

**TOWNSHIP OF MILLCREEK,
PENNSYLVANIA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Township Supervisors
Township of Millcreek
Erie, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Millcreek, Pennsylvania (the "Township") as of and for the year ended December 31, 2019, 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 did not audit the financial statements of the Millcreek Township Sewer Authority, which in total represents 100% of assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Millcreek Township Sewer Authority, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township, as of December 31, 2019, 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.



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Adoption of GASB Statements

As described in Note 1 to the financial statements, the Township adopted Governmental Accounting Standards Board (GASB) Statement No. 84, "*Fiduciary Activities*", and Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". Our opinion is not modified with respect to these matters.

Emphasis of Matter

As discussed in Note 20, subsequent events may lead the Township to have a significant decrease in revenues. Management has determined that it is not possible to predict the eventual outcome of the subsequent event. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

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 the net pension liability and related ratios – last 10 years, schedule of Township contributions – last 10 years, schedule of investment returns – last 10 years, notes to the supplementary schedules related to pensions, and changes in the net OPEB liability and related ratios – last 10 years (as listed in the table of contents as required supplementary information) on pages 4 - 15 and 64 - 70 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.



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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. Supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary 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 July 30, 2020 on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Pittsburgh, Pennsylvania
July 30, 2020

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Township of Millcreek, Pennsylvania, hereafter referred to as the "Township", is pleased to present its financial statements developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements – Management's Discussion and Analysis – For State and Local Governments (hereafter "GASB 34"), and related standards. GASB 34 enhances information provided to the users of its financial statements. This section of the financial reporting package presents our discussion and analysis of the Township's financial performance during the year that ended on December 31, 2019. Please read this Management Discussion and Analysis in conjunction with the Township's financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of the following parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information

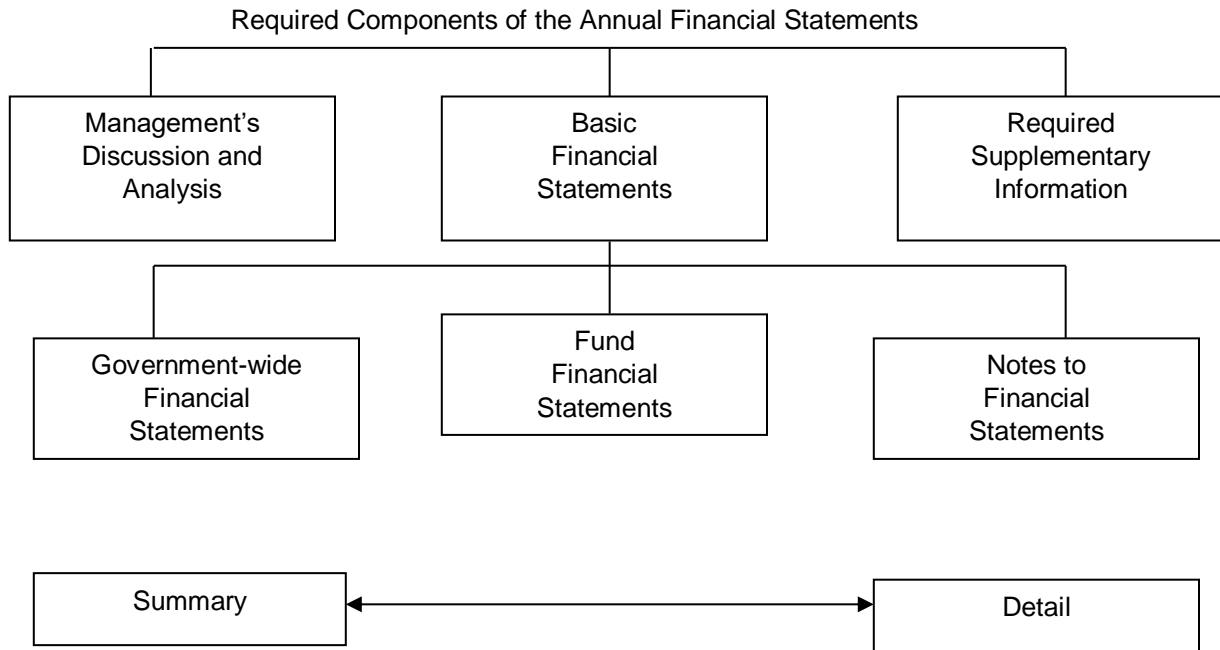
Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the Township's government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the Township's budget to actual figures for the general fund, state fund, and sinking fund.

The basic financial statements present two different views of the Township.

- *Government-wide financial statements*, the first two statements, provide information about the Township's overall financial status.
- *Fund financial statements*, the remaining statements, focus on individual parts of the Township's government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
 - *Governmental fund statements* show how general government services such as public safety, public works, and culture and recreation are financed in the short term, as well as what remains for future spending.
 - *Fiduciary fund statements* reflect activities involving resources that are held by the Township as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the Township's programs.
 - *Proprietary fund statements* reflect activities in which the Township charges customers for the services it provides. It uses the same basis of accounting as business-type activities, therefore these statements will be considerably similar.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Table A-1: Organization of the Township's annual financial report



TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Table A-2 summarizes the major features of the Township's financial statements, including the area of the Township's activities they cover and the types of information they contain.

Table A-2: Major features of the government-wide and fund financial statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the Township, such as public safety	The activities of the Township, such as the Sewer Revenue Fund	Instances in which the Township administers resources on behalf of others
Required Financial Statements	-Statement of net position -Statement of activities	-Balance sheet -Statement of revenues, expenditures and changes in fund balances	-Statement of net position -Statement of revenues, expenses and changes in net position -Statement of cash flows	-Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset information	All assets and liabilities both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during the year or soon thereafter; expenditures when payments for goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of the overview explains the structure and contents of the government-wide and fund financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Government-wide Financial Statements

Government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all the Township's assets, liabilities, deferred inflows, and deferred outflows except fiduciary funds, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the Township's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

Net position is one way to measure the Township's financial position. Over time, increases or decreases in the Township's net position is one indicator of whether the Township's financial position is improving or deteriorating. However, other non-financial factors such as changes in the Township's property tax base and general economic conditions must be considered to assess the overall position of the Township.

The Statement of Net Position and the Statement of Activities include the following:

- *Governmental activities* include the Township's basic services such as police, administration, and all departments with the exception of the Sewer Revenue Fund.
- *Business-type activities* include services which have a charge based on the amount of usage. The Township charges fees to recover the cost of the entire operations of the sewer system as well as all capital expenses associated with the facility.
- *Component Units* include the Millcreek Township Sewer Authority in this report because although legally separate, the Township guarantees their debt. Separately issued financial statements can be obtained for this component unit by contacting the Sewer Authority.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets in the fund level statements are reported as expenditures when financial resources (money) are expended to purchase or build assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

Government-wide statements are reported on the accrual basis of accounting that involves the following steps to format the statement of net position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities
- Allocate net position balances as follows:
 - Net investment in capital assets

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Government-Wide Financial Statements (Continued)

- Restricted net position is the net position with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position is net position that does not meet any of the above restrictions.

Fund Financial Statements

Fund financial statements provide more detailed information on the Township's most significant funds, not the Township as a whole. Funds are accounting devices, i.e., a group of related accounts, the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using the modified accrual basis of accounting.

The Township has three kinds of funds:

- *Governmental funds* include most of the Township's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and: (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting.

The relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Township adopts an annual budget for the general fund, as required by state law. The Township also adopts a budget for the state fund and the sinking fund. A budgetary comparison of the Township's general fund, state fund, and sinking fund are presented as required supplementary information.

- *Proprietary Funds* report business-type programs and activities that charge fees designed to recover the cost of providing services. The proprietary fund reports using the accrual basis of accounting.
- *Fiduciary Funds* are funds for which the Township is the trustee or fiduciary. These include certain custodial funds, or clearing accounts for assets held by the Township in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The Township is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net position. These funds are excluded from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations. The fiduciary funds are reported using the accrual basis of accounting.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Position

The Township's total assets were \$148,628,598 at December 31, 2019. Of this amount, \$104,812,698 was capital assets, net of depreciation.

Condensed Statement of Net Position – 2019/2018

	2019 Governmental Activities	2018 Governmental Activities	2019 Business-Type Activities	2018 Business-Type Activities	Governmental Changes from 2019 to 2018	Business-Type Changes from 2019 to 2018
Capital Assets	\$ 50,419,187	\$ 51,987,327	\$ 54,393,511	\$ 53,584,610	\$ (1,568,140)	\$ 808,901
Other Assets	39,292,681	32,967,975	4,523,219	2,263,108	6,324,706	2,260,111
Total Assets	\$ 89,711,868	\$ 84,955,302	\$ 58,916,730	\$ 55,847,718	\$ 4,756,566	\$ 3,069,012
Deferred Outflows	6,780,698	\$ 5,537,258	\$ 469,052	\$ 481,500	\$ 1,243,440	\$ (12,448)
Total Deferred Outflows	\$ 6,780,698	\$ 5,537,258	\$ 469,052	\$ 481,500	\$ 1,243,440	\$ (12,448)
Current Liabilities	\$ 3,278,872	\$ 2,858,021	\$ 260,680	\$ 54,556	\$ 420,851	\$ 206,124
Long-term Liabilities	47,924,589	52,549,155	829,490	865,624	(4,624,566)	(36,134)
Total Liabilities	\$ 51,203,461	\$ 55,407,176	\$ 1,090,170	\$ 920,180	\$ (4,203,715)	\$ 169,990
Deferred Inflows	\$ 9,203,333	\$ 1,159,483	\$ 768,485	\$ 100,824	\$ 8,043,850	\$ 667,661
Total Deferred Inflows	\$ 9,203,333	\$ 1,159,483	\$ 768,485	\$ 100,824	\$ 8,043,850	\$ 667,661
Net Position						
Net Investment in Capital Assets	\$ 50,040,853	\$ 51,987,327	\$ 53,968,511	\$ 53,584,610	\$ (1,946,474)	\$ 383,901
Restricted for:						
Road Surface Repairs	269,877	167,018	-	-	102,859	-
Debt Service	370,285	3,098	-	-	367,187	-
Unrestricted	(14,595,243)	(18,231,542)	3,558,616	1,723,604	3,636,299	1,835,012
Total Net Position	\$ 36,085,772	\$ 33,925,901	\$ 57,527,127	\$ 55,308,214	\$ 2,159,871	\$ 2,218,913

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Change in Net Position

The following statement of activities represents the change in net position for the year ended December 31, 2019 and December 31, 2018 and changes from 2019 to 2018. It shows revenues by source and expenses by function for governmental activities.

