186,350
Expenses:						
Operating expenses:						
General government	1,930,855		1,930,855	2,155,196		2,155,196
Police department	12,774,623		12,774,623	11,481,603		11,481,603
Highways and streets	328,983		328,983	627,279		627,279
Fire and ambulance	1,568,377		1,568,377	1,454,617		1,454,617
Community development	978,673		978,673	905,128		905,128
Health and sanitation	2,692,223		2,692,223	3,128,822		3,128,822
Public works	3,520,295		3,520,295	3,742,032		3,742,032
Parks and recreation	811,237		811,237	1,148,302		1,148,302
Interest	618,584		618,584	509,660		509,660
Depreciation, unallocated	445,537		445,537	1,495,690		1,495,690
Friendship Center		1,462,903	1,462,903		2,422,443	2,422,443
Lower Paton Township Authority		17,491,376	17,491,376		19,553,118	19,553,118
Total operating expenses	25,669,387	18,954,279	44,623,666	26,648,329	21,975,561	48,623,890
Excess (deficiency) of revenues over expenses	275,398	3,820,461	4,095,859	(2,661,435)	1,223,895	(1,437,540)
Other financing sources (uses):						
Contributions		584,759	584,759	(17,620,166)	18,775,017	1,154,851
Bond issue costs	(823,169)	(637,812)	(1,460,981)		(524,388)	(524,388)
Total other financing sources (uses)	(823,169)	(53,053)	(876,222)	(17,620,166)	18,250,629	630,463
Change in net position	(547,771)	3,767,408	3,219,637	(20,281,601)	19,474,524	(807,077)
Net position, beginning of year	3,171,952	60,314,734	63,486,686	23,453,553	40,840,210	64,293,763
Net position, end of year	\$ 2,624,181	\$ 64,082,142	\$ 66,706,323	\$ 3,171,952	\$ 60,314,734	\$ 63,486,686

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Financial analysis of the Township as a whole (continued):

Table A-3 shows the Township's operations by function, as well as each function's net cost (total cost less revenues generated by the activities). This table indicates net costs offset by other grants, subsidies and contributions to show the remaining financial needs to be supported by general revenues.

Table A-3
Governmental Activities
December 31, 2020 and 2019

Functions/programs	2020		2019	
	Total cost of services	Net cost of services	Total cost of services	Net cost of services
General government	\$ 1,930,855	\$ (219,505)	\$ 2,155,196	\$ (35,065)
Police department	12,774,623	12,513,068	11,481,603	11,206,106
Highways and streets	328,983	328,983	627,279	627,279
Fire and ambulance	1,568,377	1,268,329	1,454,617	1,157,824
Community development	978,673	(121,727)	905,128	905,128
Health and sanitation	2,692,223	(1,507,113)	3,128,822	(1,854,039)
Public works	3,520,295	1,478,938	3,742,032	2,037,844
Parks and recreation	811,237	372,978	1,148,302	524,327
Interest	445,537	445,537	1,495,690	1,495,690
Depreciation, unallocated	618,584	618,584	509,660	509,660
Total governmental activities	<u>\$ 25,669,387</u>		<u>\$ 26,648,329</u>	
Total needs from local taxes and other revenues		<u>\$ 15,178,072</u>		<u>\$ 16,574,754</u>

The 2020 net costs of services for the governmental activities are 8.43% lower than 2019 activities. The government functions and funding for those services did not change.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Financial analysis of the Township as a whole (continued):

Table A-4 reflects the activities of the two enterprise funds of the Township, the Lower Paxton Township Authority and Friendship Community Center.

Table A-4
Business-type activities
December 31, 2020 and 2019

Functions/programs	2020			2019		
	Total cost of services	Total charges for services	Net income (loss) from services	Total cost of services	Total charges for services	Net income (loss) from services
Friendship Center	\$ 1,462,903	\$ 574,248	\$ (888,655)	\$ 2,422,443	\$ 2,008,326	\$ (414,117)
Lower Paxton Township Authority	17,491,376	20,834,298	3,342,922	19,553,118	19,923,361	370,243
Other revenues (expenses):						
Interest and rents			110,876			1,102,127
Gain on disposal of assets			77,562			40,642
Transfers			1,177,756			125,000
Contributions:						
Township						17,716,916
Developer			584,759			1,058,101
Bond issuance costs			(637,812)			(524,388)
Total business-type activities net income			<u>\$ 3,767,408</u>			<u>\$ 19,474,524</u>

Enterprise funds:

Total business-type program revenues of \$21,408,546 in 2020 were derived from charges for services, with \$20,834,298 from the Township Authority and \$574,248 from the Friendship Center. The 2020 program expenses for these two business-type funds were \$17,491,376 for the Township Authority and \$1,462,903 for the Friendship Center. The table combines the change in net costs of services with other types of revenue, showing a combined end of year total change in net position for the enterprise funds of \$3,767,408, which is \$15,707,116 lower than the change in position for the year ending December 31, 2019. The large decrease is primarily the result of prior year contributions to the Authority from the Township to establish the stormwater fund that were not made in 2020. Conversely, the stormwater fee was introduced in 2020, causing a large increase in charges for services for the Authority in 2020. The statement of revenues, expenses and changes in fund net position for these two enterprise funds further details the actual results of operation.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Township governmental funds (continued):

Total governmental funds revenues of \$30,676,317 in 2020 were derived primarily from tax revenues of \$17,317,364, representing 56.45% of the total, followed by intergovernmental revenues of \$5,881,435, representing 19.17% of the total, of which includes \$2,609,043 received in conjunction with the CARES Act.

Total governmental fund expenditures in 2020 were \$36,106,325. The Township's expenditures occur largely in the police department, totaling \$10,570,820, or 29.27% of total governmental expenditures. The Township also incurred \$9,807,690 in principal payments on debt, largely due to refinancing various bonds during the year ending December 31, 2020.

General fund budget

A schedule showing the Township's budget compared to amounts actually paid and received is provided as required supplementary information. There were no revisions to the budget by the Board of Supervisors during 2020. Transfers out of the general fund were much higher than budgeted due to the closure and subsequent lease of the Friendship Center. Interfund transfers are shown as other financing sources and uses on the statement of revenues and expenditures.

Revenue variances:

Tax collection:

- 2020 real estate tax revenues were \$118,500 less than the budgeted amount of \$5,900,000.
- Local services tax distributions were \$163,082 less than budgeted.
- Earned income tax (EIT) revenues have been difficult to budget over the past several years. At the end of 2020, the Township had recorded \$7,863,394 from EIT, \$474,565 more than 2019 and \$136,606 less than budgeted.

Intergovernmental revenues:

- Intergovernmental revenues were \$2,657,819 larger than the budgeted amount of \$1,257,500, largely due to the receipt of CARES funding from Dauphin County.

Expense variances:

Police:

- Overall, 2020 expenditures were \$10,570,820 against a budget of \$11,156,360, or 5.2% under budget for the year.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Township governmental funds (continued):

Expense variances:

Public works:

- Overall, 2020 expenditures were \$3,614,433 against a budget of \$4,183,824, or 13.6% under budget for the year.

Health and sanitation:

- Overall, 2020 expenditures were \$3,141,706 against a budget of \$3,312,225, or 5.1% under budget for the year.

Capital assets:

Lower Paxton Township's capital assets totaled \$192,903,450 as of December 31, 2020. GASB Statement No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements. The Township's capital assets for 2020 are as follows and are detailed in Note 5 to the financial statements:

	2020		2019	
	Governmental activities	Business-type activities	Governmental activities	Business-type activities
Land	\$ 3,235,494	\$ 1,540,192	\$ 3,235,494	\$ 1,540,192
Intangibles, not depreciated	421,850	2,740,869	421,850	2,740,869
Construction in progress	1,523,862		1,838,901	
Buildings	12,463,251	12,212,653	12,463,251	11,364,555
Land Improvements	7,692,447		7,485,766	
Machinery and equipment	4,954,569	1,650,400	4,717,836	1,341,833
Vehicles	10,233,911		9,387,550	
Infrastructure	49,298,527	186,573,947	48,271,142	179,385,505
Furniture		40,973		19,299
Sewer capacity costs		21,144,628		21,144,628
Accumulated depreciations	(53,730,443)	(69,093,680)	(52,791,135)	(65,428,395)
Net capital assets	<u>\$ 36,093,468</u>	<u>\$ 156,809,982</u>	<u>\$ 35,030,655</u>	<u>\$ 152,108,486</u>

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Debt administration:

The Township's long-term debt activity for 2020 is as follows and is detailed in Note 6 to the financial statements:

Type	Beginning balance	Additions	Deletions	Ending balance
General obligation bonds:				
Series of 2010A	\$ 580,000		\$ (280,000)	\$ 300,000
Series of 2012A	2,820,000		(2,820,000)	-
Series of 2013	5,665,000		(5,665,000)	-
Series of 2013A	2,850,000		(2,850,000)	-
Series of 2014	27,040,000		(21,045,000)	5,995,000
Series of 2015	13,540,000		(5,000)	13,535,000
Series of 2016	25,865,000		(9,810,000)	16,055,000
Series of 2019	52,040,000		(760,000)	51,280,000
Series of 2020A		\$ 25,970,000		25,970,000
Series of 2020B		8,665,000		8,665,000
Series of 2020C		34,760,000		34,760,000
Total general obligation bonds	130,400,000	69,395,000	(43,235,000)	156,560,000
Loans:				
PennVest loan 2010	7,020,452		(466,201)	6,554,251
PennVest loan 2019		2,228,786		2,228,786
PA Infrastructure Bank	199,028		(78,646)	120,382
Total loans	7,219,480	2,228,786	(544,847)	8,903,419
Total long-term debt activity	<u>\$ 137,619,480</u>	<u>\$ 71,623,786</u>	<u>\$ (43,779,847)</u>	<u>\$ 165,463,419</u>
Governmental activities	\$ 18,601,072	\$ 8,715,000	\$ (9,807,690)	\$ 17,508,382
Business-type activities	119,018,408	62,908,786	(33,972,157)	147,955,037
Total long-term debt activity	<u>\$ 137,619,480</u>	<u>\$ 71,623,786</u>	<u>\$ (43,779,847)</u>	<u>\$ 165,463,419</u>

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Debt administration (continued):

At the end of 2020, the Township-wide long-term liabilities, including bonds and notes payable, compensated absences, capital lease obligations, bond premiums, net postemployment liability (other than pensions), net pension liability and SWAP liability amounted to \$195,464,313. A detailed discussion of long-term debt and maturities is included in the notes.

Economic factors and next year's budgets and rates:

In the 2021 budget, General Fund revenues and expenditures are projected to increase by 2% from that recorded in 2020.

In the 2021 General Fund budget:

- There is an additional \$300,000 budgeted for the Management Agreement — Sewer Authority, derived from the increase in wages and benefits and the addition of a Geographic Information Systems Technician and Authority Accountant.
- There is a \$550,000 increase in budgeted real estate taxes due to the reduction of Fund 20 taxes and an anticipated one-half millage increase.
- Police officers' salaries are expected to increase \$254,366 due to the hire of four additional officers and wage increases per the union contract.
- Police accumulated retirement payouts are budgeted at \$122,500 as at least two officers are expected to retire.

In the 2021 General Improvement Fund budget:

- The General Improvement Fund budget anticipates a \$59,000 transfer from the General Fund to be used for projects. The remainder is to be funded from bond proceeds and intergovernmental revenues from other sources.
- Projects budgeted for 2021 include zoning and land development ordinance comprehensive re-writing, continued work on the Colonial Road adaptive traffic signals project and capital improvements at various parks.

The budget of The Friendship Community Center has been eliminated due to the lease with the YMCA. Under the lease agreement, the YMCA will staff and operate the Friendship Community Center, relieving the Township of these obligations. Key Township personnel who had worked at the Friendship Center were transferred to the Parks and Recreation Department. The Friendship Community Center will continue to be subsidized by the Township to help cover the 2021 debt payments and other costs. The Township Authority will continue to finance all sewer operations and capital expenditures through its user fees.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2020

Request for information:

This financial report is designed to provide citizens, investors and creditors with a general overview of the Township's finances. Separate financial statements are available for the Lower Paxton Township Authority from the Township Manager. If you have questions about this report or need additional information, contact the Finance Department at the Lower Paxton Township Municipal Center, 425 Prince Street, Harrisburg, PA 17109 or call (717) 657-5600.

LOWER PAXTON TOWNSHIP

STATEMENT OF NET POSITION - DECEMBER 31, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Governmental activities	Business-type activities	Total
Assets:			
Cash and cash equivalents	\$ 4,513,284	\$ 25,351,983	\$ 29,865,267
Investments		246,196	246,196
Receivables:			
Accounts	595,658	6,135,817	6,731,475
Taxes	2,239,309		2,239,309
Other		564,561	564,561
Internal balances	1,994,953	(1,994,953)	-
Due from fire companies	73,259		73,259
Other assets	189,026	422,235	611,261
Internal balances			
Total current assets	9,605,489	30,725,839	40,331,328
Noncurrent assets:			
Restricted for debt service and capital projects:			
Cash and cash equivalents	3,023,364	36,769,332	39,792,696
Investments	1,075,411		1,075,411
Capital assets:			
Property, plant and equipment, net	36,093,468	143,209,154	179,302,622
Deferred capacity costs, net		13,600,828	13,600,828
Total noncurrent assets	40,192,243	193,579,314	233,771,557
Total assets	49,797,732	224,305,153	274,102,885
Deferred outflows of resources:			
Charge on refunding	10,023	2,737,480	2,747,503
Other postemployment benefits	428,075		428,075
Pensions	4,036,901		4,036,901
Total deferred outflows of resources	4,474,999	2,737,480	7,212,479
Total assets and deferred outflows of resources	\$ 54,272,731	\$ 227,042,633	\$ 281,315,364

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF NET POSITION – DECEMBER 31, 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	Governmental activities	Business-type activities	Total
Liabilities:			
Accounts payable	\$ 595,197	\$ 2,876,358	\$ 3,471,555
Current portion of long-term debt subject to subsidy agreements:			
Bonds payable		3,705,000	3,705,000
Note payable		481,019	481,019
Current portion of long-term debt:			
Bonds payable	875,000	315,000	1,190,000
Note payable	79,930		79,930
Capital lease obligations	201,703	48,407	250,110
Developers escrow	703,774	78,733	782,507
Unearned revenue	10,000		10,000
Accrued:			
Interest	113,346	1,198,791	1,312,137
Expenses and withholdings	164,296	4,952	169,248
Due to other governments		1,009,587	1,009,587
Total current liabilities	2,743,246	9,717,847	12,461,093
Noncurrent liabilities:			
Long-term debt, subject to subsidy agreements, net of current portion:			
Bonds payable		133,915,000	133,915,000
Note payable		8,302,018	8,302,018
Long-term debt, net of current portion:			
Bonds payable	16,513,000	1,237,000	17,750,000
Note payable	40,452		40,452
Capital lease obligations	275,359	68,069	343,428
Bond premium	1,103,389	9,720,557	10,823,946
Compensated absences	1,974,420		1,974,420
OPEB liability	8,918,193		8,918,193
Pension liability	5,606,715		5,606,715
SWAP liability	7,790,141		7,790,141
Total noncurrent liabilities	42,221,669	153,242,644	195,464,313
Total liabilities	44,964,915	162,960,491	207,925,406
Deferred inflows of resources:			
Other postemployment benefits	160,717		160,717
Pensions	6,522,918		6,522,918
Total deferred inflows of resources	6,683,635		6,683,635
Net position:			
Net investment in capital assets	17,014,658	37,298,085	54,312,743
Restricted for program purposes	3,321,294	10,799,332	14,120,626
Unrestricted	(17,711,771)	15,984,725	(1,727,046)
Total net position	2,624,181	64,082,142	66,706,323
Total liabilities, deferred inflows of resources and net position	\$ 54,272,731	\$ 227,042,633	\$ 281,315,364

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2020

Functions/programs	Program revenues				Net (expense) revenue and changes in net position	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities
Governmental activities:						
General government	\$ 1,930,855	\$ 1,157,165	\$ 993,195		\$ 219,505	\$ 219,505
Police department	12,774,623	246,495	15,060		(12,513,068)	(12,513,068)
Highway and streets	328,983				(328,983)	(328,983)
Fire and ambulance	1,568,377		300,048		(1,268,329)	(1,268,329)
Community development	978,673	1,100,400			121,727	121,727
Health and sanitation	2,692,223	4,116,921	82,415		1,507,113	1,507,113
Public works	3,520,295	75,241		\$ 1,966,116	(1,478,938)	(1,478,938)
Parks and recreation	811,237	438,259			(372,978)	(372,978)
Unallocated depreciation	445,537				(445,537)	(445,537)
Interest on long-term debt	618,584				(618,584)	(618,584)
Total governmental activities	25,669,387	7,134,481	1,390,718	1,966,116	(15,178,072)	(15,178,072)
Business-type activities:						
Friendship Community Center	1,462,903	574,248				\$ (888,655)
Lower Paxton Township Authority	17,491,376	20,834,298				3,342,922
Total business-type activities	18,954,279	21,408,546				2,454,267
Total government	\$ 44,623,666	\$ 28,543,027	\$ 1,390,718	\$ 1,966,116	(15,178,072)	2,454,267
						(12,723,805)

(continued)

LOWER PAXTON TOWNSHIP

STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020

Functions/programs	Program revenues			Net (expense) revenue and changes in net position			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
General revenues:							
Taxes:							
Real estate:							
General levy					\$ 6,703,566		\$ 6,703,566
Transfer tax					1,672,826		1,672,826
Earned income tax					7,863,394		7,863,394
Local services tax					1,084,013		1,084,013
Grants					2,609,043		2,609,043
Interest revenue					37,874	\$ 110,876	148,750
Net loss on investments					(3,506,253)		(3,506,253)
Rental income					69,769		69,769
Miscellaneous					16,351		16,351
Total general revenues					16,550,583	110,876	16,661,459
Transfers					(1,177,756)	1,177,756	-
Gain on disposal of capital assets					80,643	77,562	158,205
Bond issuance costs					(823,169)	(637,812)	(1,460,981)
Developer contributions						584,759	584,759
Total transfers and other					(1,920,282)	1,202,265	(718,017)
Change in net position					(547,771)	3,767,408	3,219,637
Net position:							
Beginning of year					3,171,952	60,314,734	63,486,686
End of year					\$ 2,624,181	\$ 64,082,142	\$ 66,706,323

See notes to financial statements.

LOWER PAXTON TOWNSHIP

BALANCE SHEET – GOVERNMENTAL FUNDS DECEMBER 31, 2020

	<u>Major fund</u>		<u>Total</u>
	General	Nonmajor	governmental
	fund	funds	funds
	<u></u>	<u></u>	<u></u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 4,149,089	\$ 364,195	\$ 4,513,284
Receivables:			
Accounts	493,721	101,937	595,658
Taxes	2,239,309		2,239,309
Due from:			
Other funds	1,994,953		1,994,953
Fire companies	73,259		73,259
Other assets	189,026		189,026
Restricted assets:			
Cash and equivalents	777,481	2,245,883	3,023,364
Investments		1,075,411	1,075,411
	<u></u>	<u></u>	<u></u>
Total assets	<u>\$ 9,916,838</u>	<u>\$ 3,787,426</u>	<u>\$ 13,704,264</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 400,775	\$ 194,422	\$ 595,197
Accrued expenses and withholdings	164,296		164,296
Unearned revenue	10,000		10,000
Developers escrow	703,774		703,774
	<u></u>	<u></u>	<u></u>
Total liabilities	<u>1,278,845</u>	<u>194,422</u>	<u>1,473,267</u>
Deferred inflows of resources, unavailable revenue, property taxes	<u>155,097</u>		<u>155,097</u>
Fund balances:			
Nonspendable	262,285		262,285
Restricted		3,321,294	3,321,294
Unassigned	8,220,611	271,710	8,492,321
	<u></u>	<u></u>	<u></u>
Total fund balances	<u>8,482,896</u>	<u>3,593,004</u>	<u>12,075,900</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,916,838</u>	<u>\$ 3,787,426</u>	<u>\$ 13,704,264</u>

See notes to financial statements.

LOWER PAXTON TOWNSHIP

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

Total fund balances, governmental funds \$ 12,075,900

Total net assets reported for governmental activities in the statement
of net position is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Those assets consist of:

Non-depreciable assets	\$ 5,181,206
Depreciable assets, net of accumulated depreciation of \$53,730,443	<u>30,912,262</u>

Total capital assets 36,093,468

Some of the Township's taxes will be collected after year end but are
not available soon enough to pay for the current period's expenditures
and, therefore, are reported as unavailable revenue, property taxes
in the funds.

155,097

Long-term liabilities applicable to the Township's governmental
activities are not due and payable in the current period and, accordingly,
are not reported as fund liabilities. All liabilities, both current and
long-term are reported in the statement of net position.

Balances at December 31, 2020 are:

Compensated absences	(1,974,420)
Accrued interest on bonds and loan	(113,346)
Deferred charges on refundings	10,023
Bond (premium) discount	(1,103,389)
Capital lease payable	(477,062)
Bonds payable	(17,388,000)
Note payable	(120,382)
Deferred outflows of resources, OPEB	428,075
Deferred inflows of resources, OPEB	(160,717)
Deferred outflows of resources, pensions	4,036,901
Deferred inflows of resources, pensions	(6,522,918)
Net pension liability	(5,606,715)
Total OPEB liability	(8,918,193)
SWAP liability	<u>(7,790,141)</u>
	<u>(45,700,284)</u>

Net position, governmental activities

\$ 2,624,181

See notes to financial statements.

LOWER PAXTON TOWNSHIP

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

	<u>Major fund</u>		Total governmental funds
	<u>General</u>	<u>Nonmajor</u>	
Revenues:			
Taxes	\$ 16,603,062	\$ 714,302	\$ 17,317,364
Licenses and permits	2,100,210		2,100,210
Fines and forfeitures	246,495		246,495
Interest and rents	83,516	24,127	107,643
Net investment gain		134,601	134,601
Intergovernmental	3,915,319	1,966,116	5,881,435
Charges for services	4,870,191		4,870,191
Contributions and donations	2,027		2,027
Miscellaneous income	16,351		16,351
Total revenue	27,837,171	2,839,146	30,676,317
Expenditures:			
General government	1,950,169		1,950,169
Police department	10,570,820		10,570,820
Fire and ambulance	1,156,801	1,147,094	2,303,895
Community development	1,021,297		1,021,297
Health and sanitation	3,141,706		3,141,706
Highways and streets		1,356,368	1,356,368
Public works	3,614,433	111,117	3,725,550
Parks and recreation	613,371	164,246	777,617
Debt service:			
Principal	9,594,690	213,000	9,807,690
Interest	526,290	101,754	628,044
Payments to agent and issuance costs	823,169		823,169
Total expenditures	33,012,746	3,093,579	36,106,325
Deficiency of revenues over expenditures	(5,175,575)	(254,433)	(5,430,008)
Other financing sources (uses):			
Operating transfers out	(1,170,704)	(7,052)	(1,177,756)
Proceeds from long term debt	9,296,466		9,296,466
Proceeds from sale of assets	86,300		86,300
Total other financing sources (uses)	8,212,062	(7,052)	8,205,010
Net changes in fund balances	3,036,487	(261,485)	2,775,002
Fund balances:			
Beginning of year	5,446,409	3,854,489	9,300,898
End of year	\$ 8,482,896	\$ 3,593,004	\$ 12,075,900

See notes to financial statements.

LOWER PAXTON TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2020

Net change in fund balances, governmental funds \$ 2,775,002

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$3,115,086 exceeded depreciation (\$2,046,616) and net deletions (\$5,657) in the current period. 1,062,813

The issuance and repayment of debt principal and payments for other long-term obligations are expenditures in the governmental funds but reduce the liabilities in the statement of net position:

Net repayments (borrowings):

Bonds payable	\$ 1,014,044
Loans payable	78,646
Capital leases	<u>(110,350)</u>

Net adjustment 982,340

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available. This is the change in unavailable real estate tax revenue from December 31, 2019 to December 31, 2020. 6,435

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in compensated absences, accrued interest, deferred inflows and outflows of resources, bond (premium) discount, pension expense and OPEB expense:

Compensated absences	9,853
Accrued interest on bonds	9,460
Deferred charges on refunding	(21,361)
Bond (premium) discount	(254,727)
Pension expense	1,296,050
OPEB expense	(2,772,782)
SWAP liability	<u>(3,640,854)</u>

(5,374,361)

Change in net position of governmental activities \$ (547,771)

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2020

	ASSETS		
	Lower Paxton Township Authority	Friendship Community Center	Total
Current assets:			
Cash and cash equivalents	\$ 25,351,176	\$ 807	\$ 25,351,983
Investments	246,196		246,196
Rental and fees receivables:			
Billed	1,112,721		1,112,721
Unbilled	5,023,096		5,023,096
Other	537,124	27,437	564,561
Prepaid expenses	422,235		422,235
Total current assets	32,692,548	28,244	32,720,792
Noncurrent assets:			
Restricted for debt service and capital projects, cash and cash equivalents	36,769,332		36,769,332
Property, plant and equipment, net	137,358,246	5,850,908	143,209,154
Deferred capacity costs, net	13,600,828		13,600,828
Total noncurrent assets	187,728,406	5,850,908	193,579,314
Total assets	220,420,954	5,879,152	226,300,106
Deferred outflows of resources, charges on refundings	2,735,996	1,484	2,737,480
Total assets and deferred outflows of resources	\$ 223,156,950	\$ 5,880,636	\$ 229,037,586

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2020

LIABILITIES AND NET POSITION

	Lower Paxton Township Authority	Friendship Community Center	Total
Current liabilities:			
Accounts payable	\$ 2,829,986	\$ 46,372	\$ 2,876,358
Current portion of long-term debt, subsidy agreements with the Township	4,186,019		4,186,019
Current portion of long-term debt:			
Bonds payable		315,000	315,000
Capital lease obligations	48,407		48,407
Developers escrow	78,733		78,733
Accrued:			
Interest	1,183,535	15,256	1,198,791
Expenses and withholdings		4,952	4,952
Due to:			
Other governments	1,009,587		1,009,587
The Township	1,994,953		1,994,953
Total current liabilities	11,331,220	381,580	11,712,800
Noncurrent liabilities:			
Long-term debt, subsidy agreements with the Township, net of current portion	142,217,018		142,217,018
Long-term debt, net of current portion:			
Bonds payable		1,237,000	1,237,000
Capital lease obligations	68,069		68,069
Bond premium	9,572,693	147,864	9,720,557
Total noncurrent liabilities:	151,857,780	1,384,864	153,242,644
Total liabilities	163,189,000	1,766,444	164,955,444
Net position:			
Net investment in capital assets	33,145,557	4,152,528	37,298,085
Restricted	10,799,332		10,799,332
Unrestricted	16,023,061	(38,336)	15,984,725
Total net position	59,967,950	4,114,192	64,082,142
Total liabilities and net position	\$ 223,156,950	\$ 5,880,636	\$ 229,037,586

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS YEAR ENDED DECEMBER 31, 2020

	Lower Paxton Township Authority	Friendship Community Center	Total
Operating revenues:			
Rentals and fees	\$ 20,016,416		\$ 20,016,416
Contributions		\$ 125,956	125,956
Administration		131,143	131,143
Programming		50,031	50,031
Facilities		236,312	236,312
Miscellaneous	319,261	30,806	350,067
Total operating revenues	20,335,677	574,248	20,909,925
Operating expenses:			
Cost of sales and service	4,273,125		4,273,125
Other, operating	422,510		422,510
Administration	4,904,905	728,489	5,633,394
Programming		88,324	88,324
Facilities		265,045	265,045
Depreciation and amortization	3,407,914	345,961	3,753,875
Total operating expenses	13,008,454	1,427,819	14,436,273
Operating income	7,327,223	(853,571)	6,473,652
Nonoperating revenues (expenses):			
Interest income	110,571	305	110,876
Tapping fees	498,621		498,621
Interest and amortization, net	(4,482,922)	(35,084)	(4,518,006)
Developer contributions	584,759		584,759
Gain on sale of assets	77,562		77,562
Bond issue costs	(623,316)	(14,496)	(637,812)
Total nonoperating revenues (expenses)	(3,834,725)	(49,275)	(3,884,000)
Change before operating transfers	3,492,498	(902,846)	2,589,652
Transfers in, net		1,177,756	1,177,756
Change in net position	3,492,498	274,910	3,767,408
Net position:			
Beginning of year (restated)	56,475,452	3,839,282	60,314,734
End of year	\$ 59,967,950	\$ 4,114,192	\$ 64,082,142

See notes to financial statements.

LOWER PAXTON TOWNSHIP

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS YEAR ENDED DECEMBER 31, 2020

	Lower Paxton Township Authority	Friendship Community Center	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 19,986,588	\$ 930,867	\$ 20,917,455
Payments to:			
Suppliers	(5,030,234)	(1,130,109)	(6,160,343)
Lower Paxton Township	(3,777,557)		(3,777,557)
Net cash provided by (used in) operating activities	11,178,797	(199,242)	10,979,555
Cash flow from noncapital financing activities, transfers in		1,177,756	1,177,756
Cash flows from capital and related financing activities:			
Purchase of capital assets	(7,458,556)	(446,703)	(7,905,259)
Proceeds from sale of capital assets	112,210		112,210
Tapping fees	498,621		498,621
Proceeds from:			
Issuance of long-term debt under subsidy agreements	65,375,126		65,375,126
Issuance of bonds		1,045,502	1,045,502
Principal payments on:			
Subsidy agreements	(36,770,494)		(36,770,494)
Bonds		(1,505,956)	(1,505,956)
Capital lease payments	(46,604)		(46,604)
Bond issue costs	(623,316)	(14,496)	(637,812)
Interest payments	(4,701,198)	(57,166)	(4,758,364)
Net cash provided by (used in) capital and related financing activities	16,385,789	(978,819)	15,406,970
Cash flows from investing activities:			
Purchase of investments	(246,196)		(246,196)
Sale of investments	985,009		985,009
Interest income	110,571	305	110,876
Net cash provided by investing activities	849,384	305	849,689
Net increase in cash and cash equivalents	28,413,970	-	28,413,970
Cash:			
Beginning of year	33,706,538	807	33,707,345
End of year	\$ 62,120,508	\$ 807	\$ 62,121,315
Presented in financial statements as:			
Cash and cash equivalents	\$ 25,351,176	\$ 807	\$ 25,351,983
Restricted cash	36,769,332		36,769,332
	\$ 62,120,508	\$ 807	\$ 62,121,315

(continued)

LOWER PAXTON TOWNSHIP

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED) YEAR ENDED DECEMBER 31, 2020

	Business type activities, enterprise funds		
	Lower Paxton Township Authority	Friendship Community Center	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities, operating income	\$ 7,327,223	\$ (853,571)	\$ 6,473,652
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation/amortization expense	3,407,914	345,961	3,753,875
Gain on sale of assets	(77,562)		(77,562)
(Increase) decrease in:			
Accounts receivable	(523,658)	(8,431)	(532,089)
Due from other funds		365,050	365,050
Prepaid expenses	(384,100)		(384,100)
Increase (decrease) in:			
Accounts payable	1,427,185	(13,963)	1,413,222
Accrued liabilities		(34,288)	(34,288)
Due to:			
The Township	488,259		488,259
Other governments	(328,011)		(328,011)
Developers escrow	(158,453)		(158,453)
Net cash provided by (used in) operating activities	\$ 11,178,797	\$ (199,242)	\$ 10,979,555
Supplemental disclosure of noncash transactions:			
Contributions:			
Developer contributions	\$ 584,759		\$ 584,759
Amortization of:			
Bond premiums	(445,336)	(26,362)	(471,698)
Deferred refundings	116,660	4,280	120,940

See notes to financial statements.