Condensed Statement of Activities

	2019 Governmental Activities	2018 Governmental Activities	2019 Business-Type Activities	2018 Business-Type Activities	Governmental Changes from 2019 to 2018	Business-Type Changes from 2019 to 2018
Program Revenues:						
Charges for Services	\$ 2,381,562	\$ 2,165,679	\$ 9,941,507	\$ 11,004,393	\$ 215,883	\$ (1,062,886)
Grants and Contributions	3,633,827	2,911,984	-	-	721,843	-
General Revenues:						
Property Taxes	13,453,977	13,551,197	-	-	(97,220)	-
Income Taxes	8,115,069	7,522,981	-	-	592,088	-
Other Taxes	2,200,310	2,456,489	-	-	(256,179)	-
Investment Earnings	951,589	420,197	20,310	54,491	531,392	(34,181)
Gain (Loss) on Disposal of Assets	89,173	96,040	-	-	(6,867)	-
Miscellaneous	383,796	164,992	-	-	218,804	-
Total Revenues	<u>31,209,303</u>	<u>29,289,559</u>	<u>9,961,817</u>	<u>11,058,884</u>	<u>1,919,744</u>	<u>(1,097,067)</u>
Expenses						
General Government	5,261,413	6,543,189	-	-	(1,281,776)	-
Public Safety	13,937,435	18,617,307	-	-	(4,679,872)	-
Highways and Streets	9,053,477	11,351,165	-	-	(2,297,688)	-
Culture and Recreation	1,376,799	1,425,198	-	-	(48,399)	-
Sanitation	590,980	524,640	-	-	66,340	-
Interest	7,549	-	-	-	7,549	-
Sewer Revenue Fund	-	-	8,361,535	10,195,771	-	(1,834,236)
Total Expenses	<u>30,227,653</u>	<u>38,461,499</u>	<u>8,361,535</u>	<u>10,195,771</u>	<u>(8,233,846)</u>	<u>(1,834,236)</u>
Excess (Deficit) Before Transfers	<u>981,650</u>	<u>(9,171,940)</u>	<u>1,600,282</u>	<u>863,113</u>	<u>10,153,590</u>	<u>737,169</u>
Transfers	32,728	17,408	-	(17,408)	15,320	17,408
Special Item - Transfer of Operations (Note 18)	-	-	618,631	-	-	618,631
Change in Net Position	<u>1,014,378</u>	<u>(9,154,532)</u>	<u>2,218,913</u>	<u>845,705</u>	<u>10,168,910</u>	<u>1,373,208</u>
Net Position - January 1	33,925,901	62,753,113	55,308,214	54,976,223	(28,827,212)	331,991
Restatement (Note 19)	1,145,493	(19,672,680)	-	(513,714)	20,818,173	513,714
Net Position, Ending	<u>\$ 36,085,772</u>	<u>\$ 33,925,901</u>	<u>\$ 57,527,127</u>	<u>\$ 55,308,214</u>	<u>\$ 2,159,871</u>	<u>\$ 2,218,913</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Net Program Expenses

Net program expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2019, property taxes brought in \$13,453,977.

Net Cost of Governmental Activities

	2019 Total Cost of Services	2018 Total Cost of Services	2019 Net Cost of Services	2018 Net Cost of Services
Program:				
General Government	\$ 5,261,413	\$ 6,543,189	\$ (3,076,762)	\$ (4,759,357)
Public Safety	13,937,435	18,617,307	(12,669,975)	(17,993,259)
Highways and Streets	9,053,477	11,351,165	(6,944,366)	(9,520,865)
Sanitation	590,980	524,640	(390,029)	18,734
Culture and Recreation	1,376,799	1,425,198	(1,123,583)	(1,179,089)
Community Development	-	-	-	50,000
Interest on Long-Term Debt	7,549	-	(7,549)	-
Total	<u>\$ 30,227,653</u>	<u>\$ 38,461,499</u>	<u>\$ (24,212,264)</u>	<u>\$(33,383,836)</u>

The Township relied on property taxes and other general revenues to fund 80.01% of its governmental activities in 2019.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Capital Assets

The Township's investment in capital assets at December 31, 2019, net of accumulated depreciation, was \$104,812,698. Capital assets consist primarily of land, buildings and equipment. The following is a summary of capital assets at December 31, 2019:

GOVERNMENTAL ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 3,746,175	\$ -	\$ -	\$ 3,746,175
Total Capital Assets, Not Being Depreciated	<u>3,746,175</u>	<u>-</u>	<u>-</u>	<u>3,746,175</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	10,416,087	-	-	10,416,087
Infrastructure	72,849,490	-	-	72,849,490
Equipment	6,516,039	612,103	(78,460)	7,049,682
Vehicles	6,612,469	314,335	(293,740)	6,633,064
Total Capital Assets, Being Depreciated	<u>96,394,085</u>	<u>926,438</u>	<u>(372,200)</u>	<u>96,948,323</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(6,798,760)	(247,460)	-	(7,046,220)
Infrastructure	(32,936,531)	(1,012,123)	-	(33,948,654)
Equipment	(4,775,716)	(468,964)	4,610	(5,240,070)
Vehicles	(3,641,926)	(398,441)	-	(4,040,367)
Total Accumulated Depreciation	<u>(48,152,933)</u>	<u>(2,126,988)</u>	<u>4,610</u>	<u>(50,275,311)</u>
Total Capital Assets, Being Depreciated, Net	<u>48,241,152</u>	<u>(1,200,550)</u>	<u>(367,590)</u>	<u>46,673,012</u>
Governmental Activities Capital Assets, Net	<u>\$51,987,327</u>	<u>\$(1,200,550)</u>	<u>\$(367,590)</u>	<u>\$ 50,419,187</u>
BUSINESS-TYPE ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Sewer System	\$79,605,344	\$ 667,296	\$ -	\$ 80,272,640
Operating Equipment	1,543,724	143,613	-	1,687,337
Office Equipment	414,455	-	-	414,455
Vehicles	925,303	799,979	-	1,725,282
Building	216,375	-	-	216,375
Total Capital Assets, Being Depreciated	<u>82,705,201</u>	<u>1,610,888</u>	<u>-</u>	<u>84,316,089</u>
Less Accumulated Depreciation	<u>(28,641,200)</u>	<u>(1,281,378)</u>	<u>-</u>	<u>(29,922,578)</u>
Business-Type Activities Capital Assets, Net	<u>\$54,064,001</u>	<u>\$ 329,510</u>	<u>\$ -</u>	<u>\$ 54,393,511</u>

Detailed information about the Township's capital assets can be found in Note 5, Notes to the Financial Statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Debt Administration

At December 31, 2019, the Township had \$48,649,034 of long-term liabilities outstanding. Long-term liabilities decreased by 7.8% from the previous year. The following is a summary of long-term liabilities for the 2019 year:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable:					
General Obligation Note, Series C of 2019	\$ -	\$ 325,000	\$ -	\$ 325,000	\$ 61,133
General Obligation Note, Series A of 2019	-	390,000	(336,666)	53,334	30,217
Total Bonds and Notes Payable	-	715,000	(336,666)	378,334	91,350
Other Liabilities:					
Compensated Absences	1,764,816	-	(13,304)	1,751,512	-
Net Pension Liability	8,805,744	-	(6,122,386)	2,683,358	-
OPEB	41,978,595	1,027,745	-	43,006,340	-
Total Other Liabilities	52,549,155	1,027,745	(6,135,690)	47,441,210	-
Governmental Activities Long-Term Liabilities	<u>\$ 52,549,155</u>	<u>\$ 1,742,745</u>	<u>\$ (6,472,356)</u>	<u>\$ 47,819,544</u>	<u>\$ 91,350</u>
Business-Type Activities:					
Business-Type Activities					
General Obligation Note, Series B of 2019	\$ -	\$ 425,000	\$ -	\$ 425,000	\$ 79,361
Compensated Absences	99,907	-	(16,427)	83,480	-
OPEB	92,599	228,411	-	321,010	-
Business-Type Activities Long-Term Liabilities	<u>\$ 192,506</u>	<u>\$ 653,411</u>	<u>\$ (16,427)</u>	<u>\$ 829,490</u>	<u>\$ 79,361</u>

See Note 8 for more information regarding long-term liabilities.

GOVERNMENTAL FUNDS

The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The Township's governmental funds include the general fund, and the state fund and sinking fund which are special revenue funds. The general fund is the chief operating fund for the Township. Special revenue funds are restricted to specific legislated use. The major funds are shown on the statement of revenues, expenditures and changes in fund balances in the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

GOVERNMENTAL FUND REVENUES

Governmental fund revenues by source at December 31, 2019 and 2018 were as follows:

	2019	2018	Change from 2018 to 2019
Revenues:			
Taxes	\$ 23,861,197	\$ 23,857,856	\$ 3,341
Licenses and Permits	877,810	894,645	(16,835)
Fines	201,547	213,238	(11,691)
Intergovernmental Revenues	3,662,026	2,938,784	723,242
Charges for Services	837,845	413,334	424,511
Special Assessments	723,541	670,296	53,245
Rents and Royalties	91,791	442,519	(350,728)
Investment Income (Loss)	951,589	66,245	885,344
Total Revenue	<u>\$ 31,207,346</u>	<u>\$ 29,496,917</u>	<u>\$ 1,710,429</u>

Revenue increased by \$1,710,429, or 5.79% in 2019. This was primarily due to an increase in intergovernmental revenues, investment income, and charges for services.

GOVERNMENTAL FUND EXPENDITURES

Governmental fund expenditures by function at December 31, 2019 and 2018 were as follows:

	2019	2018	Change from 2018 to 2019
Expenditures:			
General Government	\$ 4,153,381	\$ 5,130,772	\$ (977,391)
Public Safety	13,037,129	13,309,707	(272,578)
Sanitation	496,064	689,445	(193,381)
Highways	7,995,842	8,677,498	(681,656)
Parks and Recreation	1,072,568	1,319,731	(247,163)
Insurance	191,823	186,921	4,902
Debt Service:			
Principal	336,666	34,319	302,347
Interest and Other Changes	7,549	-	7,549
Total Expenditures	<u>\$27,291,022</u>	<u>\$29,348,393</u>	<u>\$ (2,057,371)</u>

Expenditures decreased by \$2,057,371, or 7% in 2019. This was primarily due to better than expected health insurance costs in 2019.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

GOVERNMENTAL FUND BALANCES

Ending balances for governmental funds at December 31, 2019 and 2018 were as follows:

Fund	2019	2018
General Fund	\$35,111,732	\$30,836,618
State/Special Revenue Fund	269,877	167,018
Sinking Fund	370,285	3,098
Total Fund Balance	<u>\$35,751,894</u>	<u>\$31,006,734</u>

The reasons for the changes in governmental fund balances are explained above in the governmental funds revenues and expenditures sections. In addition, for the fiscal year 2019, the Water Authority Operating Account is accounted for and reported in the General Fund.

BUDGETARY HIGHLIGHTS

The Township adopts an annual appropriated budget for its general fund, state fund, and sinking fund on the modified accrual basis of accounting. In 2019, general fund revenues were over budget by \$2,816,675 or 11%, which can be attributed to higher than expected receipts of Other Taxes, Grants, and better than expected investment performance. The original and final budgeted expenditures were \$27,221,215. Actual expenditures were \$25,220,491, or 7% less than projected. The decrease is attributable to lower than expected costs for health insurance and lower spending levels for major equipment and project purchases. Detailed information about the Township's 2019 budgets for these funds can be found in Required Supplemental Information.

ECONOMIC CONDITIONS AND NEXT YEAR'S BUDGET

The Township has fairly stagnant property values which limit revenues and places constraints on expenditures and delivery of services. The millage rate for 2020 will remain the same at 3.5537 mills and the excess of expenditures over revenues will be funded from the general fund balance.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability. Questions concerning this financial information or requests for additional information should be directed to:

Township of Millcreek
Treasurer's Office
3608 West 26th Street
Erie, PA 16506

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2019

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 14,433,542	\$ 2,255,234	\$ 16,688,776
Investments	13,555,048	-	13,555,048
Receivables (Net, where applicable, of Allowance for Uncollectibles)			
Assessments	95,223	557,805	653,028
Taxes	2,698,417	-	2,698,417
Other Accounts Receivable	1,681,356	1,912,626	3,593,982
Due From Other Governments	253,782	-	253,782
Internal Balances	221,243	(221,243)	-
Inventory	249,025	-	249,025
Net Pension Asset	105,045	18,797	123,842
Note Receivable - Water Authority	6,000,000	-	6,000,000
Capital Assets: (Net)			
Depreciable	46,673,012	54,393,511	101,066,523
Non-depreciable	3,746,175	-	3,746,175
Total Assets	\$ 89,711,868	\$ 58,916,730	\$ 148,628,598
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	\$ 6,780,698	\$ 469,052	\$ 7,249,750
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 1,477,329	\$ 117,641	\$ 1,594,970
Accrued Expenses	574,419	33,039	607,458
Contractor Deposits	946,394	110,000	1,056,394
Unearned Revenues	14,568	-	14,568
Other Liabilities	266,162	-	266,162
Current Portion of Notes Payable	91,350	79,361	170,711
Non-Current Portions of Long-Term Liabilities:			
Notes Payable	286,984	345,639	632,623
Compensated Absences	1,751,512	83,480	1,834,992
Net OPEB Liability	43,006,340	321,010	43,327,350
Net Pension Liability	2,788,403	-	2,788,403
Total Liabilities	51,203,461	1,090,170	52,293,631
Deferred Inflows of Resources			
Deferred Inflows Related to OPEB	114,396	8,173	122,569
Deferred Inflows Related to Pension	9,088,937	760,312	9,849,249
Total Deferred Inflows of Resources	9,203,333	768,485	9,971,818
Net Position			
Net Investment in Capital Assets	50,040,853	53,968,511	104,009,364
Restricted Net Position			
Debt Service	370,285	-	370,285
Road Surface Repairs	269,877	-	269,877
Unrestricted	(14,595,243)	3,558,616	(11,036,627)
Total Net Position	\$ 36,085,772	\$ 57,527,127	\$ 93,612,899

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 5,261,413	\$ 1,980,754	\$ 203,897	\$ -	\$ (3,076,762)	\$ -	\$ (3,076,762)	\$ -
Public Safety	13,937,435	201,547	1,065,913	-	(12,669,975)	-	(12,669,975)	-
Highways and Streets	9,053,477	-	2,109,111	-	(6,944,366)	-	(6,944,366)	-
Sanitation	590,980	-	200,951	-	(390,029)	-	(390,029)	-
Culture and Recreation	1,376,799	199,261	53,955	-	(1,123,583)	-	(1,123,583)	-
Interest	7,549	-	-	-	(7,549)	-	(7,549)	-
Total Governmental Activities	30,227,653	2,381,562	3,633,827	-	(24,212,264)	-	(24,212,264)	-
Business-Type Activities:								
Sewer Revenue Fund	8,361,535	9,941,507	-	-	-	1,579,972	1,579,972	-
Total Primary Government	38,589,188	12,323,069	3,633,827	-	(24,212,264)	1,579,972	(22,632,292)	-
Component Unit:								
Sewer Authority	16,332	-	-	-	-	-	-	(16,332)
General Revenues:								
Property Taxes Levied for:								
General Purposes					13,453,977	-	13,453,977	-
Earned Income Taxes					8,115,069	-	8,115,069	-
Other Taxes					2,200,310	-	2,200,310	-
Investment Earnings					951,589	20,310	971,899	2,197
Gain (Loss) on Disposal of Assets					89,173	-	89,173	-
Miscellaneous					383,796	-	383,796	44,470
Transfers					32,728	-	32,728	-
Total General Revenues					25,226,642	20,310	25,246,952	46,667
Special Item - Transfer of Operations (Note 18)					-	618,631	-	(618,631)
Change in Net Position					1,014,378	2,218,913	1,034,688	(588,296)
Net Position - Beginning as Restated (Note 19)					35,071,394	55,308,214	90,379,608	588,296
Net Position - Ending					\$ 36,085,772	\$ 57,527,127	\$ 93,612,899	\$ -

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019

Assets	General Fund	State Fund Special Revenue Fund	Sinking Fund	Total Governmental Funds
Cash and Cash Equivalents	\$ 13,785,796	\$ 269,925	\$ 377,821	\$ 14,433,542
Investments	13,555,048	-	-	13,555,048
Tax Receivable, net	2,698,417	-	-	2,698,417
Notes Receivable	6,000,000	-	-	6,000,000
Due from Other Governments	253,782	-	-	253,782
Other Accounts Receivable	1,997,822	-	-	1,997,822
Other Current Assets	249,025	-	-	249,025
Total Assets	\$ 38,539,890	\$ 269,925	\$ 377,821	\$ 39,187,636
Liabilities				
Payroll Taxes and Other Payroll Withholdings	\$ 613,876	\$ -	\$ -	\$ 613,876
Accounts Payable	1,469,745	-	-	1,469,745
Unearned Revenue	14,568	-	-	14,568
Other Current Liabilities	1,173,099	48	7,536	1,180,683
Total Liabilities	3,271,288	48	7,536	3,278,872
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	156,870	-	-	156,870
Fund Balances				
Reserved				
Nonspendable	5,249,025	-	-	5,249,025
Restricted				
Capital Projects	589,727	-	-	589,727
Road Surface Repairs	-	269,877	-	269,877
Debt Service	-	-	370,285	370,285
Committed				
Capital Projects	18,802,957	-	-	18,802,957
Assigned	1,390,997	-	-	1,390,997
Unassigned	9,079,026	-	-	9,079,026
Total Fund Balances	35,111,732	269,877	370,285	35,751,894
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 38,539,890	\$ 269,925	\$ 377,821	\$ 39,187,636

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds		\$ 35,751,894
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$100,694,498 and the accumulated depreciation is \$50,275,311.		50,419,187
Revenues not available to pay for current period expenditures and therefore reported as deferred inflows of resources in the funds:		
Real estate taxes		156,870
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Both current and long-term liabilities are reported in the Statement of Net Position. Long-term liabilities at year-end consist of:		
Net OPEB Liability	(43,006,340)	
Net Pension Liability	(2,788,403)	
Net Pension Asset	105,045	
Deferred Outflows of Resources - Pension	6,780,698	
Deferred Inflows of Resources - Pension	(9,088,937)	
Deferred Inflows of Resources - OPEB	(114,396)	
Notes Payable	(378,334)	
Compensated Absences	(1,751,512)	(50,242,179)
Total net position of governmental activities		\$ 36,085,772