LOWER PAXTON TOWNSHIP

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

	<u>Pension trust funds</u>
Assets:	
Cash	\$ 526,012
Investments	<u>54,540,386</u>
Total assets	<u>\$ 55,066,398</u>
Liabilities, accounts payable	\$ 46,822
Net position, restricted for pensions	<u>55,019,576</u>
Total liabilities and net position	<u>\$ 55,066,398</u>

See notes to financial statements.

LOWER PAXTON TOWNSHIP

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

	<u>Pension trust funds</u>
Additions:	
Contributions:	
Employee	\$ 460,015
Employer	1,139,088
Employer, commonwealth funding	<u>965,071</u>
Total contributions	<u>2,564,174</u>
Investment income:	
Interest and dividends	498,640
Net appreciation in fair value of investments	<u>5,447,467</u>
Net investment gain	<u>5,946,107</u>
Total additions	<u>8,510,281</u>
Deductions:	
Retirement benefits	2,513,288
Refunds to terminated employees	12,934
Administrative	<u>124,126</u>
Total deductions	<u>2,650,348</u>
Net increase	5,859,933
Net position restricted for pensions:	
Beginning of year	<u>49,159,643</u>
End of year	<u>\$ 55,019,576</u>

See notes to financial statements.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies:

Lower Paxton Township (the Township) was incorporated in 1767. 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. 350, No. 60. 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 accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB).

A summary of the Township's significant accounting policies is as follows:

Reporting entity:

Consistent with the guidance contained in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the criteria used by the Township to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Township reviews the applicability of the following criteria.

The Township is financially accountable for:

- Organizations that make up the legal Township entity.
- Legally separate organizations if the Township officials appoint a voting majority of the organization's governing body and the Township is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Township as defined below:
- Impose Its Will - If the Township can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.
- Financial Benefit or Burden - Exists if the Township (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- Organizations that are fiscally dependent on the Township. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Township.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Blended component unit:

The Lower Paxton Township Authority (the Authority) is an operating authority responsible for acquiring, holding, constructing, improving, maintaining, operating, owning and leasing, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof. The majority of the Authority's board members are also members of the Township's board of supervisors. The Authority is considered a component unit due to the Township's ability to impose its will on the Authority as well as the financial benefit or burden.

The separate financial statements of the Authority can be obtained from the Township manager. The Authority operates on a calendar year ending December 31.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government as a whole. For the most part, 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 direct expenses of a given function or segment are effected 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.

Separate financial statements are provided for governmental funds, the proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and custodial fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the 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.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating grants, capital grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the Township receives cash.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Measurement focus basis of accounting and financial statement presentation:

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Township reports the following major governmental fund:

- The General Fund is the primary government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township non-major funds include the State Highway Aid, General Improvement, Fire Equipment and Fireman's Length of Service Award Program (LOSAP) funds.

The Township's proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when the related goods or services are delivered. In the financial statements, the proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The proprietary fund types operating statement presents increases (revenues) and decreases (expenses) in total net position.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets in the proprietary funds are capitalized as assets in the fund financial statements, rather than reported as an expenditure.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed for their intended purposes.

The Township reports the following major proprietary funds:

- The Lower Paxton Township Authority is used to account for the fiscal activities of providing sewer services.
- The Friendship Community Center is used to account for the fiscal activities of the community center.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Measurement focus basis of accounting and financial statement presentation:

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Township's fiduciary funds consist of the Pension Trust Funds. The Pension Trust Funds are accounted for in essentially the same manner as the proprietary funds since capital maintenance is critical. The Pension Trust Funds' financial statements are prepared using 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 the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Custodial funds do not involve measurement of results of operations.

Additionally, the Township reports the following fiduciary fund types:

- The Pension Trust Funds account for the revenue (i.e., member contributions, Township contributions and net investment income) and the expenses (i.e., contributions refunded, retirement allowances, and death benefits paid) of the Police and Non Uniformed Municipal Employees Pension Trust Funds.

Assets, liabilities and net position or fund balances:

Cash and cash equivalents:

For purposes of the accompanying statement of cash flows, the Township considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables and payables:

Interfund receivables and payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Receivables and payables:

Sewer receivables:

Receivables are stated at the amount management expects to collect from outstanding balances. Unbilled sewer rentals receivable relate to services performed at December 31 and not billed until the following January. All receivables are shown net of an allowance for doubtful accounts.

Investments, external investment pools, certificates of deposit:

The Township invests its funds in various instruments, including external investment pools and certificates of deposit with federally-insured financial institutions. The Township's investments in external investment pools, as discussed in Note 2, are valued at amortized cost, which approximates fair value, and are classified as cash and cash equivalents on the balance sheet. The Township invests in both negotiable and non-negotiable certificates of deposit (CD) in federally insured financial institutions. Negotiable CD's are valued at fair value while non-negotiable CD's are valued at cost because they are considered non-participating contracts for which redemption terms do not consider market values. The remainder of the Township's investments are reported at either fair value or net asset value as discussed in Note 2.

Restricted assets:

Restricted assets represent cash and investment balances from developers' escrow, forfeiture funds, unspent bond proceeds, fire equipment funds and the length of service awards program for fire fighters. At December 31, 2020, the restricted cash balance was \$3,023,364 and the restricted investment balance was \$1,075,411.

Restricted assets for the Authority represent cash and investment balances from developers' escrow and unspent bond proceeds. At December 31, 2020, the restricted cash balance was \$36,769,332.

Capital assets:

Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital purchases with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of over one year are recorded as capital assets. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Contributed capital assets are recorded at acquisition value based on acquisition costs provided by developers at the date of contribution.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Capital assets:

Capital assets are evaluated periodically for impairment and when deemed appropriate, are written down to reflect an approximation of estimated future cash flows related to the asset.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlay of capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment and infrastructure assets are depreciated using the straight line method over the following intended useful lives:

<u>Assets</u>	<u>Years</u>
Intangibles	3 to 60 years
Infrastructure	20 to 50 years
Buildings	50 years
Land improvements	20 years
Machinery, equipment and vehicles	5 to 15 years
Sewer system, deferred capacity	15 to 60 years

Compensated absences:

Township policy permits employees to accumulate a limited amount of earned, but unused sick, vacation and comp time, but employees are not paid out for accumulated comp time. These benefits are payable to employees upon separation of service. All leave pay is accrued when incurred in the government- wide financial statements. There is no accrual related to the Proprietary Funds. A liability for these amounts is computed in compliance with GASB 16, *Accounting for Compensated Absences*.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Long-term obligations:

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Sewer capacity costs:

The Authority participated in the construction of various facilities. This participation gave the Authority reserved rights to use a percentage of the facilities. Consequently, an asset is recorded based upon construction costs paid net of accumulated amortization of those costs, which is determined on the straight-line method over the estimated useful life of the capacity purchased.

Unearned revenues:

Revenues that are received but not earned are recorded as unearned revenue in the Township's financial statements. In the Township's governmental funds, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Township has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet, and revenue is recognized.

Tax revenues:

Real estate and delinquent per capita taxes are recorded at gross amounts collected, with expenses and commissions paid recorded as expenditures under general government. Real estate transfer, earned income, local services and delinquent real estate taxes are recorded at the net amount received from the collecting agency after deduction for fees and expenses.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Net position/fund balances:

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in a spendable form (such as Inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (i.e. Township Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same level action to remove or change the constraint. This formal action is a Board approved Resolution.
- Assigned Fund Balance - Amounts the Township intends to be used for a specific purpose, but are neither restricted nor committed. Assignments of fund balance can be created by the Township Manager pursuant to authorization established by the Board of Supervisors.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first. When expenditures are incurred for purposes of which unrestricted resources are available, and amounts in any of the unrestricted classifications could be used, it is the Township's policy to spend committed resources first, followed by assigned amounts and then unassigned amounts.

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Net position/fund balances:

- Restricted Net Position - This category presents external restrictions imposed by creditors, granters, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the Township, not restricted for any project or other purpose.

Interfund transactions:

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

Accounting estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

Deferred outflows/inflows of resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has three items that qualify for reporting in this category: deferred outflows related to pensions, deferred outflows related to other postemployment benefits and deferred outflows on refunding bonds. Deferred outflows related to pensions are described further in Note 9 and deferred outflows related to other postemployment benefits are described further in Note 10. The components of deferred outflows related to pensions are amortized into pension expense for the non-uniform and police pension plan over the remaining service life of participants, beginning the year in which the deferred amount occurs (current year). A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Assets, liabilities and net position or fund balances:

Deferred outflows/inflows of resources:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has three items that qualify for reporting in this category: deferred inflows related to pensions, deferred inflows related to other postemployment benefits and unavailable tax revenue. Deferred inflows related to pensions are described further in Note 8 and deferred inflows related to other postemployment benefits are described further in Note 9. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year). Unavailable tax revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

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. The provisions of GASB Statement No. 87 are effective for the Township's December 31, 2022 financial statements.

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

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Pending Government Accounting Standards Board (GASB) 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.

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.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

1. Nature of organization and summary of significant accounting policies (continued):

Budgets and budgetary accounting:

Legal requirements:

Commonwealth of Pennsylvania statutes require that Township Governments establish budgetary systems and adopt annual operating budgets. The Township's annual budget includes the General Fund, State Highway Aid, Fire Equipment, Firemen's LOSAP and General Improvement and is based on estimates of revenues and expenditures approved by the Township Board of Supervisors. The Township adopted the 2020 budget on a modified accrual basis of accounting. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

Township budget process:

1. At least 30 days prior to January 1, the Township manager submits to the board of supervisors a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public meeting 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.
3. 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 funds 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.
4. 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 assigned in amounts equal to the subsequent year's anticipated budget deficit, if any. None of the assigned fund balance resulted from an anticipated budget deficit. The Township prepares its budget on a modified accrual basis of accounting.

Level of control:

The Township maintains budgetary control at the individual fund level.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

2. Deposits and related risks:

Custodial credit risk:

For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. At December 31, 2020, the Township's cash balance consisted of \$34,152,114 and \$36,031,861, in financial institutions and Pennsylvania investments accounts, respectively. Its bank balance was \$70,384,067. Of the bank balance, \$1,287,479 was covered by the Federal Deposit Insurance Corporation, and \$30,168,764 was subject to custodial credit risk as it was collateralized under Act 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined by the Act, to cover all public funds deposited in excess of federal depository insurance limits. The remaining balance was invested in external investment pools of which the Township does not have a formal investment policy related to custodial credit risk.

The Township uses an external investment pool to ensure safety and maximize efficiency, liquidity and yield for Township funds. The external investment pool is valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The fair value of the securities, held by the external investment pool, are evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost of the securities. At December 31, 2020, the Township had external investment funds totaling \$38,894,196 and \$6,487, invested in the Pennsylvania Local Government Investment Trust (PLGIT) and Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), respectively.

At December 31, 2020, the Township had \$27,141 of funds held in Wells Fargo money markets that relate to the Fireman's LOSAP fund.

At December 31, 2020, the Township's business-type activities had \$246,196 of debt investments and maturities within its operating fund accounts. These investments consisted of certificates of deposit with maturity dates of less than one year, but greater than three months, excluding them from cash and cash equivalents.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

2. Deposits and related risks (continued):

Reconciliation to the financial statements:

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 30,168,764
Wells Fargo, money market	27,141
PLGIT investments, money market	38,894,196
PA INVEST, money market	6,487
Insured by Federal Deposit Insurance Corporation	1,287,479
Deposits in transit	3,225,620
Outstanding checks	(3,428,787)
Petty cash	3,075
	<hr/>
Total cash deposits	<u><u>\$ 70,183,975</u></u>

Reconciliation to financial statements, cash:

Governmental activities:	
Unrestricted	\$ 4,513,284
Restricted	3,023,364
Business-type activities:	
Unrestricted	25,351,983
Restricted	36,769,332
Fiduciary funds	526,012
	<hr/>
Total cash and cash equivalents	<u><u>\$ 70,183,975</u></u>

Interest rate risk:

The Authority and pension funds' investment policies do not limit investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit risk:

The Township does not have a formal policy that limits investments to ratings issued by nationally recognized statistical rating organizations for the governmental activities or the Pension Trust Funds. As of December 31, 2020, investments in fixed income investments were rated AAA, AA, A, BAA and NR respectively, by Moody's and 100% of the governmental fund investments were not rated by Moody's.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

2. Deposits and related risks (continued):

Concentration of credit risk:

The Township does not have a formal policy that places limit on the amount or percent that may be invested in any one issuer for the Governmental Funds or Pension Trust Funds. At December 31, 2020, the Township did not have any investments subject to concentration of credit risk.

3. Investments:

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted 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's investments in mutual funds, bond mutual funds and negotiable certificates of deposit are valued using quoted market prices (Level 1 inputs).

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

Common stock: Valued at the closing price of the stock per share.

Fixed income securities: Valued at the closing price of the underlying securities.

Exchange traded funds: Valued at the closing price of the underlying securities.

Governmental bonds: Valued at the closing price of the underlying securities.

Treasury notes: Valued at the price of the note plus accrued interest to date.

Corporate bonds: Valued at the closing price of the underlying securities.

Other investments: Valued at the closing prices reported on the active markets on which the individual securities are sold.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

3. Investments (continued):

The Township's governmental activities have the following investments related to its Fireman's LOSAP fund. All investments are deemed to be level 1 investments.

<u>Investment type</u>	<u>Fair value</u>
Mutual funds:	
Equity funds	\$ 671,045
Corporate bonds	303,473
Fixed income funds	<u>100,893</u>
Total	<u><u>\$ 1,075,411</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

3. Investments (continued):

The Township's non-uniform pension trust fund has the following recurring fair value measurements at December 31, 2020:

	Level 1 Investments		
	Wells Fargo	City National Rochdale	Total investments
Mutual funds:			
Emerging markets	\$ 310,945		\$ 310,945
International	1,222,803		1,222,803
Fixed income	2,162,754	\$ 713,773	2,876,527
Equity	583,852		583,852
Bond	3,105,800		3,105,800
Small cap	507,173		507,173
Mid cap	831,917		831,917
Large cap	777,535		777,535
Growth	200,387		200,387
Closed-end		146,663	146,663
Common stock		761,202	761,202
Exchange traded funds		7,020	7,020
Corporate bonds		266,119	266,119
Total investments at fair value level (level 1)	<u>\$ 9,703,166</u>	<u>\$ 1,894,777</u>	11,597,943
Cash held in investment accounts	\$ 242,367	\$ 8,091	250,458
Investments measured at the net asset value, pooled separate accounts			<u>11,500,400</u>
Total investments, non-uniform pension fund			<u>\$ 23,348,801</u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

3. Investments (continued):

The Township's police pension trust fund has the following recurring fair value measurements at December 31, 2020:

	Level 1 Investments		
	Wells Fargo	City National Rochdale	Total investments
Mutual funds:			
Emerging markets	\$ 209,400		\$ 209,400
International	798,992		798,992
Fixed income	1,436,586	\$ 2,660,274	4,096,860
Equity	381,258		381,258
Bond	2,065,848		2,065,848
Small cap	333,098		333,098
Mid cap	549,739		549,739
Large cap	512,678		512,678
Growth	128,550		128,550
Closed-end		525,947	525,947
Common stock		2,830,492	2,830,492
Exchange traded funds		17,702	17,702
Governmental bonds		373,741	373,741
Treasury notes		146,675	146,675
Corporate bonds		488,478	488,478
Other		30,730	30,730
Total investments at fair value level (level 1)	<u>\$ 6,416,149</u>	<u>\$ 7,074,039</u>	13,490,188
Cash held in investment accounts	\$ 156,478	\$ 28,794	185,272
Investments measured at the net asset value, pooled separate accounts			<u>17,516,125</u>
Total investments, police pension fund			<u>\$ 31,191,585</u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

3. Investments (continued):

Pooled Separate Accounts. This investment represents an investment where multiple plans share in a pooled fund on a participation unit basis. The plan's interest in the account is the cumulative record of the number of participation units credited to the account and the number of units allocated or withdrawn from the account. The participation unit is adjusted periodically to reflect investment results under the separate account. The Township does not have any unfunded commitments related to these investments. There is no limit on redemption frequency, there is no required redemption notice period and there are no redemption restrictions.