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	State Fund Special Revenue Fund	Sinking Fund	Total Governmental Funds
Revenues				
Taxes				
Real Estate Taxes	\$ 13,545,819	\$ -	\$ -	\$ 13,545,819
Real Estate Transfer Taxes	893,117	-	-	893,117
Earned Income Taxes	8,115,069	-	-	8,115,069
Local Services Tax	1,304,690	-	-	1,304,690
Other Taxes	2,502	-	-	2,502
Licenses and Permits				
Cable Television Franchise Fees	728,473	-	-	728,473
Other Licenses and Permits	149,337	-	-	149,337
Fines and Forfeits	201,547	-	-	201,547
Interest Earnings	920,498	31,012	79	951,589
Rents and Royalties	91,791	-	-	91,791
Federal Revenues	10,500	-	-	10,500
State Revenues				
Recycling/Act 101	159,814	-	-	159,814
Public Utility Realty Tax	21,564	-	-	21,564
Alcoholic Beverage Licenses	28,200	-	-	28,200
Motor Vehicle Fuel Tax	82,178	1,794,565	-	1,876,743
General Municipal Pension System Aid	1,070,260	-	-	1,070,260
Foreign Fire Insurance Tax Distribution	310,078	-	-	310,078
Local Share Assessment	122,067	-	-	122,067
Local Grants	62,800	-	-	62,800
Charges for Service				
Culture and Recreation	199,261	-	-	199,261
Other Charges for Service	638,584	-	-	638,584
Special Assessments	723,541	-	-	723,541
Total Revenues	29,381,690	1,825,577	79	31,207,346
Expenditures				
General Government	4,149,783	-	3,598	4,153,381
Public Safety	13,037,129	-	-	13,037,129
Public Works - Sanitation	496,064	-	-	496,064
Public Works - Highways and Streets	6,273,124	1,722,718	-	7,995,842
Culture and Recreation	1,072,568	-	-	1,072,568
Insurance	191,823	-	-	191,823
Debt Service				
Principal	-	-	336,666	336,666
Interest	-	-	7,549	7,549
Total Expenditures	25,220,491	1,722,718	347,813	27,291,022
Excess (deficiency) of revenues over expenditures	4,161,199	102,859	(347,734)	3,916,324
Other financing sources (uses)				
Proceeds from General Fixed Asset Disposition	89,173	-	-	89,173
Proceeds from Debt	-	-	715,000	715,000
Transfers In	32,807	-	-	32,807
Transfers Out	-	-	(79)	(79)
Refunds of Prior Year Revenues	(8,065)	-	-	(8,065)
Total other financing sources (uses)	113,915	-	714,921	828,836
Net change in fund balance	4,275,114	102,859	367,187	4,745,160
Fund balance, beginning of year, as restated (Note 19)	30,836,618	167,018	3,098	31,006,734
Fund balance, end of year	\$ 35,111,732	\$ 269,877	\$ 370,285	\$ 35,751,894

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCE – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2019

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

Net change in fund balances - total governmental funds \$ 4,745,160

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense is exceeded by capital outlay in the current period.

Capital outlays	926,438	
Loss on disposal	(367,590)	
Depreciation expense	<u>(2,126,988)</u>	(1,568,140)

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of long-term debt is reported as expenditures in governmental funds; however, they are reported as an addition or reduction of long-term liabilities in the statement of net position. In the current year, these amounts are:

Proceeds from debt	(715,000)	
Principal repayments	<u>336,666</u>	(378,334)

Governmental funds do not report the changes in compensated absences: 13,304

Governmental funds do not report the changes in the Other Post Employment Benefit liability and other related items:

Change in OPEB liability	(1,027,745)	
Change in deferred outflows - OPEB	<u>(114,396)</u>	(1,142,141)

Governmental funds do not report the changes in net pension liability and other related items:

Change in net pension liability	6,122,386	
Change in deferred outflows - pensions	1,243,440	
Change in deferred inflows - pensions	<u>(7,929,454)</u>	(563,628)

Real estate taxes reported in the funds include receipt of prior year

Current year	156,870	
Prior year	<u>(248,713)</u>	<u>(91,843)</u>

Changes in net position of governmental activities \$ 1,014,378

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF NET POSITION – PROPRIETARY FUND
DECEMBER 31, 2019

	Business-Type Activities - Enterprise Fund <u>Sewer Revenue</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 2,255,234
Accounts Receivable	1,454,348
Assessments Receivable	557,805
Other Accounts Receivable	<u>125,659</u>
Total Current Assets	<u>4,393,046</u>
Non-current Assets:	
Other Receivables	332,619
Net Pension Asset	18,797
Capital Assets (net of accumulated depreciation)	<u>54,393,511</u>
Total Non-current Assets	<u>54,744,927</u>
Total Assets	<u>59,137,973</u>
<u>Deferred Outflows of Resources</u>	
Deferred Outflows Related to Pension	<u>469,052</u>
Total Assets and Deferred Outflows	<u>\$ 59,607,025</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 117,641
Accrued Expenses	33,039
Contractor Deposits	110,000
Due to General Fund	221,243
Current Portion of Notes Payable	<u>79,361</u>
Total Current Liabilities	<u>561,284</u>
Non-current Liabilities:	
Compensated Absences	83,480
Notes Payable	345,639
Net OPEB Liability	<u>321,010</u>
Total Non-current Liabilities	<u>750,129</u>
Total Liabilities	<u>1,311,413</u>
<u>Deferred Inflows of Resources</u>	
Deferred Inflows Related to OPEB	8,173
Deferred Inflows Related to Pension	<u>760,312</u>
Total Deferred Inflows of Resources	<u>768,485</u>
<u>Net Position</u>	
Net Investment in Capital Assets	53,968,511
Unrestricted	<u>3,558,616</u>
Total Net Position	<u>57,527,127</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 59,607,025</u>

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCE – PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Business-Type Activities - <u>Enterprise Fund</u> <u>Sewer Revenue</u>
Operating Revenues	
Charges for Services	\$ 9,941,507
Total Operating Revenues	<u>9,941,507</u>
Operating Expenses	
Sewer Treatment and Transportation	4,748,111
Inspection and Maintenance Wages	357,799
Payroll Taxes	69,995
Insurance	601,313
Repairs and Maintenance	389,706
Vehicle Operating Expense	49,296
Retirement	113,165
Utilities	174,915
Miscellaneous Expenses	9,993
Administrative Expenses	547,808
Professional Fees	2,987
Communications	15,069
Depreciation	<u>1,281,378</u>
Total Operating Expenses	<u>8,361,535</u>
Operating Income	<u>1,579,972</u>
Nonoperating Revenues (Expenses)	
Penalty and Interest Income	<u>20,310</u>
Total Nonoperating Revenues (Expenses)	<u>20,310</u>
Special Item - Transfer of Operations (Note 18)	<u>618,631</u>
Changes in Net Position	2,218,913
Net Position - Beginning of Year	<u>55,308,214</u>
Net Position - End of Year	<u>\$ 57,527,127</u>

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Business-Type Activities - Enterprise Fund
	Sewer Revenue
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 10,109,132
Cash Paid to Employees	(1,027,332)
Cash Paid to Suppliers	(6,553,207)
	2,528,593
Cash Flows from Non-capital Financing Activities:	
Cash from Transfer of Operations (Note 18)	281,388
	281,388
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Long Term Debt	425,000
Acquisition of Capital Assets	(1,610,888)
	(1,185,888)
Cash Flows from Investing Activities:	
Penalty and Interest Income	20,310
	20,310
Net Increase in Cash and Cash Equivalents	1,644,403
Beginning Cash and Cash Equivalents	610,831
Ending Cash and Cash Equivalents	\$ 2,255,234
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 1,579,972
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,281,378
GASB 68 Revenue	(803,092)
GASB 75 Expenses	236,584
(Increase) Decrease in Current Assets	
Accounts Receivable	167,625
Increase (Decrease) in Liabilities	
Accounts Payable	98,897
Interfund Payable	(32,771)
	2,528,593
Net cash provided by operating activities	\$ 2,528,593

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2019

	Pension and Other Employee Benefit Trust Funds	Custodial Funds
<u>Assets</u>		
Cash and Cash Equivalents	\$ 1,528,920	\$ 1,746,394
Investments	85,743,044	-
Accrued Interest Receivable	146,635	-
Accounts Receivable	-	158,468
	-	158,468
Total Assets	\$ 87,418,599	\$ 1,904,862
<u>Liabilities and Net Position</u>		
Liabilities:		
Accounts Payable	\$ 34,780	\$ 70,957
Earned Income Tax Escrow Liability	-	801,871
Contractor Deposits	-	1,028,424
Escheat Liability	-	3,610
	-	3,610
Total Liabilities	34,780	1,904,862
Net Position:		
Restricted for:		
Pensions	87,383,819	-
Total Net Position	\$ 87,383,819	\$ -

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Pension and Other Employee Benefit Trust Funds	Custodial Funds
<u>Additions:</u>		
Contributions	\$ 3,417,028	\$ -
Investment Earnings	13,201,968	-
Capital Transfers	52,281	-
Transfers In	-	79
	<u>16,671,277</u>	<u>79</u>
Total Additions		
<u>Deductions:</u>		
Benefit Payments	4,201,587	-
Administrative Expense	34,473	-
Transfers Out	-	32,807
	<u>4,236,060</u>	<u>32,807</u>
Total Deductions		
Increase (Decrease) in Net Position	12,435,217	(32,728)
<u>Net Position:</u>		
Beginning of year as restated (Note 19)	<u>74,948,602</u>	<u>32,728</u>
End of year	<u>\$ 87,383,819</u>	<u>\$ -</u>

The notes are an integral part of the financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Township of Millcreek, Pennsylvania (the "Township") is a Second-Class Township that was formed in 1803. The Township operates under the direction of three elected supervisors who serve a six-year term and provides the following services: general, public safety, public works, sanitation, and culture and recreation. The accompanying financial statements are 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) Reporting Entity

The Township follows the criteria promulgated by the GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*", for purposes of determining the scope of its reporting entity. As required by accounting principles generally accepted in the United States of America, the financial statements include those of the Township (the "Primary Government") and its Component Unit. The Township has one discretely presented component unit which is legally separate from the Township.

B) 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 primary government and its component units. The effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which direct expenses of a given function, or segment, are affected 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues as opposed to program revenues.

Revenues from wastewater services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, reserves, and debt service coverage.

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

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C) 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 fiduciary fund and proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. 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 reported as expenditures in the government-wide financial statements. Proceeds of long-term debt are recorded as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liability, rather than as expenditures.

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.

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 excludes amounts represented by noncurrent liabilities.

Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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 other financing sources rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Township reports the following major governmental funds:

- 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. Revenues of this fund are primarily derived from real estate taxes, state and federal grants, and fees for services. Many of the basic activities of the Township are accounted for in this fund.
- The State Fund accounts for receipts of the Highway Aid grant from the Commonwealth of Pennsylvania that are legally restricted for certain operating expense and capital improvements associated with road maintenance and street lighting.
- The Sinking Fund is used to account for the payment of general long-term debt principal, interest, and related costs.

The Township reports the following proprietary fund:

- The Sewer Revenue Fund is the only enterprise fund of the Township. It accounts for the operations of the sewer system.

Additionally, the Township reports the following fiduciary fund types:

- The Pension Trust Fund and Deferred Compensation Fund are fiduciary component units. These Trust Funds are used to account for the pension plan contributions of the Township and its employees and the related benefit payments and other plan costs.
- The three Custodial Funds held by the Township are used to account for assets held as an agent for individuals and/or other governmental units.

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Balance

1. Cash and Cash Equivalents

The Township considers cash and cash equivalents to include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

2. Investments

Investments of the Township are reported at fair value. Investments that do not have an established market value are reported at estimated values.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources and Net Position or Fund Balance (Continued)

3. Interfund Transactions

The Township affects a variety of transactions between funds to finance operations. Certain interfund transactions have not been paid or received as of December 31, 2019, and appropriate interfund receivables or payables have been established accordingly.

4. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental activity column in the government-wide financial statements. Property, plant and equipment with initial, individual costs that equal or exceed \$1,500 and estimated useful lives of over one year are recorded as capital assets. The Township adopted the provisions of GASB 34 related to infrastructure on the retroactive basis. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Capital assets of the Township are depreciated using the straight line method over the following intended useful lives:

<u>Asset</u>	<u>Governmental Activities Years</u>	<u>Business-Type Activities Years</u>
Land	N/A	N/A
Buildings and Improvements	5-50	25
Equipment	3-25	5-10
Vehicles	3-7	3-7
Furniture and Fixtures	7-10	7-10
Infrastructure	10-99	25-99

The sewer system that was constructed by Millcreek Township is carried as an asset of the Sewer Revenue Fund of Township of Millcreek. The sewer system that was constructed by the Township is carried at the fair market value of this system as of May 1, 1958. The sewer lines that were installed by private developers are carried at the amount these lines would have cost if they were constructed by the Authority. The appraisal values were determined by the Authority's consulting engineers.

5. Allowance for Doubtful Accounts

Taxes receivable have been reported net of allowance for doubtful accounts of \$23,425.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources and Net Position or Fund Balance (Continued)

6. Inventories and Prepaid Items

The Township's inventory shown in the general fund consists of expendable supplies held for consumption, and is therefore priced at cost.

Payments made to vendors for services that will benefit future periods are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which it was consumed.

7. Long-Term Obligations

In the government-wide, proprietary, and component unit financial statements, outstanding long-term debts are reported as liabilities in the Statement of Net Position. Bond discounts and premiums are capitalized and amortized over the life of the bonds using a method that approximates the effective interest method. Bond issuance costs are expensed as incurred.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources of the current period, and issuance costs are reported as expenditures.

8. Compensated Absences

Township policy permits employees to accumulate a limited amount of earned but unused vacation and sick leave time. These benefits are payable to employees upon separation of services. All leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is recorded. The computed liability is in compliance with GASB 16, *Accounting for Compensated Absences*.

The Township's vacation, compensated time and sick pay policy in effect during 2019 is as follows:

Vacation – General Employees:

- First Year of Employment: No vacation
- 1-5 Years of Service: 2 weeks annual vacation
- 5-10 Years of Service: 3 weeks annual vacation
- Over 10 Years of Service: 3 weeks plus one day for each year of service over 10 years
- Vacation Carryover: Maximum 10 days

Vacation – Police:

- Same provisions as general employees, except vacation carryover is a maximum of 45 days.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Balance (Continued)

8. Compensated Absences (Continued)

Compensated Time

All Township employees except streets and garage employees can elect to accumulate overtime worked instead of being paid. This accumulated overtime can be taken as vacation. Streets and garage employees can only elect compensated time for overtime worked on holidays. The compensated time can be carried over indefinitely by all employees except management employees. Police employees can accumulate up to 60 hours. General employees can accrue up to the FLSA limit of 240 hours.

General Employees - Sick Days:

- First Year of Employment: None
- Hired After 1/1/1996: 15 days per year
- Hired After 1/1/1996: 10 days per year
- Maximum Accumulation: 165 days payable at a rate of 1 hour for the first 50 days, 2 hours per the next 50 days, 3 hours for all days over 100 up to maximum of 165 days. Payable upon termination if eligible for retirement.

Police – Sick Days:

- First Year of Employment: 5 days
- After First Year of Employment: If hired before June 7, 2017 – 15 days per year. If hired after June 7, 2017 – 10 days per year.
- Maximum Accumulation: 220 days payable at rate of 1/3 of each day accumulated. Payable upon termination if eligible for retirement. Effective in 2000, after reaching the maximum accumulation of 220 sick days, one day for each three days not used of the annual 15 sick days allowed will be paid or time off taken during the following year. If hired after June 7, 2017, there is no carryover or payout if not used.

9. Unearned Revenues

Unearned revenues are reported in the government-wide, enterprise fund, and governmental fund financial statements. Unearned revenues represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as unearned revenues. The Township deems revenues received within 60 days of year end to be available, including property taxes.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Balance (Continued)

10. Deferred 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 government has two types of items, which arise under a modified accrual basis of accounting, that qualify for reporting in this category. The first item, unavailable 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. The second is deferred inflows for pensions and OPEB. They are related to actuarial calculations related to the Net Position Liability and the OPEB Liability that are amortized over the actuarially determined periods. Deferred inflows of resources related to pensions and OPEB are described further in Note 6 and Note 7, respectively.

11. Deferred Outflows of Resources

In addition to assets, the statement of net 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 government currently reports deferred outflows related to pensions. For more detail regarding deferred outflows related to pensions, see Note 6.

12. Net Position/Fund Balances

The government-wide and proprietary funds 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.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Township reports \$269,877 of net position restricted for road surface repairs and \$370,285 for debt service December 31, 2019.
- *Unrestricted Net Position* – This category represents net position of the Township, not restricted for any project or other purpose.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Balance (Continued)

12. Net Position/Fund Balances (Continued)

GASB Statement No. 54 establishes accounting and financial standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions as follows:

- Non-spendable – This classification consists of accounts that cannot be spent because they are not in spendable form or are legally required to be maintained intact.
- Restricted – This classification consists of amounts that are restricted to specific purposes. The Township's restricted fund balances consist of monies for road surface repairs and debt service.
- Committed – This classification consists of amounts used for specific purposes imposed by formal action of the Township's highest level of decision-making authority, the governing Supervisors. The removal or modification of the use of committed funds can only be accomplished by a formal action of the Township Supervisors prior to fiscal year end. The Township's committed fund balances consist of funds committed for capital projects.
- Assigned – This classification consists of amounts constrained by the Township's intent to be used for specific purposes that are neither restricted nor committed. The Township's Board of Supervisors have delegated the authority to assign fund balance for specific purposes to the Treasurer. The Township's assigned fund balances consist of funds assigned for capital projects.
- Unassigned – This classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund permitted to report a positive unassigned fund balance.

The Township's GASB 54 policy is to first apply expenditures against any restricted fund balances, committed fund balances, assigned fund balances, and then unassigned fund balances, in that order.

E) 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.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F) Adoption of Governmental Accounting Standards Board Statements

The Township adopted the provisions of GASB Statement No. 84, "*Fiduciary Activities*". The adoption of this statement resulted in a prior period restatement of fiduciary net position (Note 19).

The Township adopted the provisions of GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". The adoption of this statement had no effect on previously reported amounts.

G) Pending Changes in Accounting Principles

In November 2016, the GASB issued Statement No. 83, "*Certain Assets Retirement Obligations*". The Township is required to adopt Statement No. 83 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases*". The Township is required to adopt statement No. 87 for its fiscal year 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt*". The Township is required to adopt Statement No. 88 for its fiscal year 2020 financial statements.

In June 2018 the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The Township is required to adopt Statement No. 89 for is fiscal year 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, "*Majority Equity Interests, an Amendment of GASB Statement No. 14 and 16*". The Township is required to adopt Statement No. 90 for its fiscal year 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, "*Conduit Debt Obligations*". The Township is required to adopt Statement No. 91 for its fiscal year 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, "*Omnibus 2020*". The Township is required to adopt Statement No. 92 for its fiscal year 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, "*Replacement of Interbank Offered Rates*". The Township is required to adopt Statement No. 93 for its fiscal year 2022 financial statements.

In March 2020, the GASB issued Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*". The Township is required to adopt Statement No. 94 for its fiscal year 2023 financial statements.

In June 2020, the GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*". The Township is required to adopt Statement No. 96 for its fiscal year 2023 financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G) Pending Changes in Accounting Principles (Continued)

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*". The Township is required to adopt Statement No. 97 for its fiscal year 2022 financial statements.

The Township has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: BUDGETARY DATA

Commonwealth of Pennsylvania statutes require that all Township Governments establish budgetary systems and approve annual operating budgets. The Township's annual budget includes the General Fund and certain Special Revenue Funds and is based on estimates of revenues and expenditures approved by the Township Supervisors. Township of Millcreek adopted the 2019 budget on the same basis of accounting as reported in the fund financial statements. Township of Millcreek follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Township Supervisors interview each department head to discuss their budgets, as submitted, and allows them to substantiate projected expenditures.
2. Upon consolidation of department and agency expenditure projections, the Township Supervisors ascertain the most viable method of financing them.
3. Subsequently, the Treasurer assembles the preliminary projections of revenues and expenditures into a final budget incorporating any revisions or adjustments resulting from the aforementioned Township Supervisors' review.
4. By early December, the final budget is presented to the Township Supervisors. Pursuant to budgetary requirements as set forth in the Township Code, public notice is given that the final budget is available for inspection for a period of 20 days.
5. After a 20-day inspection period, but no later than December 31, the Township Supervisors adopt the final budget by enacting the appropriate resolution.