4. Real estate taxes:

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 based on the assessed value listed as of the prior December 31 for the real property located in the Township through April 30; face amount, May 1 through June 30 and 10% penalty after June 30. The County bills these taxes which are collected by the County and remitted to the Township. Real estate taxes levied for 2020 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2020 and expected to be collected within the first 60 days of 2021 are recognized as revenue in 2020. Net receivables estimated to be collectible subsequent to March 1 are reflected in deferred revenue. Prior years levies are recorded using these same principles, and remaining receivables are annually reevaluated as to collectability.

The rate of real estate taxation in 2020 was 1.554 mills for general purposes, 0.4615 mills for fire protection and 0.041 mills for library funding purposes on a total Township assessed valuation of \$3,260,531,789.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

5. Capital assets:

A summary of changes in the governmental activities capital assets for the year ended December 31, 2020 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets, not being depreciated:				
Land	\$ 3,235,494			\$ 3,235,494
Intangibles	421,850			421,850
Construction in progress	1,838,901	\$ 379,199	\$ (694,238)	1,523,862
	<u>5,496,245</u>	<u>379,199</u>	<u>(694,238)</u>	<u>5,181,206</u>
Total capital assets, not being depreciated				
Capital assets being depreciated (cost):				
Buildings	12,463,251			12,463,251
Land improvements	7,485,766	206,681		7,692,447
Machinery and equipment	4,717,836	244,433	(7,700)	4,954,569
Vehicles	9,387,550	1,951,626	(1,105,265)	10,233,911
Infrastructure	48,271,142	1,027,385		49,298,527
	<u>82,325,545</u>	<u>3,430,125</u>	<u>(1,112,965)</u>	<u>84,642,705</u>
Total capital assets, being depreciated				
Accumulated depreciation:				
Buildings	(3,476,083)	(332,758)		(3,808,841)
Land improvements	(4,707,458)	(293,236)		(5,000,694)
Machinery and equipment	(2,613,396)	(315,881)	7,700	(2,921,577)
Vehicles	(5,945,576)	(659,204)	1,099,608	(5,505,172)
Infrastructure	(36,048,622)	(445,537)		(36,494,159)
	<u>(52,791,135)</u>	<u>(2,046,616)</u>	<u>1,107,308</u>	<u>(53,730,443)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>29,534,410</u>	<u>1,383,509</u>	<u>(5,657)</u>	<u>30,912,262</u>
Governmental activities, capital assets, net	<u>\$ 35,030,655</u>	<u>\$ 1,762,708</u>	<u>\$ (699,895)</u>	<u>\$ 36,093,468</u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

5. Capital assets (continued):

Depreciation expense was charged to functions/programs of the Township for 2020 as follows:

Governmental activities:	
General government	\$ 248,987
Police department	204,476
Fire and ambulance	337,918
Public works	506,445
Parks and recreation	303,253
Infrastructure, unallocated	<u>445,537</u>
Total depreciation expense, governmental activities	<u><u>\$ 2,046,616</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

5. Capital assets (continued):

A summary of changes in the business-type activities capital assets for the year ended December 31, 2020 is as follows:

	Beginning balance	Additions	Reductions	Ending balance
Lower Paxton Township Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,540,192			\$ 1,540,192
Intangibles	2,740,869			2,740,869
Total capital assets, not being depreciated	4,281,061			4,281,061
Capital assets, being depreciated:				
Buildings	1,116,145	\$ 401,396		1,517,541
Machinery and equipment	783,561	431,803	\$ (123,236)	1,092,128
Furniture	19,299	21,674		40,973
Sewer system	162,753,061	5,439,506		168,192,567
Stormwater system	16,632,444	1,748,936		18,381,380
Total capital assets, being depreciated	181,304,510	8,043,315	(123,236)	189,224,589
Accumulated depreciation:				
Buildings	(478,098)	(31,249)		(509,347)
Machinery and equipment	(437,096)	(81,389)	88,589	(429,896)
Furniture	(19,299)	(180)		(19,479)
Sewer system	(51,710,901)	(2,310,174)		(54,021,075)
Stormwater system	(563,761)	(603,846)		(1,167,607)
Total accumulated depreciation	(53,209,155)	(3,026,838)	88,589	(56,147,404)
Net capital assets being depreciated	128,095,355	5,016,477	(34,647)	133,077,185
Net property, plant and equipment	132,376,416	5,016,477	(34,647)	137,358,246
Sewer capacity costs	21,144,628			21,144,628
Less, accumulated amortization	(7,162,724)	(381,076)		(7,543,800)
Net sewer capacity costs	13,981,904	(381,076)		13,600,828
Net capital assets, Authority	146,358,320	4,635,401	(34,647)	150,959,074
Friendship Community Center:				
Capital assets, being depreciated:				
Buildings	10,248,409	446,703		10,695,112
Machinery and equipment	558,272			558,272
Total capital assets, being depreciated	10,806,681	446,703		11,253,384
Accumulated depreciation:				
Buildings	(4,639,025)	(318,583)		(4,957,608)
Machinery and equipment	(417,490)	(27,378)		(444,868)
Total accumulated depreciation	(5,056,515)	(345,961)		(5,402,476)
Net capital assets, Friendship Community Center	5,750,166	100,742		5,850,908
Net capital assets, business type activities	\$ 152,108,486	\$ 4,736,143	\$ (34,647)	\$ 156,809,982

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

6. Long-term liabilities:

The Township's long-term liabilities consist of debt in the form of general obligation bonds and loans and capital leases obligations

Long-term debt:

The Township issues long-term debt to refinance existing debt, finance Township improvements, including the Friendship Community Center, and finance Lower Paxton Township Authority improvements. All debt incurred on behalf of the Authority is subject to subsidy agreements whereby the Authority is bound to pay its share of Township debt as summarized below. The amount due to the Township from the Authority under the aforementioned subsidy agreements totaled \$146,403,037 at December 31, 2020.

The following is a summary of Township debt obligations at December 31, 2020:

	Original borrowing	Year of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding at December 31, 2020
General obligation bonds:					
Series of 2010A	\$ 4,355,000	2010/2020	1.50% - 4.00%	\$280,000 to \$300,000	\$ 300,000
Series of 2014	23,350,000	2014/2044	1.75% - 5.00%	\$765,000 to \$1,450,000	5,995,000
Series of 2015	14,005,000	2015/2029	2.00% - 4.00%	\$5,000 to \$2,125,000	13,535,000
Series of 2016	23,840,000	2016/2046	2.00% - 5.00%	\$655,000 to \$1,355,000	16,055,000
Series of 2019	52,040,000	2019/2044	3.00% - 4.00%	\$495,000 to \$4,975,000	51,280,000
Series of 2020A	25,970,000	2020/2050	1.00% - 4.00%	\$505,000 to \$1,450,000	25,970,000
Series of 2020B	8,665,000	2020/2027	1.00% - 4.00%	\$785,000 to \$2,390,000	8,665,000
Series of 2020C	34,760,000	2020/2046	0.51% - 2.98%	\$355,000 to \$2,555,000	34,760,000
Total general obligation bonds					156,560,000
Loans:					
PennVest loan 2010	10,901,017	2010/2032	2.45% - 3.13%	\$336,662 to \$657,732	6,554,251
PennVest loan 2019	2,228,786	2020/2025	1.51% - 2.06%	\$186,973 to \$755,367	2,228,786
PA Infrastructure Bank	750,000				120,382
Total loans					8,903,419
Total long-term debt					\$ 165,463,419

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

6. Long-term liabilities (continued):

Long-term debt:

The Township utilizes bond issue and loan proceeds for both governmental and business-type activities, which include loaning debt proceeds to the Authority through subsidy agreements. The following is a breakdown of Township debt between governmental activities and business-type activities:

Total governmental activities:	
General obligation bonds	\$ 17,388,000
Loan	<u>120,382</u>
Total long-term debt, governmental activities	<u>17,508,382</u>
Business-type activities:	
Lower Patxon Township, subsidy agreements with Lower Patxon Township Authority:	
General obligation bonds	137,620,000
Loans	<u>8,783,037</u>
Total Lower Patxon Township, subsidy agreements with Lower Paxton Township Authority	146,403,037
Friendship Community Center, General obligation bonds	<u>1,552,000</u>
Total long-term debt, business-type activities	<u>147,955,037</u>
Total long-term debt	<u><u>\$ 165,463,419</u></u>

LOWER PAXTON TOWNSHIPNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**6. Long-term liabilities (continued):***Long-term debt:*

Changes in the Township's long-term debt for the year ended December 31, 2020 are as follows:

Type	Beginning balance	Additions	Deletions	Ending balance
General obligation bonds:				
Series of 2010A	\$ 580,000		\$ (280,000)	\$ 300,000
Series of 2012A	2,820,000		(2,820,000)	-
Series of 2013	5,665,000		(5,665,000)	-
Series of 2013A	2,850,000		(2,850,000)	-
Series of 2014	27,040,000		(21,045,000)	5,995,000
Series of 2015	13,540,000		(5,000)	13,535,000
Series of 2016	25,865,000		(9,810,000)	16,055,000
Series of 2019	52,040,000		(760,000)	51,280,000
Series of 2020A		\$ 25,970,000		25,970,000
Series of 2020B		8,665,000		8,665,000
Series of 2020C		34,760,000		34,760,000
Total general obligation bonds	130,400,000	69,395,000	(43,235,000)	156,560,000
Loans:				
PennVest loan 2010	7,020,452		(466,201)	6,554,251
PennVest loan 2019		2,228,786		2,228,786
PA Infrastructure Bank	199,028		(78,646)	120,382
Total loans	7,219,480	2,228,786	(544,847)	8,903,419
Total long-term debt activity	<u>\$ 137,619,480</u>	<u>\$ 71,623,786</u>	<u>\$ (43,779,847)</u>	<u>\$ 165,463,419</u>

In August 2019, The Township issued an additional PennVest loan on behalf of the Authority with a total drawdown amount of \$13,354,113 for sewer remediation projects. The Authority is responsible for debt payments under a subsidy agreement. At December 31, 2020, \$2,228,786 has been drawn on this loan.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

6. Long-term liabilities (continued):

Long-term debt:

Annual Township debt service requirements on the governmental activities obligations are as follows:

	Principal	Interest	Total
2021	\$ 954,930	\$ 544,338	\$ 1,499,268
2022	1,545,452	507,189	2,052,641
2023	1,560,000	449,919	2,009,919
2024	1,610,000	389,051	1,999,051
2025	1,675,000	367,628	2,042,628
2026-2030	6,568,000	887,435	7,455,435
2031-2035	3,185,000	261,470	3,446,470
2036-2040	335,000	26,888	361,888
2041-2044	75,000	6,300	81,300
	<u>\$ 17,508,382</u>	<u>\$ 3,440,218</u>	<u>\$ 20,948,600</u>

Annual Township debt service requirements on the business-type activities obligations are as follows:

	Principal	Interest	Total
2021	\$ 4,501,019	\$ 4,935,904	\$ 9,436,923
2022	4,943,281	4,831,261	9,774,542
2023	5,666,128	4,662,975	10,329,103
2024	5,858,725	4,476,750	10,335,475
2025	5,822,550	4,286,827	10,109,377
2026-2030	27,868,940	18,998,967	46,867,907
2031-2035	32,544,394	13,970,334	46,514,728
2036-2040	34,385,000	7,530,951	41,915,951
2041-2045	18,510,000	2,997,278	21,507,278
2046-2050	7,855,000	708,207	8,563,207
	<u>\$ 147,955,037</u>	<u>\$ 67,399,454</u>	<u>\$ 215,354,491</u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

6. Long-term liabilities (continued):

Capital leases:

Governmental activities:

In 2017, the Township entered into multiple capital leases to finance the purchase of a Ford F-550 Dump Truck, John Deere Loader Backhoe and a Volvo L90H Wheel Loader. The term of the leases are three and five years with payments beginning in March 2017 and going through March 2021.

In 2018, the Township entered into multiple capital leases to finance the purchase of a Mack Truck, Takeuchi skid loader and TYMCO Street Sweeper. The term of the leases are three and four years with payments beginning in November 2018 and going through March 2022.

In 2019, the Township entered into a capital lease to finance the purchase of a Ford Explorer. The term of the lease is five years with payments beginning in May 2019 and going through May 2023.

In 2020, the Township entered into multiple capital leases to finance the purchase of a Freightliner Truck, two Ford Explorers and two Ford F-550 dump trucks. The term of the leases are three and four years with payments beginning in May 2020 and going through February 2024.

The assets (recorded as vehicles, machinery and equipment) acquired through the capital leases are as follows:

Assets:

Leasehold assets	\$ 954,954
Less accumulated depreciation	<u>(207,719)</u>
Total	<u><u>\$ 747,235</u></u>

Business-type activities:

In 2018, the Authority entered into a capital lease to finance the purchase of a Takeuchi Vertical Track Loader. The lease has a term of five years with payments starting October 2019 and continuing through October 2023.

In 2018, the Authority entered into a capital lease to finance the purchase of a Hitachi Excavator. The lease has a term of five years with payments starting January 2018 and continuing through December 2022.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

6. Long-term liabilities (continued):

Capital leases:

Business-type activities:

The assets (recorded as machinery and equipment) acquired through the capital leases are as follows:

Assets:	
Leasehold	\$ 240,153
Less accumulated depreciation	<u>(61,739)</u>
Total	<u><u>\$ 178,414</u></u>

Future minimum lease payments under the agreements together with present value of the net minimum lease payments are as follows:

<u>Year ending December 31,</u>	<u>Governmental activities</u>	<u>Business-type activities</u>
2021	\$ 221,486	\$ 52,478
2022	183,707	52,478
2023	63,942	18,586
2024	<u>44,902</u>	<u></u>
Total minimum lease payments	514,037	123,542
Less:		
Amount representing interest	36,975	7,066
Present value of minimum lease payments, current portion	<u>201,703</u>	<u>48,407</u>
Total present value of net minimum lease payments, noncurrent	<u><u>\$ 275,359</u></u>	<u><u>\$ 68,069</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

7. Defeased debt:

In prior years, the Township defeased the Governmental and Friendship Community Center General Obligation Bonds, Series of 2010A by placing the proceeds of new issues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Township financial statements. There has been no substitution of essentially risk-free monetary assets.

At December 31, 2020, the principal amount outstanding relative to defeased debt was \$75,000, all of which relates to the Township and Friendship Community Center.