During the course of the year, departmental needs may change, emergencies may occur, or additional revenue sources may arise. As a result, funds are often transferred between line items of the department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and are approved by the Township Supervisors. Financial analysis is provided monthly to management showing spending levels in comparison to the current budget. The budget is also reviewed by management with other departments.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS

The components of cash and cash equivalents and investments at December 31, 2019 are as follows:

	Cash and Cash Equivalents	Investments	Total
General Fund	\$ 13,785,796	\$ 13,555,048	\$ 27,340,844
State Fund	269,925	-	269,925
Sinking Fund	377,821	-	377,821
Sewer Revenue Fund	2,255,234	-	2,255,234
Pension Trust Fund	1,528,920	78,934,847	80,463,767
Deferred Compensation Fund	-	6,808,197	6,808,197
Custodial Funds	1,746,394	-	1,746,394
	<u>\$ 19,964,090</u>	<u>\$ 99,298,092</u>	<u>\$ 119,262,182</u>

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. As of December 31, 2019, the Township's cash balances for its governmental activities, business-type activities, and custodial funds, excluding the pension trust fund were \$18,435,170 and its bank balances were \$18,261,151. Of these bank balances, \$17,511,969 was collateralized with securities held by the pledging financial institutions, or by their trust departments or agents, but not in the Township's name. The depositories secure the deposit of these funds, which are not covered by the applicable Federal Deposit Insurance Corporation coverage. At December 31, 2019, \$749,182 of the bank balance was covered by federal depository insurance.

At December 31, 2019, the Township's general fund had the following investments and maturities:

Investment Type	Fair Value	Less Than		
		1 Year	1-5 Years	6-10 Years
US Government Treasuries	\$ 1,835,091	\$ 201,696	\$ 1,417,645	\$ 215,750
Tax Municipal Bonds	3,706,293	649,684	2,301,550	755,059
Certificates of Deposit	6,977,517	1,246,833	4,979,887	750,797
Cash and Cash Equivalents	<u>1,036,147</u>			
Total Investments	<u>\$ 13,555,048</u>			

Custodial Credit Risk -- Custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. As of December 31, 2019, the Township's entire investment balance of \$13,555,048 was exposed to custodial credit risk. All of the Township's investments were uninsured and held by the counterparty, but not in the Township's name. The counterpart is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

to \$250,000 in cash in the event the counterparty fails, owing the Township cash and securities that are missing from their accounts. This coverage does not extend to the losses incurred due to fraud, misrepresentation, or investment decisions.

Interest Rate Risk – The Township does not have a formal policy. Investments are made at the discretion of the Township, as long as such investments are made at approved financial institutions and are fully collateralized by securities with a fair value equal to or exceeding the cost of the investment. Investments must be made in accordance with the Commonwealth of Pennsylvania’s Act 72.

Concentration of Credit Risk – The Township’s investment policy for operating investments is to invest in U.S. Government or federal agency securities for which there is no limit to the investment amount.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2019, the Township’s investments in debt securities have the following ratings from Standard and Poor’s:

Asset Class	Rating	Percentage of Total Township Debt Securities
US Treasuries	AAA	33.1%
Tax Municipal Bonds	AAA	4.6%
Tax Municipal Bonds	AA	42.4%
Tax Municipal Bonds	A	19.9%
		100.0%

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At December 31, 2019, excluding the pension trust fund, the Township had the following recurring fair value measurements:

Investments Measured by Fair Value Level	Fair Value Measurements Using			
	12/31/2019	Level 1	Level 2	Level 3
Governmental Activities:				
US Government Treasuries	\$ 1,835,091	\$ 1,835,091	\$ -	\$ -
Tax Municipal Bonds	3,706,293	3,706,293	-	-
Certificate of Deposit	6,977,517	6,977,517	-	-
Total Investments by Fair Value Level	\$ 12,518,901	\$ 12,518,901	\$ -	\$ -

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Trust Fund

The Pension Trust is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Pension Trust's target asset allocation is as follows:

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>
Large cap core equity	20-40%	30%
Small cap core equity	5-15%	10%
Foreign equity	5-15%	10%
Fixed income	26-46%	36%
Private real estate	2-12%	7%
Private equity	2-12%	7%

The maximum equity exposure for the total plan will be 50%.

As of December 31, 2019, the Township had the following cash, cash equivalents, and investments in the pension trust fund:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
U.S. Government Treasuries	\$ 4,183,127	\$ 20,016	\$ 2,182,773	\$ 1,887,407	\$ 92,931
U.S. Government Agencies	7,089,912	-	-	405,755	6,684,157
Corporate Bonds	5,282,107	191,212	3,851,290	1,181,363	58,242
Mortgage Backed Securities	691,199	-	141,516	370,048	179,635
Asset Backed Securities	1,441,259	-	1,441,259	-	-
Total Debt Securities	18,687,604	\$ 211,228	\$ 7,616,838	\$ 3,844,573	\$ 7,014,965
Money Market	1,528,920				
Mutual Funds - Equity	21,616,899				
Mutual Funds - Fixed Income	4,265,689				
Exchange Traded Funds	7,716,033				
Equities	17,154,742				
Multi-Employer Property Trust	5,477,215				
Private Equity Fund	4,016,665				
Total Investments	\$ 80,463,767				

The following is a description of the Pension Trust Fund's deposit and investment risks:

Custodial Credit Risk. Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Pension Trust Fund will not be able to recover the value of its deposits or investments or collateral securities that are in the possession of an outside party. The Pension Trust Fund does not have a formal deposit investment policy for custodial credit risk. As of December 31, 2019, the Township's entire pension cash, cash equivalents, and investment balance of \$80,463,767 (bank and book balance) was exposed to custodial credit risk. All of the Township's Pension Trust Fund investments were uninsured and held by the counterparty, but not in the Township's name. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance including up to \$250,000 in cash, in the event the counterparty fails, owing the Township's cash and

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Trust Fund (Continued)

securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

Credit Risk. Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit ratings of the plans investments are as follows:

<u>Investment Type</u>	<u>Credit Quality Rating</u>	<u>Percent of Investment Type</u>
Corporate Bonds	AA1	2%
Corporate Bonds	AA2	3%
Corporate Bonds	AA3	2%
Corporate Bonds	A1	5%
Corporate Bonds	A2	13%
Corporate Bonds	A3	24%
Corporate Bonds	BAA1	23%
Corporate Bonds	BAA2	19%
Corporate Bonds	BAA3	9%
Mortgages Backed Securities	AAA	54%
Mortgages Backed Securities	NR	46%
Asset Backed Securities	AAA	96%
Asset Backed Securities	NR	4%
U.S. Government Treasuries	AAA	100%
U.S. Government Agencies	AAA	1%
U.S. Government Agencies	NR	99%

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2019, the Trust had the following investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds, or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

Multi-Employer Property Trust \$ 5,477,215

Interest Rate Risk. Interest rate risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The Township has no investment policy for interest rate risk other than the 50% limit on fixed income securities.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Trust Fund (Continued)

At December 31, 2019, the Pension Trust Fund had the following fair value measurements:

Investments Measured by Fair Value level	12/31/2019	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<u>Pension Trust Fund:</u>				
U.S. Government Treasuries	\$ 4,183,127	\$ 4,183,127	\$ -	\$ -
U.S. Government Agencies	7,089,912	7,089,912	-	-
Corporate Bonds	5,282,107	5,282,107	-	-
Mortgage Backed Securities	691,199	-	691,199	-
Asset Backed Securities	1,441,259	-	1,441,259	-
Mutual Funds – Equity	21,616,899	21,616,899	-	-
Mutual Funds - Fixed Income	4,265,689	4,265,689	-	-
Exchange Traded Funds	7,716,033	7,716,033	-	-
Equities	17,154,742	17,154,742	-	-
Private Equity Fund	4,016,665	-	-	4,016,665
Total Investments by Fair Value Level	\$ 73,457,632	\$ 67,308,509	\$ 2,132,458	\$ 4,016,665
	<u>Fair Value</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>	
<u>Investments Measured at Net Asset Value (NAV)</u>				
Multi-Employer Property Trust (1)	\$ 5,477,215	Quarterly	30-60 Days	
Total Investments Measured at NAV	5,477,215			
Total Investments Measured at Fair Value	<u>\$ 78,934,847</u>			

(1) *Real Estate Funds*. This type includes real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this type is expected to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management is required to approve of the buyer before the sale of the investments can be completed.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Trust Fund (Continued)

The valuation technique used in determining the above fair value are recently executed transactions, market price quotations, and pricing models that factor in where applicable interest rates, bond, or CD's spread volatility. No significant changes in the valuation techniques were used as of December 31, 2019.

Deferred Compensation Fund – The fund provides benefits through investments in annuity contracts. The contracts are in the name of the employees and are managed by Valic, Nationwide, and AxA Equitable.

NOTE 4: TAXES LEVIED AND RECEIVABLE

Based upon assessed valuations provided by the County of Erie (the County), the Township, through the elected tax collector, bills and collects its real estate taxes. The taxable assessed value provided by the County for the year 2019 was \$3,947,047,493. Real estate property taxes for the calendar year are levied on March 1 of each year and payable with a 2% discount to April 30, with no discount or penalty to June 30, and with a 5% penalty thereafter. The Township tax rate for all purposes in 2019 was 3.5537 mills (\$35.537 per \$1,000 assessed valuation), with 0.156 mills being allocated for capital improvements.

The Township, in accordance with U.S. generally accepted accounting principles, recognizes delinquent and unpaid taxes receivable, reduced by an allowance for uncollectible taxes, as determined by management. A portion of the net amount estimated to be collectible, which was measurable and available within sixty days, was recognized as revenue and the balance deferred in the fund financial statements.

The Township also collects earned income tax at the rate of 0.5%, realty transfer tax at a rate of 0.5%, and local service tax at a rate of \$52 (\$47 to the Township and \$5 to the school district). The balances at December 31, 2019 are as follows:

	Gross Tax Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate Tax	\$ 409,981	\$ (23,425)	\$ 386,556	\$ 229,686	\$ 156,870
Earned Income Tax	1,881,929	-	1,881,929	1,881,929	-
Other Taxes	429,932	-	429,932	429,932	-
Total	<u>\$2,721,842</u>	<u>\$ (23,425)</u>	<u>\$2,698,417</u>	<u>\$2,541,547</u>	<u>\$ 156,870</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

GOVERNMENTAL ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 3,746,175	\$ -	\$ -	\$ 3,746,175
Total Capital Assets, Not Being Depreciated	<u>3,746,175</u>	<u>-</u>	<u>-</u>	<u>3,746,175</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	10,416,087	-	-	10,416,087
Infrastructure	72,849,490	-	-	72,849,490
Equipment	6,516,039	612,103	(78,460)	7,049,682
Vehicles	6,612,469	314,335	(293,740)	6,633,064
Total Capital Assets, Being Depreciated	<u>96,394,085</u>	<u>926,438</u>	<u>(372,200)</u>	<u>96,948,323</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(6,798,760)	(247,460)	-	(7,046,220)
Infrastructure	(32,936,531)	(1,012,123)	-	(33,948,654)
Equipment	(4,775,716)	(468,964)	4,610	(5,240,070)
Vehicles	(3,641,926)	(398,441)	-	(4,040,367)
Total Accumulated Depreciation	<u>(48,152,933)</u>	<u>(2,126,988)</u>	<u>4,610</u>	<u>(50,275,311)</u>
Total Capital Assets, Being Depreciated, Net	<u>48,241,152</u>	<u>(1,200,550)</u>	<u>(367,590)</u>	<u>46,673,012</u>
Governmental Activities Capital Assets, Net	<u>\$51,987,327</u>	<u>\$(1,200,550)</u>	<u>\$(367,590)</u>	<u>\$ 50,419,187</u>
BUSINESS-TYPE ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Sewer System	\$ 79,605,344	\$ 667,296	\$ -	\$ 80,272,640
Operating Equipment	1,543,724	143,613	-	1,687,337
Office Equipment	414,455	-	-	414,455
Vehicles	925,303	799,979	-	1,725,282
Building	216,375	-	-	216,375
Total Capital Assets, Being Depreciated	<u>82,705,201</u>	<u>1,610,888</u>	<u>-</u>	<u>84,316,089</u>
Less Accumulated Depreciation	<u>(28,641,200)</u>	<u>(1,281,378)</u>	<u>-</u>	<u>(29,922,578)</u>
Business-Type Activities Capital Assets, Net	<u>\$54,064,001</u>	<u>\$ 329,510</u>	<u>\$ -</u>	<u>\$ 54,393,511</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 701,906
Highways and streets	1,042,224
Sanitation	63,810
Culture and Recreation	<u>319,048</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,126,988</u>
Business Type Activities:	
Sewer Revenue Fund	<u>\$ 1,281,378</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 1,281,378</u>

NOTE 6: PENSION PLANS

Plan Descriptions

Police Pension Plan - Plan Description. The Township of Millcreek Police Pension Plan (the Police Plan) is a single-employer defined benefit pension plan. The Police Plan was established effective November 24, 1950 (adopted pursuant to Act 600 of 1956). The Police Plan was amended and restated effective January 1, 2006.

General Employees' Pension Plan - Plan Description. The Township of Millcreek General Employees' Pension Plan (the General Plan) is a single-employer defined benefit pension plan. The General Plan was established effective April 1, 1960. The General Plan was amended and restated by Ordinance No. 2013-4, effective January 1, 2013.

Plan Descriptions (Continued)

Both the Police Plan and the General Plan are governed by the Board of Supervisors of the Township of Millcreek which may amend plan provisions, and which is responsible for the management of Plan assets. The Board of Supervisors has delegated the authority to manage certain Plan assets to Morrison Fiduciary Advisors, Inc. Both Plans are required to file Form PC-203C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2018.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Plan Membership

As of December 31, 2019, The Police Plan and General Plan memberships consisted of the following:

	<u>Police</u>	<u>General</u>
Active Employees	56	112
Retirees and beneficiaries currently receiving benefits	59	73
Terminated employees entitled to benefits but not yet receiving them	1	5
Total	<u>116</u>	<u>190</u>

Police Plan Benefit Provisions

Police Pension Plan benefit provisions are as follows:

a) Eligibility Requirements:

- *Normal Retirement:* Age 50 and 25 years of service.
- *Early Retirement:* 20 years of service.
- *Vesting:* 100% after 12 years of service.

b) Retirement Benefit:

- A monthly benefit equal to 50% of gross pay averaged over the last 36 months of employment, plus a service increment of \$20 for each year of service in excess of 25 years, up to a maximum of \$100.

c) Death Benefit:

- *Before Retirement Eligibility:* Refund of contributions, plus interest.
- *After Retirement Eligibility:* A monthly benefit equal to 50% of the pension participant was receiving or was entitled to receive on the day of the participant's death. The monthly survivor benefits are payable to the participant's spouse for life. If there is no spouse or the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18 or age 23 if attending college.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Police Plan Benefit Provisions (Continued)

c) Disability Benefit:

- *Service Related:* 50% of the participant's final monthly average salary at disablement/retirement, but no less than 50% of the member's salary at the time the disability was incurred, offset by social security disability benefits received for the same injury.
- *Non-Service Related:* No benefit provided.

d) IROP Benefit:

- Normal retirement benefit as of IROP participation. The monthly benefit is credited to an IROP account along with compound interest based on the discount rate for 6-month Treasury Bills on the last day of the prior year.

e) Vesting Benefit

- Accrued benefit at date of termination payable monthly starting at normal retirement date.

f) Early Retirement:

- Accrued benefit date of termination, actuarially reduced to reflect early commencement of payments.

g) Post Retirement Adjustments

- Effective on each October 1, each participant receiving a retirement or disability benefit for more than one year will receive an increase in the monthly benefit equal to the percentage change in the Consumer Price Index. The total of all increases may not exceed 30% of the original benefit, nor may the total benefit exceed 75% of the average monthly salary used to calculate the original benefit.

h) Member Contributions

- *Amount or Rate:* Participants will contribute 5.0% - 8.0% of compensation. The rate for 2019 is 5.5%.
- *Interest Rate Credited to Member Contributions:* 5.0%

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

General Employees' Plan Provisions

a) Eligibility Requirements:

- *Normal Retirement:* Age 62 and 10 years of service.
- *Early Retirement:* Age 55 and 10 years of service.
- *Vesting:* 100% after the completion of 10 Years of Service.

b) Retirement Benefit:

- A monthly benefit equal to 2.5625% of the final monthly average salary multiplied by years of service up to a maximum of 20 years. Final monthly average salary is compensation averaged over the final 36-month period. Plus, an additional monthly benefit of \$10 for each completed year of service in excess of 20 years, up to a maximum increment of \$100.

c) Death Benefit:

- *Before Normal Retirement Eligibility:* Refund of contributions plus interest.
- *After Normal Retirement Eligibility:* The participant's accrued benefit at date of death is payable to the beneficiary until the earlier of death or 120 months.
- *After Retirement:* The normal form of payment is a life annuity with 120 payments guaranteed. At retirement, the participant may select an optional form of benefit that is an actuarial equivalent of the normal form.

d) Disability Benefit:

- *Service and Non-Service Related:* After 10 years of service, a monthly benefit equal to 2.5625% of final monthly average salary multiplied by years of service (maximum of 20 years); payable immediately, but actuarially reduced for commencement at date of disablement.

e) Vesting Benefit:

- If eligible, the benefit is the normal retirement benefit based on years of service actually completed at the date of termination; payable at normal retirement. The benefit is paid in lieu of the return of member contributions.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

General Employees' Plan Provisions (Continued)

f) Early Retirement:

- If eligible, the benefit is the normal retirement benefit based on years of service actually completed at the date of termination; payable at normal retirement. The benefit may be elected immediately, but will be reduced by 0.5% for each month by which payment commencement precedes normal retirement.

g) Post Retirement Adjustments:

- *If retired after 1/1/2009:* Each participant receiving an early, normal, or late retirement benefit for more than 1 year, will receive an increase in the monthly benefit equal to ½ the percentage change in the CPI-U. The total of all increases may not exceed 15% of the retiree's original benefit.
- *If retired 1/1/2005 to 12/31/2008:* A one-time increase at age 65 equal to percentage increase in CPI-U from later of age 62 or actual retirement to age 65.

h) Member Contributions:

- *Amount or Rate:* 4.0% of compensation for the first 20 years of participation and 2.0% after 20 years of service.
- *Interest Rate Credited to Member Contributions:* 5.0%

Contributions

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimal Municipal Obligation (MMO) using the plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state contributions must be funded by the employer.

Police Pension Plan Contributions. Employees are required to contribute between 5 and 8 percent of covered payroll to the Plan. This contribution is governed by the Plan's governing ordinances and collective bargaining agreement. Contributions were 5.5% in 2019.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Contributions (Continued)

General Employees' Pension Plan Contributions. Employees are required to contribute 4 percent of covered payroll to the Plan for the first 20 years. After 20 years, contributions will be reduced to 2 percent. This contribution is governed by the Plan's governing ordinances and collective bargaining agreement. Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

Net Pension Liability

Net Pension Liability. The components of the net pension liability at December 31, 2019 are as follows:

	<u>Police</u>	<u>General</u>	<u>Total</u>
Total Pension Liability	\$45,755,733	\$37,484,450	\$83,240,183
Plan Fiduciary Net Position	<u>42,967,330</u>	<u>37,608,292</u>	<u>80,575,622</u>
Net Pension Liability	<u>\$ 2,788,403</u>	<u>\$ (123,842)</u>	<u>\$ 2,664,561</u>

Plan fiduciary net position as a percentage of the total pension liability	93.91%	100.33%	96.80%
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The total pension liability was determined by an actuarial valuation 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% for both the Police and General Plans.
- *Salary Increases:* 5.0% including inflation for the Police Plan, and 4.5% including inflation for the General Plan.
- *Police Plan Mortality:* RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward 5 years for disabled members. Mortality Improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.
- *General Plan Mortality:* Same as the Police Plan above, without the Blue Collar Adjustment.
- *Expected Long-Term Rate of Return:* For both the Police and General Plans, the expected long-term rate of return is 7.25% applied to all periods. The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment 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 arithmetic rates of return for each major asset class included in the target asset

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Net Pension Liability (Continued)

- allocation as of December 31, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap core equity	5.0%-7.0%
Small cap core equity	5.0%-7.0%
Foreign equity	5.0%-7.0%
Fixed income	1.0%-3.0%
Private real estate	4.0%-6.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed the plan will continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, 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 payment to determine the total pension liability.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31 2019, the annual money-weighted rate of return on the Police and General Employees' Pension Plan was 18%.