8. Deferred compensation:

The Township, in accordance with the Board of Supervisor's approval, offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Plan is available to all Township employees. The Plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution, with no forfeiture provision. The Township does not contribute to the deferred compensation plan. Employees can defer the lesser of \$19,500, and up to an additional \$6,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. Employee contributions made to the 457(b) Plan for the year ended December 31, 2020 were \$398,843.

All amounts of compensation deferred under the Plan and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Plan Administrator, Empower Retirement, is the trustee of the investments.

9. Pension plans:

The Township has two single employer defined benefit pension plans, one covering non-uniformed employees including Authority Unit employees and the other covering uniformed police. Employees become eligible for participation in the non-uniformed pension plan upon employment and become fully vested after nine years of service in the unless the employee is a participant in the Authority Unit in which vesting occurs 30% after three years of service, increasing by 10% each year until becoming fully vested after ten years. Employees become eligible for participation in the police pension plan upon employment and become fully vested after twelve years of service. The non-uniformed pension plan was established and is controlled through Township ordinances. The police pension plan was established by municipal ordinance with the Authority for municipal contributions required by Act 205, of the Pennsylvania legislature. The Board of Supervisors established and may amend benefit terms through labor agreements negotiated by the Township. Both plans are reported as pension trust funds in the statement of fiduciary net position and changes therein. The plans do not issue stand-alone financial reports.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Plan membership:

At December 31, 2020, participants in the non-uniform plan consisted of the following:

Participants:

Retirees and beneficiaries currently receiving benefits	39
Terminated employees entitled to benefits but not yet receiving them	10
Active employees	84

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Plan benefits:

The benefits provided by the non-uniform plan is based upon average monthly compensation, age and length of service. A summary of plan benefits is as follows:

Normal retirement eligibility	Township Unit employees, except Public Works employees, hired on or after January 1, 2013 and Public Works employees hired on or after January 1, 2012 - age 65 with 10 years of service; Township Unit employees, except Public Works employees, hired before January 1, 2013 and Public Works employees hired before January 1, 2021 - age 65 with 10 years of service or 60 with 15 years of service; Authority employees - age 65 with 10 years of service.
Average compensation period	36 months
Early retirement eligibility	Township Unit employees, except Public Works employees, hired on or after January 1, 2013 and Public Works employees hired on or after January 1, 2012 - age 60 with 15 years of service; Township Unit employees, except Public Works employees, hired before January 1, 2013 and Public Works employees hired before January 1, 2012 - age 55 with 15 years service; Authority employees - age 55 with 10 years of service.
Vesting	Township Unit employees - 100% after completion of 9 years of service; Authority Unit employees - 30% after 3 years of service, increasing 10% each year up to 100% after 10 years of service.
Normal forms of benefits	Life
Normal retirement benefits	A monthly benefit equal to 2% of final average monthly compensation averaged over the final 36-month period prior to retirement multiplied by years of service (maximum 27 years).
Early retirement benefits	The normal retirement benefit calculated at termination is payable at early retirement, actuarially reduced for commencement prior to normal retirement. Employees (other than Authority Unit employees) who terminate more than 15 years prior to normal retirement may elect instead the greater of a refund of contributions plus interest or the actuarial equivalent of the deferred monthly benefit of a lump sum of \$25,000 or less.
Disability benefit	Authority Unit employees - Accrued benefit at date of disablement, actuarially reduced for commencement prior to normal retirement.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Plan benefits:

Death benefit	<u>Before vesting</u> - refund of contributions plus interest, if any. <u>After vesting, before retirement</u> - the surviving spouse will receive the survivor portion of the participant's accrued benefit after reduction to an actuarial equivalent joint and 50% survivor benefit and reduction for commencement prior to normal retirement, payable at early retirement. <u>After retirement</u> - the normal form of payment is a life annuity. At retirement, the participant may select an optional form of benefit payment that is an actuarial equivalent of the normal form.
Cost of living adjustment	None
Service increment	None

Contributions:

The Township's non-uniformed employees (except for former Authority employees who are required to contribute 2.40% and who receive a different level of benefits) are required to contribute 3.50% of annual base compensation, but only for the first 27 years of service. 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.

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation (MMO) to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated contributions. The actuarially determined contribution for the MMO to the Pension Trust Fund was \$797,538 which was funded by the Township through a State Aid amount of \$413,602 and Township contributions of \$383,936. Employee contributions in 2020 totaled \$172,276.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Net pension liability:

The components and changes in the Township's net pension liability for the non-uniform defined benefit plan for the year ended December 31, 2020 were as follows:

	Increase (decrease)		
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) - (b)
Balances at December 31, 2019	\$ 23,132,987	\$ 20,728,013	\$ 2,404,974
Service cost	545,189		545,189
Interest cost	1,570,740		1,570,740
Contributions:			
Employer		797,538	(797,538)
Employee		172,276	(172,276)
Net investment income		2,715,471	(2,715,471)
Benefit payments, including refunds of member contributions	(829,434)	(829,434)	-
Administrative expense		(4,325)	4,325
Net changes	1,286,495	2,851,526	(1,565,031)
Balances at December 31, 2020	\$ 24,419,482	\$ 23,579,539	\$ 839,943

At December 31, 2020, the plan fiduciary net position as a percentage of the total liability was 96.6%.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Net pension liability:

At December 31, 2020, the Township reported deferred outflows of resources and deferred inflows of resources related to the non-uniform pension plan from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		\$ 960,892
Change in assumptions	\$ 1,012,612	
Net difference between projected and actual investment earnings	799,294	2,549,998
Total	<u>\$ 1,811,906</u>	<u>\$ 3,510,890</u>

The total pension expense recognized in 2020 for the non-uniform pension plan was \$50,176. The deferred outflows of resources and the deferred inflows of resources will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	
2021	\$ (546,297)
2022	(294,414)
2023	(646,366)
2024	(226,282)
2025	7,986
Thereafter	<u>6,389</u>
Total	<u><u>\$ (1,698,984)</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Actuarial methods and assumptions:

The Township's non-uniform net pension liability was measured as of January 1, 2019 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases, including inflation	4.75 %
Expected long-term rate of return	6.75 %, applied to all periods

Mortality rates were based on the RP-2014 Mortality Table with 50% of the Blue Collar adjustment and rates set forward five years for disabled members. Mortality improvement based on the Long-Range Demographic Assumptions for the 2015 SSA's Trustee Report.

The long-term expected rate of return on the non-uniform pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investments expenses not funded through the MMO) 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. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2020 are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Equity	0.00 - 60.00 %	5.00 - 7.00 %
Fixed income	0.00 - 50.00 %	1.00 - 3.00 %
Cash	0.00 %	0.00 - 1.00 %

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Discount rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the net pension liability in the discount rate:

The following shows the effect of a 1% change in the discount rate on net pension liability:

	1% Decrease, 5.75%	Current discount rate 6.75%	1% Increase, 7.75%
Non-uniform net pension liability	3,703,073	839,943	(1,568,939)

Rate of return:

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments was 13.14%. The money-weighted rate of return expresses investment performance, net of investment expenses, not funded through the MMO.

Police pension plan:

Plan membership:

At December 31, 2020, participants in the police plan consisted of the following:

Participants:

Retirees and beneficiaries currently receiving benefits	47
Terminated employees entitled to benefits but not yet receiving them	1
Active employees	57

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Police pension plan:

Plan benefits:

The benefits provided by the police plan is based upon average monthly compensation, age and length of service. A summary of plan benefits is as follows:

Normal retirement age	Age 50 with 25 years of service.
Average compensation period	36 months
Early retirement	N/A
Vesting	100% after completion of 12 years of service
Normal forms of benefits	Life
Normal benefits	A monthly benefit equal to 50% of gross pay averaged over the last 36 months of employment, plus service increment.
Early benefit	N/A
Disability benefit	50% of the participant's final monthly average salary at disablement/retirement, but no less than 50% of the member's salary at time disability incurred, offset by social security disability benefits for same injury.
Death benefit	<u>Before vesting eligibility</u> - refund of contributions with interest. <u>After vesting eligibility</u> - refund of contributions, plus interest or if married 50% of the participant's accrued benefit at the date of death, commencing at participant's normal retirement date. <u>After retirement eligibility</u> - 50% of the pension the participant was receiving or was entitled to receive. Survivor benefits - payable for life for spouse, if no spouse or spouse later dies, benefit to children until age 18, or age 23 if attending college.
Cost of living adjustment	Effective on 1st anniversary of retirement, retiree will receive an increase in the monthly benefit equal to the lesser of 2% or the increase in CPI, until a maximum of 2% increase is reached.
Service increment	\$20 for each completed year of service in excess of 25 years up to a maximum of \$100.

Contributions:

When plan contributions are required, the Township police employees are required to contribute up to 5% of annual base 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.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Police pension plan:

Contributions:

The Township police pension plan is also subject to Act 205. The actuarially determined contribution for the MMO to the Pension Trust Fund was \$1,306,621 which was funded by the Township through a State Aid amount of \$551,469 and Township contributions of \$755,152. Employee contributions in 2020 totaled \$287,739.

Net pension liability:

The components and changes in the Township's net pension liability for the police pension plan for the year ended December 31, 2020 were as follows:

	Increase (decrease)		
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) - (b)
Balances at December 31, 2019	\$ 34,667,070	\$ 28,431,632	\$ 6,235,438
Service cost	892,583		892,583
Interest cost	2,343,945		2,343,945
Contributions:			
Employer		1,306,621	(1,306,621)
Employee		287,739	(287,739)
Net investment income		3,114,184	(3,114,184)
Benefit payments, including refunds of member contributions	(1,696,789)	(1,696,789)	-
Administrative expense		(3,350)	3,350
Net changes	1,539,739	3,008,405	(1,468,666)
Balances at December 31, 2020	\$ 36,206,809	\$ 31,440,037	\$ 4,766,772

At December 31, 2020, the plan fiduciary net position as a percentage of the total liability was 86.8%.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Police pension plan:

Net pension liability:

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

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 286,650	\$ 47,360
Change in assumptions	878,292	
Net difference between projected and actual investment earnings	<u>1,060,053</u>	<u>2,964,668</u>
Total	<u><u>\$ 2,224,995</u></u>	<u><u>\$ 3,012,028</u></u>

The total pension expense recognized in 2020 for the police pension plan was \$757,933. The deferred outflows of resources and the deferred inflows of resources will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	
2021	\$ (321,490)
2022	(5,285)
2023	(566,487)
2024	(37,765)
2025	<u>143,994</u>
Total	<u><u>\$ (787,033)</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Non-uniform pension plan:

Actuarial methods and assumptions:

The Township's police net pension liability was measured as of January 1, 2019 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases, including inflation	5.50 %
Expected long-term rate of return	6.75 %, applied to all periods

Mortality rates were based on the RP-2014 Mortality Table with 50% of the Blue Collar adjustment and rates set forward five years for disabled members. Mortality improvement based on the Long-Range Demographic Assumptions for the 2015 SSA's Trustee Report.

The long-term expected rate of return on the police pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investments expenses not funded through the MMO) 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. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2020 are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Equity	0.00 - 60.00 %	5.00 - 7.00 %
Fixed income	0.00 - 50.00 %	1.00 - 3.00 %
Cash	0.00 %	0.00 - 1.00 %

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

9. Pension plans (continued):

Police pension plan:

Discount rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the net pension liability in the discount rate:

The following shows the effect of a 1% change in the discount rate on net pension liability:

	1% Decrease, 5.75%	Current discount rate 6.75%	1% Increase, 7.75%
Police net pension liability	9,464,988	4,766,772	856,881

Rate of return:

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments was 11.06%. The money-weighted rate of return expresses investment performance, net of investment expenses, not funded through the MMO.

10. Post-employment benefit plan:

Plan description:

Plan administration:

The Township administers a single-employer defined benefit postemployment benefit (OPES) plan (the Plan) that is used to provide health-related benefits for its police officers through its group health insurance plan. Plan provisions are established based on labor agreements negotiated by the Township. The Plan is unfunded, and no financial report is prepared.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

10. Post-employment benefit plan (continued):

Plan description:

Plan membership:

As of December 31, 2020, the Plan's membership consisted of the following:

Active participants	58
Retired participants	18
Total	<u>76</u>

Benefits provided:

All police officers retiring with a normal or disability retirement under the pension plan are eligible for other post-employment benefits. Normal retirement eligibility is the age of 50 and completion of 25 years of service. Disability retirement eligibility is considered total and permanent disablement that occurs in the line of duty. The length of benefits is 120 months for retirees and eligible spouses.

Benefits include the same medical coverage enjoyed by active members and currently include medical, prescription drug, dental, and vision coverage. Coverage is suspended if the retiree is eligible for comparable coverage cost-free from another source. After the period of coverage ceases, retirees may purchase any of the benefits covered at the effective group rates. The Township pays the first 5% of any increase in annual cost. Thereafter, the Township and the retiree share equally for any annual increases exceeding 5%.

Contributions:

The contribution requirements of plan members and the Township are established and may be amended by the Board of Supervisors. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the healthcare benefits provided to current retirees, primary through annual appropriations from the General Fund. Retiree contribution rates and amounts vary based on the benefits selected.

Total OPEB liability:

The Township's total OPEB liability of \$8,918,193 was measured as of December 31, 2020, and was determined by an actuarial valuation as of January 1, 2019. The actuary utilized update procedures to roll forward the total OPEB liability in the January 1, 2019 actuarial valuation to the December 31, 2020 measurement date.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

10. Post-employment benefit plan (continued):

Total OPEB liability:

The actuarial assumptions used in the January 1, 2019 valuation were based on past experience under the plan and reasonable future expectations which represents the best estimate of anticipated experience under the plan. A recent actuarial experience study was not performed.

Changes in the Township's total OPEB liability for the plan as of December 31, 2020 was as follows:

	Total OPEB liability
Balance at January 1, 2020	<u>\$ 6,183,067</u>
Changes for the year:	
Service cost	476,962
Interest	330,162
Changes in benefit terms	2,356,591
Benefit payments	<u>(428,589)</u>
Net changes	<u>2,735,126</u>
Balance at December 31, 2020	<u><u>\$ 8,918,193</u></u>

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

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 428,075	
Change in assumptions		<u>\$ 160,717</u>
Total	<u><u>\$ 428,075</u></u>	<u><u>\$ 160,717</u></u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

10. Post-employment benefit plan (continued):

Total OPEB liability:

The deferred outflows of resources and the deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year ended December 31,</u>	
2021	\$ 37,656
2022	37,656
2023	37,656
2024	37,656
2025	37,656
Thereafter	<u>79,078</u>
Total	<u><u>\$ 267,358</u></u>

Actuarial assumptions and other inputs:

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Discount rate	3.75%
Dental/vision trend rate	3.00%
Medical trend rate	7.50% for 2020, decreasing to 5.00% by 2028

The discount rate was based on the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were assumed based on the RP-2014 Combined Health Mortality Table with 50% of Blue Collar Adjustment and rates set forward five years for disabled lives. Mortality improvement rates were derived from the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

10. Post-employment benefit plan (continued):

Total OPEB liability:

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:

The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage point lower or higher than the current discount rate:

	1% decrease 6.50%	Current rate 7.50%	1% increase 8.50%
Township total OPEB liability	\$ 8,088,401	\$ 8,918,193	\$ 9,908,567

Sensitivity of the total OPEB liability to changes in the discount rate:

The following presents the total OPEB liability of the Township, as well as what the Township's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower or higher than the current discount rate:

	1% decrease 2.75%	Current rate 3.75%	1% increase 4.75%
Township total OPEB liability	\$ 9,801,165	\$ 8,918,193	\$ 8,120,746

OPEB expense:

For the year ended December 31, 2020, the Township recognized OPEB expense of \$3,201,371.

11. Risk management:

The Township is a member of a risk sharing pool, the Susquehanna Municipal Trust, to provide workers' compensation coverage. The 2020 contribution for this coverage was \$314,056.

The Trust has a self-insured retention per occurrence of \$1,000,000. Claims that exceed the self-insured retention are satisfied by a stop-loss insurance carrier, Midwest Employers Casualty. There are 77 municipal entities participating in the pool. Each member owns a portion of the pool based upon the total contributions deposited by each member over the preceding 12 months. If there is a deficit in the pooled funds, each member is assessed a ratio based upon the total contributions. As of December 31, 2020, there have been no adjustments in the Trust's class code rates. The Township's premium does adjust each year according to independently audited payroll totals in each class code.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

11. Risk management (continued):

The Township participates in the Pennsylvania Municipal Health Insurance Cooperative to provide medical benefits to employees. Under this program, the Township pays varying amounts of reasonable and customary healthcare expenses. For 2020, the Township paid premiums of \$3,424,569. For the year ended December 31, 2020, the Township was limited in liability for claims to \$70,000 per enrollee and a maximum claims liability of \$2,995,133. Actual claims paid for the year ended December 31, 2020 were \$2,380,582. A portion of the unused premiums will be used for cost recovery of other members' coverages and the remainder will be refunded in two increments in 2021.

12. Interfund receivables and payables:

Interfund receivable and payable balances consist of the following at December 31, 2020:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental funds, general fund	\$ 1,994,953	
Enterprise funds, Lower Paxton Township Authority		<u>1,994,953</u>
Total interfund receivables and payables	<u>\$ 1,994,953</u>	<u>\$ 1,994,953</u>

13. Interfund transfers:

Interfund transfers are executed as a result of the requirements for the General Fund to match a portion of the expenditures or expenses of other funds. Interfund transfers are as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental funds:		
General fund		\$ 1,170,704
General improvement fund		<u>7,052</u>
Total governmental funds		1,177,756
Enterprise funds, Friendship Community Center	<u>\$ 1,177,756</u>	
Total interfund transfers	<u>\$ 1,177,756</u>	<u>\$ 1,177,756</u>

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

14. Management agreement:

The Authority has entered into an agreement with Lower Paxton Township to procure certain management services with regard to its operations, activities and functions. The Authority and the Township have certain common management. The total management services for 2020 amounted to \$436,556. Additionally, due to the Township providing all employees to the Authority, the Authority reimbursed the Township for wages, payroll taxes and various insurances in the approximate amount of \$3,557,246 for the year ended December 31, 2020. At December 31, 2020, the Authority owed the Township \$1,994,953 for the fourth quarter of calendar year 2020.

15. Fund balance classifications:

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:

Fund	Fund balance classifications			Total fund balance
	Nonspendable	Restricted	Unassigned	
General fund:				
Other assets	\$ 189,026			\$ 189,026
Paxtonia Fire Company mortgage	73,259			73,259
Available for any purpose			\$ 8,220,611	8,220,611
Non-major funds:				
State highway aid		\$ 655,061		655,061
General improvement fund, township improvements		359,540	229,262	588,802
Fire protection services		1,204,138	42,448	1,246,586
Firemen's LOSAP		1,102,555		1,102,555
	<u>\$ 262,285</u>	<u>\$ 3,321,294</u>	<u>\$ 8,492,321</u>	<u>\$ 12,075,900</u>

The restriction of net position included in the business-type activities of \$36,769,332 is for bond proceeds received that have not yet been spent on capital improvements.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

15. Fund balance classifications (continued):

The restrictions of net position included in the fiduciary funds are as follows:

<u>Fiduciary funds</u>	
Non-uniform pension trust fund, amounts restricted for payment of non-uniform pension benefits.	\$ 23,579,540
Police pension trust fund, amounts restricted for payment of police pension benefits.	<u>31,440,036</u>
Total fiduciary funds, net position	<u><u>\$ 55,019,576</u></u>

16. Due from fire companies:

Paxtonia Fire Company:

The Township had entered into a loan agreement with Paxtonia Fire Company. The proceeds were used to purchase six tracts of land located on Johnson Street, Harrisburg. The agreement called for a loan of \$421,435 to be repaid in periodic payments by July 1, 2029. Payment terms require four annual payments of \$7,025, including interest at 3.00%, beginning July 1, 2009. The outstanding balance due from the Paxtonia Fire Company as of December 31, 2020 is \$73,259.

17. Commitments and contingencies:

In the normal course of business, there are various claims and suits pending against the Township and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Township's financial position at December 31, 2020.

The Authority has entered into agreements for repairs and rehabilitation of its sewer system. There were five construction contracts open as of December 31, 2020 which totaled \$22,359,231. Work totaling \$3,910,226 had been completed on these contracts as of year end.

18. Agreements:

The Authority has entered into agreements with downstream municipalities for the transmission and treatment of sewage. Charges for transmission and treatment are principally based upon a combination of the number of equivalent dwelling units and sewage transmitted.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

18. Agreements (continued):

The Authority has entered into the Swatara Township Authority-Intermunicipal Agreement with the joint users of the Swatara Township Authority treatment plant. The Agreement covers the operating expenses of the Swatara Township Authority treatment plant and transmission facilities and the corresponding responsibilities of each user based on a pro rata share basis. Under this agreement, the Authority's operating costs amounted to \$1,050,521 for the year ended December 31, 2020.

The Authority, along with the Borough of Penbrook, the Borough of Paxtang, the Township of Swatara, the Township of Susquehanna and the Township of Lower Paxton (the Joint Municipalities) continue to negotiate with the City of Harrisburg and Capital Region Water (CRW) to finalize a new Intermunicipal Agreement, which sets the rate for treatment and transmission services provided to the Joint Municipalities, as well as the funding of the improvement projects for CRW facilities. Under the current agreement, the Authority's operating costs amounted to \$3,222,604.

The Authority is currently disputing the method of calculating certain 2015 through 2019 charges related to the services provided above. The disputed amount of \$1,337,598 was included as a liability, due to other governments, and in the operating costs noted above to CRW on the Authority's books as of December 31, 2019. During 2020, a settlement agreement was reached between the Authority and CRW, resulting in a liability due to CRW in the amount of \$1,009,587 as of December 31, 2020.

19. Legal agreements and restrictions regarding sanitary sewer operations:

In June 1995, the Pennsylvania Department of Environmental Protection (PADEP) entered into a Consent Decree and Settlement Agreement with the Authority, the Township and Swatara Township Authority, outlining certain steps that need to be met to abate the overload of the Beaver Creek Basin interceptor.

On May 29, 2002, the parties, including the Developers as Intervenors, entered into a Second Consent Decree and new Settlement Agreement to supersede the first Consent Decree and Settlement Agreement of June 1995, the 1991 Spring Creek Consent Decree and to settle two Environmental Hearing Board appeals and a Commonwealth Court Petition. The Commonwealth Court approved the Second Consent Decree on June 13, 2002.

The Second Consent Decree incorporated the Township's Act 537 Plan and corrective action plans to eliminate the overflows and hydraulic overloads in the Beaver Creek, Paxton Creek and a portion of the Spring Creek Basin. The Township submitted, and PADEP approved, the First Amendment to the Second Consent Decree to address Paxton Creek beyond 2007. The First Amendment for Paxton Creek requires a 15-year mini-basin total sewer replacement/repair program through 2022 and provided for the replacement/enlargement of several interceptor sewers. In 2022, the Authority is required to evaluate the progress and success of the work to determine if any storage facilities will be needed to ensure future capacity. If they are required, it is anticipated that such facilities will be completed within three years of PADEP planning approval.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

19. Legal agreements and restrictions regarding sanitary sewer operations (continued):

The PADEP approved the Second Amendment to the Second Consent Decree and Settlement Agreement on August 21, 2013 to eliminate the Wet Weather Treatment Facility in the Beaver Creek Basin as the chosen alternative and selecting a 15-year mini-basin total sewer replacement/repair program similar to Paxton Creek. The Beaver Creek new alternative requires sewer replacements through 2027. In 2027, the Authority is required to evaluate the progress and success of the work to determine if any storage facilities will be needed to ensure future capacity. If they are required, it is anticipated that such facilities will be completed within three years of PADEP planning approval. The Commonwealth Court approved the Second Amendment to the Second Consent Decree on September 18, 2013.

The Second Amendment to the Second Consent Decree and Settlement Agreement imposes a limitation on planning modules in the Beaver Creek Basin each year with a maximum of 200 equivalent dwelling units per year and a limitation of 168 connections each year, provided that the Authority is in compliance with the plan and schedule and shows a reduction in flows to the sewer system. The Settlement Agreement provides for the accumulation of unused planning module EDU's and connection permits. At the end of 2020, the total accumulated EDU's and connections permits is 919 EDU's and 439 connections, respectively. Paxton Creek is allocated 243 connections annually, and there are no restrictions on planning modules. The Authority is permitted to receive an increase of ten connections per year for each completed mini-basin project. The Spring Creek Basin is provided two connections annually, and there are no planning module restrictions

The original cost estimate in 2002, as part of the original Consent Decree entered into in 2002, was \$80 Million in Beaver Creek, \$75 Million in Paxton Creek and \$25 Million in Spring Creek for a total of \$180 Million. In September 2016, the Authority Engineer presented an update to the program costs that have escalated to an estimated \$350 Million. The escalation in costs is associated with the increase in paving costs to re-build the Township streets following the total sewer replacements, new ADA ramps and inspection and program management costs that were not originally anticipated. The engineer presented a new alternative for an Extra Storage option in the Paxton Creek and Beaver Creek Basins, which would reduce the total cost to \$258 Million. The Board approved the Extra Storage option and authorized the submission to the PADEP for approval. On behalf of the Authority, GHD Engineering (GHD) submitted the Phase 2 Long-Term Solution and Schedule for the Beaver Creek Basin to implement the Extra Storage option on June 29, 2017. The Authority received approval from the PADEP by letter dated August 23, 2017. The Paxton Creek Basin Extra Storage option was submitted to the PADEP as part of the proposed 3rd Paxton Creek corrective action plan by letter dated March 5, 2018. The Authority received approval from the PADEP by letter dated March 20, 2018.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

19. Legal agreements and restrictions regarding sanitary sewer operations (continued):

In 2020, GHD provided updated modeling and metering data for the Paxton Creek Basin. Based on this new data, GHD had determined that the infiltration/inflow (I/I) removal rates are greater than expected, which could allow the Authority to delay storage in Paxton Creek until 2040 for future development. Beaver Creek storage requirements will be evaluated in 2027. Based on current information, it is anticipated that the Beaver Creek program will also exceed the original I/I removal projections and Beaver Creek storage may also be delayed. A total of \$95 million has been spent to date on the sewer replacement programs in the Beaver, Paxton and the Spring Creek 1 drainage basins. To complete the new consulting engineers draft CAP's in the Beaver and Paxton Creek Basins and the Spring Creek 2 Basin, the consulting engineer estimates that an additional \$75 million is required to be financed, \$57 million in Beaver Creek, \$15 million in Paxton Creek and \$3 million in the Spring Creek 2 Basin. This plan anticipates delaying storage in Beaver and Paxton Creek until 2040 and an additional financing at that time to complete this project, which is not part of the \$75 million estimate. The consulting engineer has noted that the storage may be partially financed by developers in accordance with the PA Tapping Fee Act.

The Authority has also begun implementation of the Stormwater Management Program required under the Township's PADEP MS4 Permit. The PADEP issues the MS4 Permit to the Township as the regulatory authority under the Stormwater Management Act and the Pennsylvania Municipal Planning Code, as amended by Act 170 and Act 131. The Township received the new MS4 Permit on July 22, 2020. The new permit became effective on August 1, 2020 and expires on July 31, 2025. The permit requires implementation of a Storm Water Management Program (SWMP), which includes six Minimum Control Measures (MCMs); Pollution Control Measures (PCMs) compliance under Appendix B & C and compliance with the Pollution Reduction Plan (PRP) under Appendix E and F. The total annual operation and maintenance expenses for the SWMP are estimated at \$1.5 million, or \$7.5 million over the five-year permit. The Stormwater Fund Capital Budget includes a five-year spending plan to comply with the MS4 permit, the PRP and storm sewer system improvements. This five-year capital plan is estimated at \$16 million, which includes an estimated cost of \$4 million for the PRP and \$12 million for stormwater system pipe replacements. Total five-year MS4 permit costs are estimated at \$23.5 million.

20. Operating leases:

Friendship Community Center:

On December 1, 2020, the Township entered into an operating lease to lease approximately 90% of the Friendship Community Center to the Harrisburg Area YMCA. Under the terms of the agreements, the Harrisburg Area YMCA will be responsible for all operating and occupancy costs and will operate, staff and maintain the community recreation facilities of the Friendship Community Center, including all related parking areas. The lease has an initial term of 30 years, ending October 21, 2050, and the option to renew the lease for two additional 29-year terms. The lease requires rental payments of \$10 per month throughout the term of the lease and requires an additional \$4,000 per year, paid in monthly installments, to cover the snow removal and lawn care costs of the facility.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

20. Operating leases (continued):

Township vehicle leases:

The Township has committed, under an operating lease, for certain vehicles. Future minimum operating lease commitments are as of December 31, 2020 are as follows:

Year ending December 31

2021	\$ 42,772
2022	42,772
2023	33,709
2024	<u>20,538</u>
	<u>\$ 139,791</u>

Authority vehicle leases:

The Authority has committed, under an operating lease, for certain vehicles. Future minimum operating lease commitments are as of December 31, 2020 are as follows:

Year ending December 31

2021	\$ 115,003
2022	113,701
2023	83,922
2024	63,521
2025	<u>1,439</u>
	<u>\$ 377,586</u>

At December 31, 2020, lease expense was \$72,908 and \$136,537 for the Township and Authority, respectively.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

21. Derivative instruments:

Objectives and terms of the cash-settling swap:

On September 14, 2018 (trade date), the Township entered into a cash-settling swap agreement (the swap) to manage interest costs of the General Obligation Bonds, Series D of 2009 in the nominal amount of \$42,465,000. The final termination date of the swap is October 1, 2019, which does not exceed the maturity date of the 2009D Bonds. With the exception of a termination payment on or before the termination date, no scheduled periodic payments will be exchanged between the Township and the Royal Bank of Canada (RBC) (the Counterparty). The amount of the termination payment will be determined based on a floating rate option not to exceed 80% of the USD-LIBOR-BBA. The Township has the option to terminate the swap anytime between the trade date and the termination date.

The swap was amended by the Township on September 11, 2019 to change the mandatory early termination date from October 1, 2019 to October 1, 2023 and to amend the related amortization table. For RBC's consideration of the amendment, the Township was required to make a cash payment of \$1,843,000 to the counterparty which was funded by proceeds from the 2019 series General Obligation bond issue.

Cash-settling swap	Current notional	Related debt	Trade date	Termination date	Mandatory early termination	Counterparty
2018 SWAP	\$ 42,465,000	2009D bonds	September 14, 2018	October 1, 2048	October 1, 2023	RBC

The swap was deemed ineffective as of December 31, 2018. Accordingly, the Township recorded a liability for the swap as an investment derivative instrument and a loss on investment in the amount of \$1,506,577. In 2019, the swap investment decreased further resulting in an increase the liability for the swap investment to \$4,149,287 and a loss on investment of \$2,642,710. In 2020, the swap investment decreased further resulting in an increase the liability for the swap investment to \$7,790,141 and a loss on investment of \$3,640,854.

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future interest rates. These payments are then discounted using the spot rates implied by the current yield curve for the hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

21. Derivative instruments (continued):

Credit risk:

As of December 31, 2020, the Township was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Township would be exposed to credit risk in the amount of the derivative's fair value. The Township executes its derivative risk with one counterparty that comprises 100% of its net exposure to credit risk. As of December 31, 2020, the Counterparty was rated Aa2/AA-/AA by Moody's, S&P and Fitch, respectively.

Interest rate risk:

Interest rate risk is the risk that a generally adverse move in interest rates will result in a loss to the Township. In the case of the swap, a general decrease in current market interest rates will increase the termination payment owed by the Township to the Counterparty on the termination date. This risk is mitigated by the anticipated new money bonds on or after the amended termination date. It is expected that a decrease in interest rates will cause the net interest costs of the new money bonds to decrease, such that any additional termination payment owed by the Township under the swap will be offset by decreased interest costs of the new money bonds.

Termination risk:

Termination risk is the risk that the swap may be terminated prior to the amended termination date while the value is in the favor of the Counterparty. Termination can result from any of several events including ratings downgrade of either party, covenant violations of either party, bankruptcy by either party, swap payment default by either party and other default events as defined by the swap documents. Any such termination may require the Township to make a significant termination payment to the Counterparty. The timeframe for this risk is approximately one year. The Township mitigates termination risk by limiting termination events and maintaining good financial management.

Tax risk:

Tax risk is the risk that changes to marginal income tax rates could eliminate the benefit of future tax-exempt debt issuances. In the Township's case, a reduction in the benefit of the tax-exemption of municipal bonds could significantly impact the net interest cost of the anticipated new money bonds on or before the amended termination date. This risk is somewhat mitigated by the relatively short amount of time to the anticipated new money issuance date on or before October 1, 2023.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

21. Derivative instruments (continued):

Market access risk:

Market access risk is the risk that the Township is unable to access the debt market or secure future financing. This risk is subject to the overall general market conditions, the Township's credit ratings and potentially unforeseen events. This risk includes the possibility that an exogenous political or economic event could affect the Township's ability to issue tax-exempt debt in the future. The Township could be significantly impacted by this risk if a termination payment is owed on the termination date and the Township is unable to issue new bonds. This risk can be somewhat mitigated through the prudent management of the Township finances to maintain its current credit rating.

Cost of issuance risk:

Cost of issuance risk is the risk that higher than anticipated costs associated with issuing future bonds negatively impacts the Township. Any increase in the future cost of borrowing will negatively impact the potential costs associated with the new money bonds.

22. 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 which began in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Township expects this matter to continue to negatively impact its results, the extent of the impact of the COVID-19 on the Township's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Township's services, all of which are highly uncertain and cannot be predicted.

LOWER PAXTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2020

23. Subsequent events:

On March 11, 2011, 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 is expected to receive approximately \$5,226,000 in funding from The American Rescue Plan. The Township will receive the funds in two disbursements. One half of the funds, an amount of \$2,613,000, was received in June 2021. The second half will be received in 2022. The Township will have four years to spend The American Rescue Plan funds. Any funds not spent by the end of 2021 are to be turned back over to the federal treasury.

As a result of the lease with the Harrisburg Area YMCA, the Township opted to eliminate the Friendship Community Center proprietary fund and transferred all Friendship Community Center assets to the General Fund. This transfer of assets occurred January 1, 2021.

The Township has evaluated subsequent events through October 28, 2021, the date which the financial statements were available to be issued.

LOWER PAXTON TOWNSHIP

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (Required supplementary information) YEAR ENDED DECEMBER 31, 2020 (See independent auditor's report on required supplemental information)

	Original budget	Final budget	Actual amounts	Variance with final budget positive (negative)
Revenues:				
Taxes	\$ 16,850,000	\$ 15,870,000	\$ 16,603,062	\$ 733,062
Licenses and permits	2,025,200	2,025,200	2,100,210	75,010
Fines and forfeitures	240,000	240,000	246,495	6,495
Interest and rents	160,000	160,000	83,516	(76,484)
Intergovernmental	1,257,500	1,257,500	3,915,319	2,657,819
Charges for services	5,013,019	5,013,019	4,870,191	(142,828)
Contributions and donations	128,000	128,000	2,027	(125,973)
Miscellaneous income	26,000	26,000	16,351	(9,649)
Total revenues	25,699,719	24,719,719	27,837,171	3,117,452
Expenditures:				
General government	2,093,616	1,995,666	1,950,169	45,497
Police department	11,156,360	10,822,484	10,570,820	251,664
Fire and ambulance	1,087,050	1,087,050	1,156,801	(69,751)
Community development	924,473	866,223	1,021,297	(155,074)
Health and sanitation	3,312,225	3,309,195	3,141,706	167,489
Public works	4,183,824	4,035,713	3,614,433	421,280
Parks and recreation	860,332	615,326	613,371	1,955
Debt service:				
Principal	1,170,646	1,170,646	9,594,690	(8,424,044)
Interest	510,806	510,806	526,290	(15,484)
Payments to agent and issuance costs			823,169	(823,169)
Total expenditures	25,299,332	24,413,109	33,012,746	(8,599,637)
Excess (deficiency) of revenues over expenditures	400,387	306,610	(5,175,575)	(5,482,185)
Other financing sources (uses):				
Operating transfers:				
In				
Out	(400,387)	(306,610)	(1,170,704)	(864,094)
Township contributions			9,296,466	9,296,466
Proceeds from long term debt			86,300	86,300
Proceeds from sale of capital assets				
Total other financing sources (uses)	(400,387)	(306,610)	8,212,062	8,518,672
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ -	\$ 3,036,487	\$ 3,036,487

See note to schedule of revenues, expenditures and changes in fund balance.

LOWER PAXTON TOWNSHIP

NOTE TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

1. Budgetary data:

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 approved budgetary amendments for the general fund due to anticipated, significant declines in tax revenue due to the COVID-19 pandemic.

In the general fund, the actual expenditures exceeded final budgeted expenditures by approximately \$8.6 million due to debt refunding not accounted for in the budget.

LOWER PAXTON TOWNSHIP

SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (NON-UNIFORM) –
LAST TEN YEARS

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

	2020	2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	\$ 545,189	\$ 535,173	\$ 451,165	\$ 455,943	\$ 431,365	\$ 459,270	\$ 468,852
Interest	1,570,740	1,489,190	1,456,600	1,378,467	1,291,194	1,210,063	1,161,316
Changes of benefit terms				500,267			
Differences between expected and actual experience		(541,352)		(885,043)		(524,611)	
Changes of assumptions		603,643		1,127,497			
Benefit payments, including refunds of employee contributions	(829,434)	(823,121)	(778,275)	(650,761)	(564,472)	(481,740)	(375,414)
Net change in total pension liability	1,286,495	1,263,533	1,129,490	1,926,370	1,158,087	662,982	1,254,754
Total pension liability:							
Beginning of year	23,132,987	21,869,454	20,739,964	18,813,594	17,655,507	16,992,525	15,737,771
End of year (a)	\$ 24,419,482	\$ 23,132,987	\$ 21,869,454	\$ 20,739,964	\$ 18,813,594	\$ 17,655,507	\$ 16,992,525

(continued)

LOWER PAXTON TOWNSHIP

SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (NON-UNIFORM) – LAST TEN YEARS (CONTINUED)

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

	2020	2019	2018	2017	2016	2015	2014
Plan fiduciary net position:							
Contributions:							
Employer	\$ 797,538	\$ 757,954	\$ 683,408	\$ 696,477	\$ 674,462	\$ 789,950	\$ 728,949
Employee	172,276	156,778	148,881	139,772	138,797	130,169	130,676
Net investment income (loss)	2,715,471	3,265,845	(741,030)	2,246,805	846,552	25,833	830,920
Benefit payments, including refunds of employee contributions	(829,434)	(823,121)	(778,275)	(650,761)	(564,472)	(481,740)	(375,414)
Administrative expense	(4,325)	(7,944)	(11,556)	(3,800)	(5,555)	(8,162)	(4,925)
Net change in plan fiduciary position	2,851,526	3,349,512	(698,572)	2,428,493	1,089,784	456,050	1,310,206
Total plan fiduciary net position:							
Beginning of year	20,728,013	17,378,501	18,077,073	15,648,580	14,558,796	14,102,746	12,792,540
End of year (b)	\$ 23,579,539	\$ 20,728,013	\$ 17,378,501	\$ 18,077,073	\$ 15,648,580	\$ 14,558,796	\$ 14,102,746
Township's net pension liability, end of year (a) - (b)	\$ 839,943	\$ 2,404,974	\$ 4,490,953	\$ 2,662,891	\$ 3,165,014	\$ 3,096,711	\$ 2,889,779
Plan fiduciary net position as a percentage of total pension liability	96.56%	89.60%	79.46%	87.16%	83.18%	82.46%	82.99%
Covered employee payroll	\$ 5,523,146	\$ 5,214,405	\$ 4,916,287	\$ 4,895,449	\$ 4,753,121	\$ 4,476,046	\$ 4,636,453
Township net pension (asset) liability as a percentage of covered employee payroll	15.21%	46.12%	91.35%	54.40%	66.59%	69.18%	62.33%

* The Township adopted GASB 67 on a prospective basis in 2014; therefore, only seven years of information is available.

LOWER PAXTON TOWNSHIP

SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (POLICE) –
LAST TEN YEARS

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

	2020	2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	\$ 892,583	\$ 846,050	\$ 760,444	\$ 720,800	\$ 583,904	\$ 579,640	\$ 589,923
Interest	2,343,945	2,246,098	2,136,850	2,042,291	1,985,406	1,892,821	1,821,744
Changes of benefit terms							
Differences between expected and actual experience		408,630		(109,753)		(314,057)	
Changes of assumptions		969,624		515,076			
Benefit payments, including refunds of employee contributions	(1,696,789)	(1,681,639)	(1,543,825)	(1,363,028)	(1,279,358)	(1,122,739)	(1,095,944)
Net change in total pension liability	1,539,739	2,788,763	1,353,469	1,805,386	1,289,952	1,035,665	1,315,723
Total pension liability:							
Beginning of year	34,667,070	31,878,307	30,524,838	28,719,452	27,429,500	26,393,835	25,078,112
End of year (a)	\$ 36,206,809	\$ 34,667,070	\$ 31,878,307	\$ 30,524,838	\$ 28,719,452	\$ 27,429,500	\$ 26,393,835

(continued)

LOWER PAXTON TOWNSHIP

SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (POLICE) – LAST TEN YEARS (CONTINUED)

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

	2020	2019	2018	2017	2016	2015	2014
Plan fiduciary net position:							
Contributions:							
Employer	\$ 1,306,621	\$ 1,353,346	\$ 1,181,408	\$ 1,163,830	\$ 1,165,107	\$ 1,063,399	\$ 868,304
Employee	287,739	265,560	254,312	241,314	230,727	228,477	225,150
Net investment income (loss)	3,114,184	4,404,499	(915,505)	3,077,444	1,136,341	165,482	1,294,725
Benefit payments, including refunds of employee contributions	(1,696,789)	(1,681,639)	(1,543,825)	(1,363,028)	(1,279,358)	(1,122,739)	(1,095,944)
Administrative expense	(3,350)	(8,349)	(8,936)	(2,900)	(3,397)	(6,965)	(6,519)
Net change in plan fiduciary position	3,008,405	4,333,417	(1,032,546)	3,116,660	1,249,420	327,654	1,285,716
Total plan fiduciary net position:							
Beginning of year	28,431,632	24,098,215	25,130,761	22,014,101	20,764,681	20,437,027	19,151,311
End of year (b)	\$ 31,440,037	\$ 28,431,632	\$ 24,098,215	\$ 25,130,761	\$ 22,014,101	\$ 20,764,681	\$ 20,437,027
Township's net pension liability, end of year (a) - (b)	\$ 4,766,772	\$ 6,235,438	\$ 7,780,092	\$ 5,394,077	\$ 6,705,351	\$ 6,664,819	\$ 5,956,808
Plan fiduciary net position as a percentage of total pension liability	86.83%	82.01%	75.59%	82.33%	76.65%	75.70%	77.43%
Covered employee payroll	\$ 5,754,758	\$ 5,216,310	\$ 5,076,864	\$ 4,919,546	\$ 4,685,623	\$ 4,519,407	\$ 4,436,005
Township net pension (asset) liability as a percentage of covered employee payroll	82.83%	119.54%	153.25%	109.65%	143.10%	147.47%	134.28%

* The Township adopted GASB 67 on a prospective basis in 2014; therefore, only seven years of information is available.

LOWER PAXTON TOWNSHIP

SCHEDULES OF EMPLOYER CONTRIBUTIONS (NON-UNIFORM) – LAST TEN YEARS **(Required supplementary information)** **YEAR ENDED DECEMBER 31, 2020** **(See independent auditor's report on required supplemental information)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 797,538	\$ 757,954	\$ 683,408	\$ 696,477	\$ 674,462	\$ 789,950	\$ 728,949	\$ 708,378	\$ 525,113	\$ 478,621	\$ 332,172
Contributions in relation to the actuarially determined contribution	797,538	757,954	683,408	696,477	674,462	789,950	728,949	708,378	476,490	470,100	332,172
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,623	\$ 8,521	\$ -
Covered employee payroll	\$ 5,523,146	\$ 5,214,405	\$ 4,916,287	\$ 4,895,449	\$ 4,753,121	\$ 4,476,046	\$ 4,636,453	\$ 4,468,061	\$ 4,468,061	\$ 4,150,860	\$ 4,150,860
Contributions as a percentage of covered employee payroll	14.44%	14.54%	13.90%	14.23%	14.19%	17.65%	15.72%	15.85%	10.66%	11.33%	8.00%

Notes to schedule:

Valuation date, January 1, 2019

Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Ten years (aggregate)
Asset valuation method	Four-year smoothing
Inflation	2.75%
Salary increases	4.75%, including inflation
Investment rate of return	7.00%, net of investment expenses not funded through the MMO and including inflation
Retirement age	Normal retirement age, or attained age if currently eligible to retire.
Mortality	RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward five years for disabled members. Mortality improvement rates derived from the long-range demographic assumptions for the 2015 Social Security Administration's Trustee Report

Benefit changes:

Effective October 6, 2009, a retirement window with an increased benefit was provided to participants who were age 55 and had at least ten years of service in 2009 or 2010.

Effective January 1, 2013, normal retirement age was changed to age 65 with ten years of service for public works participants hired on or after January 1, 2012 and all others hired on or after January 1, 2013.

Employee contributions increased by 1% for public works effective January 1, 2013 and for all others January 1, 2014.

Effective January 1, 2017, compensation averaging period was reduced from final 60 months to (or five years for Authority employees) to 36 months

Changes to assumptions:

Effective January 1, 2011, interest rate was lowered from 7.5% to 7.25%, salary scale was lowered from 5.5% to 5.25%, mortality was updated to RP-2000 Combined Health Mortality Table with Blue Collar Adjustment and rates projected to improve with 75% of scale AA.

Effective January 1, 2017, interest rate was lowered from 7.25% to 7.00%, salary scale was lowered from 5.25% to 4.75%, mortality was updated to RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward five years for disabled members. Mortality improvement rates derived from the long-range demographic assumptions for the 2015 Social Security Administration's Trustee Report

LOWER PAXTON TOWNSHIP

SCHEDULES OF EMPLOYER CONTRIBUTIONS (POLICE) – LAST TEN YEARS (Required supplementary information) YEAR ENDED DECEMBER 31, 2020 (See independent auditor's report on required supplemental information)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 1,306,621	\$ 1,353,346	\$ 1,181,408	\$ 1,163,830	\$ 1,165,107	\$ 1,063,399	\$ 868,304	\$ 856,605	\$ 601,358	\$ 591,877	\$ 562,471
Contributions in relation to the actuarially determined contribution	1,306,621	1,353,346	1,181,408	1,163,830	1,165,107	1,063,399	868,304	856,605	522,235	626,800	503,994
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,123</u>	<u>\$ (34,923)</u>	<u>\$ 58,477</u>
Covered employee payroll	\$ 5,754,758	\$ 5,216,310	\$ 5,076,864	\$ 4,919,546	\$ 4,685,623	\$ 4,519,407	\$ 4,436,005	\$ 4,281,572	\$ 4,281,572	\$ 4,201,776	\$ 4,201,776
Contributions as a percentage of covered employee payroll	22.71%	25.94%	23.27%	23.66%	24.87%	23.53%	19.57%	20.01%	12.20%	14.92%	11.99%

Notes to schedule:

Valuation date, January 1, 2019

Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Ten years (aggregate)
Asset valuation method	Four-year smoothing
Inflation	2.75%
Salary increases	5.5%, including inflation
Investment rate of return	7.00%, net of investment expenses not funded through the MMO and including inflation
Retirement age	Later of age 52 or completion of 26 years of service, or attained age if currently beyond assumed retirement age.
Mortality	RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward five years for disabled members. Mortality improvement rates derived from the long-range demographic assumptions for the 2015 Social Security Administration's Trustee Report

Benefit changes:

Effective January 1, 2013, the Killed-In-Service benefit was eliminated.

Changes to assumptions:

Effective January 1, 2011, interest rate was lowered from 7.5% to 7.25%, the mortality table was updated to RP-2000 Combined Health Mortality Table with Blue Collar Adjustment and rates projected to improve with 75% of scale AA and pre-retirement death benefits formerly valued with a load are now valued directly.

Effective January 1, 2017, interest rate was lowered from 7.25% to 7.00%, the consumer price index decreased from 3.00% to 2.75%, the mortality table was updated to RP-2014 Mortality Table with 50% of the Blue Collar Adjustment and projected mortality improvement based on the long-range demographic assumptions for the 2015 Social Security Trustee Report, disability updated to rates based on the Social Security Administration's 2010 projection of disability incidence and retirement assumption changed to rated of retirement.

LOWER PAXTON TOWNSHIP

SCHEDULES OF INVESTMENT RETURNS – LAST TEN FISCAL YEARS

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

Annual money-weighted rate of return:	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Nonuniform pension plan	13.14%	18.95%	-4.13%	14.47%	5.83%	0.18%	6.49%
Police pension plan	11.06%	18.54%	-3.70%	14.17%	5.53%	0.82%	6.85%

*The Township adopted GASB 67 on a prospective basis in 2014; therefore, only seven years of information is available.

LOWER PAXTON TOWNSHIP

SCHEDULES OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS – LAST TEN YEARS

(Required supplementary information)

YEAR ENDED DECEMBER 31, 2020

(See independent auditor's report on required supplemental information)

	2020	2019	2018
Total OPEB liability:			
Service cost	\$ 476,962	\$ 298,604	\$ 247,550
Interest	330,162	228,507	209,188
Changes of benefit terms	2,356,591		
Changes in assumptions		(205,989)	
Differences between expected and actual experience		548,659	
Benefit payments, including refunds of employee contributions	(428,589)	(275,372)	(394,123)
Net change in total OPEB liability	2,735,126	594,409	62,615
Total OPEB liability:			
Beginning of year	6,183,067	5,588,658	5,526,043
End of year (a)	\$ 8,918,193	\$ 6,183,067	\$ 5,588,658
Covered payroll	\$ 5,754,758	\$ 5,076,864	\$ 4,685,623
Township total OPEB liability as a percentage of covered payroll	154.97%	121.79%	119.27%

The Township adopted GASB 75 on a prospective basis in 2018; therefore, only three years of information is available.

The Township has not accumulated assets in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay OPEB benefits.

Benefit changes:

Effective January 1, 2020, the length of benefits increased to 120 months for retirees and eligible spouses (from 108 months for retiree only or 60 months for husband/wife coverage). Coverage ceases at Medicare eligibility for either the retiree or spouse individually if Medicare eligibility occurs before 120 months.

Effective January 1, 2020, Township will pay first 5.0% of the increase in costs then the Township and retiree share equally any increases in excess of 5%.

Changes to assumptions:

Effective January 1, 2019, trend rates were updated to reflect actual increase from 2019 to 2020.

LOWER PAXTON TOWNSHIP

COMBINING BALANCE SHEET – NONMAJOR

GOVERNMENTAL FUNDS

DECEMBER 31, 2020

(See independent auditor's report on supplemental information)

	State highway aid	General improvement	Fire equipment	Firemen's LOSAP	Total
Assets:					
Cash and cash equivalents		\$ 321,747	\$ 42,448		\$ 364,195
Accounts receivable		101,937			101,937
Restricted assets:					
Cash and cash equivalents	\$ 655,061	359,540	1,204,138	\$ 27,144	2,245,883
Investments				1,075,411	1,075,411
Total assets	\$ 655,061	\$ 783,224	\$ 1,246,586	\$ 1,102,555	\$ 3,787,426
Liabilities, accounts payable		\$ 194,422			\$ 194,422
Fund balances:					
Restricted	\$ 655,061	359,540	\$ 1,204,138	\$ 1,102,555	3,321,294
Unassigned		229,262	42,448		271,710
Total fund balances	655,061	588,802	1,246,586	1,102,555	3,593,004
Total liabilities and fund balance	\$ 655,061	\$ 783,224	\$ 1,246,586	\$ 1,102,555	\$ 3,787,426

LOWER PAXTON TOWNSHIP

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

(See independent auditor's report on supplemental information)

	State highway aid	General improvement	Fire equipment	Firemen's LOSAP	Total
Revenues:					
Taxes			\$ 619,500	\$ 94,802	\$ 714,302
Interest and rents	\$ 2,881	\$ 8,880	89	12,277	24,127
Net investment gain				134,601	134,601
Intergovernmental	1,605,983	360,133			1,966,116
Total revenues	1,608,864	369,013	619,589	241,680	2,839,146
Expenditures:					
Fire and ambulance			1,101,994	45,100	1,147,094
Highways and streets	1,356,368				1,356,368
Public works		111,117			111,117
Parks and recreation		164,246			164,246
Debt service:					
Principal			213,000		213,000
Interest			101,754		101,754
Total expenditures	1,356,368	275,363	1,416,748	45,100	3,093,579
Excess (deficiency) of revenues over expenditures	252,496	93,650	(797,159)	196,580	(254,433)
Other financing sources (uses), operating transfers (out), net		(7,052)			(7,052)
Net changes in fund balances	252,496	86,598	(797,159)	196,580	(261,485)
Fund balances:					
Beginning of year	402,565	502,204	2,043,745	905,975	3,854,489
End of year	\$ 655,061	\$ 588,802	\$1,246,586	\$1,102,555	\$ 3,593,004

LOWER PAXTON TOWNSHIP

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

(See independent auditor's report on supplemental information)

	Non-uniformed pension	Police pension	Total
Assets:			
Cash	\$ 241,679	\$ 284,333	\$ 526,012
Investments	23,348,801	31,191,585	54,540,386
Total assets	\$ 23,590,480	\$ 31,475,918	\$ 55,066,398
Liabilities, accounts payable	\$ 10,940	\$ 35,882	\$ 46,822
Net position, restricted for pensions	23,579,540	31,440,036	55,019,576
Total liabilities and net position	\$ 23,590,480	\$ 31,475,918	\$ 55,066,398

LOWER PAXTON TOWNSHIP

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION – FIDUCIARY FUNDS

DECEMBER 31, 2020

(See independent auditor's report on supplemental information)

	Non-uniformed pension	Police pension	Total
Additions:			
Contributions:			
Employee	\$ 172,276	\$ 287,739	\$ 460,015
Employer	383,936	755,152	1,139,088
Employer, commonwealth funding	413,602	551,469	965,071
Total contributions	969,814	1,594,360	2,564,174
Investment income:			
Interest and dividends	198,970	299,670	498,640
Net appreciation in fair value of investments	2,564,998	2,882,469	5,447,467
Net investment gain	2,763,968	3,182,139	5,946,107
Total additions	3,733,782	4,776,499	8,510,281
Deductions:			
Retirement benefits	816,499	1,696,789	2,513,288
Refunds to terminated employees	12,934		12,934
Administrative	52,821	71,305	124,126
Total deductions	882,254	1,768,094	2,650,348
Net increase	2,851,528	3,008,405	5,859,933
Net position restricted for pensions:			
Beginning of year	20,728,012	28,431,631	49,159,643
End of year	\$ 23,579,540	\$ 31,440,036	\$ 55,019,576

LOWER PAXTON TOWNSHIP

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

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Federal expenditures
U.S. Department of Treasury, passed through the County of Dauphin, COVID-19 Coronavirus Relief Fund	21.019	N/A	\$ 2,609,043
U.S. Environmental Protection Agency, passed through the Pennsylvania Infrastructure Investment Authority, Clean Water State Revolving Fund Cluster	66.458	N/A	2,710,047
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>88,894</u>
Total federal expenditures			<u><u>\$ 5,407,984</u></u>

See notes to schedule of expenditure of federal awards.

LOWER PAXTON TOWNSHIP

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

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
Lower Paxton Township
Harrisburg, 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, the business-type activities, each major fund and the aggregate remaining fund information of Lower Paxton Township as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise Lower Paxton Township's basic financial statements, and have issued our report thereon dated October 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lower Paxton 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 Lower Paxton Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Paxton 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Paxton 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*.

Lower Paxton Township's Response to Findings

Lower Paxton Township's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lower Paxton Township's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 Lower Paxton Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Camp Hill, Pennsylvania
October 28, 2021

Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control Over Compliance in Accordance with the Uniform Guidance

Board of Supervisors
Lower Paxton Township
Harrisburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Lower Paxton Township's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Lower Paxton Township's major federal programs for the year ended December 31, 2020. Lower Paxton Township's major federal programs are 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 each of Lower Paxton Township's major federal programs 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 Lower Paxton 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 each major federal program. However, our audit does not provide a legal determination on Lower Paxton Township's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Lower Paxton 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 Lower Paxton 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 Lower Paxton 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 deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004, that we consider to be material weaknesses.

Lower Paxton Township's Response to Internal Control Over Compliance Findings

Lower Paxton Township's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lower Paxton 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 Steindler & Fritz

Camp Hill, Pennsylvania
October 28, 2021

LOWER PAXTON 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: Qualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

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

Noncompliance material to financial statements noted? _____ yes X no

Federal awards

Internal control over major programs:

Material weakness(es) identified? X yes _____ no

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

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
21.019	Covid-19 Coronavirus Relief Fund
66.458	Clean Water State Revolving Fund Cluster

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

Auditee qualified as low-risk auditee? _____ yes X no

LOWER PAXTON TOWNSHIP

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

II. FINANCIAL STATEMENT FINDINGS:

Internal control over financial reporting

Finding number 2020-001

Condition and criteria:

The Township's journal entries made by the finance manager and finance director are not reviewed, and Fund 99 transactions, which are set up to automatically balance each fund with journal entries, are not well understood nor reviewed.

Cause:

For the year ended December 31, 2020, journal entries, which are prepared either by the finance manager or finance director, were not reviewed by another member of Township management nor the Township Board of Supervisors. In addition, there were large automatic adjustments made to Fund 99 that had to be corrected with adjusting entries.

Effect:

Fraudulent entries made to the general ledger, or adjusting entries made with errors, may not be detected or corrected on a timely basis, resulting in misstatements to the financial statements.

Recommendation:

The Township should implement a review process for journal entries requiring that either a member of management or the Board of Supervisors review journal entries and related support to ensure entries made are reasonable and expected. In addition, the Township management should gain a better understanding of Fund 99, as well as review all Fund 99 activity and adjustments, if it is to be continued to being used. This process would improve controls over adjustments to the general ledger.

**Lower Paxton Township's
response:**

In November 2020, the Township hired a new Finance Manager, who prepares all Township journal entries. These entries are reviewed by the Finance Director, who no longer records entries. All journal entries made by the Authority Accountant are reviewed by the Finance Manager. The Township intends to set up a process for review of Fund 99 activity and it will further determine if action should be taken to eliminate the fund due to the complexity and difficulty to understand.

(continued)

LOWER PAXTON TOWNSHIP

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

II. FINANCIAL STATEMENT FINDINGS:

Internal control over financial reporting

Finding number 2020-002

Condition and criteria:	The Township's staff did not record all fund level transactions, especially in relation to new bond issues.
Cause:	For the year ended December 31, 2020 the Township staff did not record all material transactions, especially bond related activity, at the fund level. Large audit adjustments were required.
Effect:	Without receiving complete, timely, accurate and current financial information at the fund level, management's ability to effectively guide the Township in critical areas such as financial analysis, budgetary control and cash flow can all be negatively impacted.
Recommendation:	The Township's accounting department should take whatever steps necessary to ensure that all staff and management are properly trained to accurately record and review all fund level transactions timely, especially in regards to bond issues. This will ensure that management receives complete, current and accurate financial information on a timely basis.
Lower Paxton Township's response:	Due to staffing shortages, transition and relative skillset for a majority of year 2020, the proper and thorough recording of bond issuances failed to be conducted. Moving forward, the Township will begin to record material transactions, including bond issuances, through the hiring of competent and complete staffing towards the end of 2020 and into 2021. This will eliminate the dependence on the external auditors to record such entries while also providing management and the Board with accurate and timely financial statements.

(continued)

LOWER PAXTON TOWNSHIP

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

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

Internal control over compliance

Finding number 2020-003

Clean Water State Revolving Fund Cluster

Condition and criteria: Management was not aware that the Clean Water State Revolving Fund loan funds being spent were federal funds that required a Uniform Guidance audit (Single Audit).

Cause: For the year ended December 31, 2020, the Township was not aware a Single Audit was required for the Pennsylvania Infrastructure Investment Authority (Pennvest) loan funds received until they were notified by Pennvest that a Single Audit may be required.

Effect: Without being aware of the source of the loan or 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 develop internal controls to determine whether or not the sources of funds 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.

Lower Paxton Township's response: As part of audit and internal policy review, the Township took appropriate steps to set up effective internal controls over compliance to successfully identify federal awards and the necessary compliance requirements.

(continued)

LOWER PAXTON TOWNSHIP

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

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

Internal control over compliance

Finding number 2020-004

Clean Water State Revolving Fund Cluster
Covid-19 Coronavirus Relief Fund

Condition and criteria: Management did not have any formal written internal controls over compliance policies for staff and management to follow.

Cause: For the year ended December 31, 2020, the Township did not have any formal written internal controls over compliance policies to provide. Internal controls followed by staff and management were determined only through discussion.

Effect: Without having a formal written internal control over compliance policy for staff and management to follow, employees may not fully understand their appropriate roles and duties in relation to federal awards. As a result, there is the potential for procedures not to be properly followed, and material noncompliance may 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 create a formal written internal control over compliance policy, including a documented review process by members of management whom have the appropriate knowledge, skills, and experience with federal programs, in order to make it easier for staff and management to understand their roles in relation to federal programs, and ensure all applicable and material compliance requirements for federal programs are followed.

**Lower Paxton Township's
response:**

Due to staffing shortages, transition, and relative skillset for a majority of year 2020, the proper and thorough communicating of expectations and/or tracking of federal award expenditures failed to be conducted. Moving forward, the Township will implement formal written internal controls over compliance, through the hiring of competent and complete staffing towards the end of 2020 and into 2021.

LOWER PAXTON TOWNSHIP

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

There were no prior year findings.