Changes in the Net Pension Liability

The components and changes in the Township's net pension liability for the Police and General Employees' Pension Plan, in the aggregate, for the year ended December 31, 2019 are as presented in the table on the following page:

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/18	\$ 79,218,988	\$ 69,146,345	\$ 10,072,643
Service Cost	1,904,375	-	1,904,375
Interest Cost	5,759,745	-	5,759,745
Differences Between Expected and Actual Experience	218,152	-	218,152
Contributions - Employer	-	2,567,101	(2,567,101)
Contributions - Member	-	552,891	(552,891)
Net Investment Income	-	12,373,681	(12,373,681)
Benefit Payments, including Refunds of Member Contributions	(3,861,077)	(3,861,077)	-
Administrative Expense	-	(203,319)	203,319
Net Changes	<u>4,021,195</u>	<u>11,429,277</u>	<u>(7,408,082)</u>
Balances at 12/31/19	<u>\$ 83,240,183</u>	<u>\$ 80,575,622</u>	<u>\$ 2,664,561</u>
Split of Net Pension Liability:			
Governmental Activities	\$ 83,827,396	\$ 81,144,038	\$ 2,683,358
Business-Type Activities	<u>(587,213)</u>	<u>(568,416)</u>	<u>(18,797)</u>
Total	<u>\$ 83,240,183</u>	<u>\$ 80,575,622</u>	<u>\$ 2,664,561</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease	Current Discount Rate	1% Increase
	<u>6.25%</u>	<u>7.25%</u>	<u>8.25%</u>
Township's Net Pension Liability	\$12,338,061	\$ 2,664,561	\$(5,501,594)

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6: PENSION PLANS (CONTINUED)

Deferred Outflows and Inflows

The total pension expense recognized in 2019 for Police and General Plans was \$563,629 for governmental activities and (\$803,092) for business-type activities for a total of (\$239,463). At December 31, 2019, the Township reported deferred outflows of resources and deferred inflows of resources related to the Police and General Pension Plans from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 2,109,065	\$ 972,864
Changes in Assumptions	-	1,599,624
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>7,740,184</u>	<u>4,677,262</u>
Total	<u>\$ 9,849,249</u>	<u>\$ 7,249,750</u>

Split of Deferred Outflows of Resources and Deferred Inflows of Resources:

Governmental Activities	\$ 9,088,937	\$ 6,780,698
Business-Type Activities	<u>760,312</u>	<u>469,052</u>
Total	<u>\$ 9,849,249</u>	<u>\$ 7,249,750</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the police pension will be recognized in pension expense as follows:

2020	\$ (799,895)
2021	(808,569)
2022	202,955
2023	(1,334,130)
2024	22,038
Thereafter	<u>118,102</u>
Total	<u>\$ (2,599,499)</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Township of Millcreek sponsors two single employer defined benefit healthcare plans. The Police Plan provides lifetime medical, prescription drug, dental and vision insurance for eligible retirees and their spouses through the Township's group health insurance plan, which covers both active and retired members. Police retirees are also provided a \$10,000 life insurance benefit until age 70 then \$5,000 thereafter. The General Employee Plan provides medical and prescription drug coverage expenses for the retiree and dependents from the retiree's age 62 until Medicare eligibility assumed to be age 65. General Employees' retirees are provided \$20,000 of life insurance until age 70, then \$5,000 thereafter. The Police and General Employee Retiree Health Plans do not issue a publicly available financial report.

Employees Covered by Benefit Terms. At December 31, 2019, the following employees were covered by the benefit terms:

	<u>Police</u>	<u>General</u>	<u>Total</u>
Active	53	96	149
Retired and Receiving Benefits	42	10	52
Total	<u>95</u>	<u>106</u>	<u>201</u>

Funding Policy. Contribution requirements are negotiated between the Township and union representatives. GASB does not mandate the prefunding of post-employment benefits liability. Currently the police employees pay \$40 per pay towards the cost of the healthcare plans. The general and authority employees do not contribute. The Plan is financed on a pay-as-you-go basis.

Total OPEB Liability. The Township's total OPEB liability of \$43,327,350 was measured as of January 1, 2019, and was determined by an actuarial valuation as of that date. The OPEB liability is related to the governmental funds and business-type activities, and thus is split between the governmental activities and the business-type activities in the government-wide statement of net position in the amounts of \$43,006,340 and \$321,010, respectively.

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:

- *Discount Rate:* 3.75%
- *Inflation Rate:* 2.75%
- *Annual Trend Rates:*

<u>Year</u>	<u>Pre-65 Medical/Rx</u>	<u>Post-65 Medical/Rx</u>	<u>Dental and Vision</u>
2019-2024	5.25%	5.25%	3.00%
2025 and later	5.00%	5.00%	3.00%

- *Mortality – Police:* RP-2014 Mortality Table with 50% Blue-Collar Adjustment and rates set forward 5 years for disabled lives.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

- *Mortality – Non-Police:* RP-2014 Mortality Table with rates set forward 5 years for disabled lives.

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.

Changes in the Total OPEB Liability. The Township's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the normal cost and an amortization payment towards unfunded actuarial accrued liability. GASB requires that the period of amortization be at most 30 years, which is the period used by the Township. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Township's total OPEB obligation to the Retiree Healthcare Plans:

	Governmental Activities	Business-Type Activities
Service Cost	\$ 892,791	\$ 198,418
Benefit Payments	(1,039,295)	(230,978)
Differences Between Expected and Actual Experience	(125,995)	(28,002)
Interest	1,300,244	288,973
Net Change in Total OPEB Liability	<u>1,027,745</u>	<u>228,411</u>
Total OPEB Liability - Beginning of Year as Restated (Note 19)	41,978,595	92,599
Total OPEB Liability - End of Year	<u>\$43,006,340</u>	<u>\$ 321,010</u>

Changes of assumptions and other inputs are as follows:

- OPEB health benefits were eliminated for Non-Police employees hired after December 31, 2017.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2019, the Township recognized OPEB expense of \$2,648,998, and deferred inflows of resources from the following sources:

	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	<u>\$ 122,569</u>
Split of Deferred Inflows of Resources:	
Governmental Activities	\$ 114,396
Business-Type Activities	<u>8,173</u>
Total	<u>\$ 122,569</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended	
<u>December 31:</u>	
2020	\$ (31,428)
2021	(31,428)
2022	(31,428)
2023	<u>(28,285)</u>
 Total	 <u><u>\$ (122,569)</u></u>

Sensitivity to the Total OPEB Liability to Changes in the Discount Rate. The following is the total OPEB liability to the Township, as well as the total OPEB liability using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current	1% Increase
	<u>2.75%</u>	<u>Discount Rate</u>	<u>4.75%</u>
		<u>3.75%</u>	
Total OPEB			
Liability	<u>\$51,910,349</u>	<u>\$43,327,350</u>	<u>\$36,679,210</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following is the total OPEB liability to the Township, as well as the total OPEB liability using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
	<u>4.25%</u>	<u>Medical Trend</u>	<u>6.25%</u>
		<u>5.25%</u>	
Total OPEB			
Liability	<u>\$36,076,185</u>	<u>\$43,327,350</u>	<u>\$52,882,315</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8: LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Notes Payable:					
General Obligation Note, Series C of 2019	\$ -	\$ 325,000	\$ -	\$ 325,000	\$ 61,133
General Obligation Note, Series A of 2019	-	390,000	(336,666)	53,334	30,217
Total Bonds and Notes Payable	<u>-</u>	<u>715,000</u>	<u>(336,666)</u>	<u>378,334</u>	<u>91,350</u>
Other Liabilities:					
Compensated Absences	1,764,816	-	(13,304)	1,751,512	-
Net Pension Liability	8,805,744	-	(6,122,386)	2,683,358	-
OPEB	41,978,595	1,027,745	-	43,006,340	-
Total Other Liabilities	<u>52,549,155</u>	<u>1,027,745</u>	<u>(6,135,690)</u>	<u>47,441,210</u>	<u>-</u>
Governmental Activities					
Long-Term Liabilities	<u>\$ 52,549,155</u>	<u>\$ 1,742,745</u>	<u>\$ (6,472,356)</u>	<u>\$ 47,819,544</u>	<u>\$ 91,350</u>

The liability for compensated absences and OPEB is normally liquidated by the general fund, depending on the employee's assigned department.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>					
General Obligation Note, Series B of 2019	\$ -	\$ 425,000	\$ -	\$ 425,000	\$ 79,361
Compensated Absences	99,907	-	(16,427)	83,480	-
OPEB	92,599	228,411	-	321,010	-
Business-Type Activities					
Long-Term Liabilities	<u>\$ 192,506</u>	<u>\$ 653,411</u>	<u>\$ (16,427)</u>	<u>\$ 829,490</u>	<u>\$ 79,361</u>

Principal payments on Notes Payable are due as follows:

Year Ending December 31,	Governmental Activities	Business-type Activities
2020	\$ 91,350	\$ 79,361
2021	86,166	82,085
2022	65,025	84,903
2023	67,063	87,818
2024	<u>68,730</u>	<u>90,833</u>
Total	<u>\$ 378,334</u>	<u>\$ 425,000</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9: INTERFUND OPERATING TRANSFERS

Interfund operating transfers are as follows:

<u>Governmental Fund Types</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 32,807	\$ -
Sinking Fund	-	79
Custodial Funds	79	32,807
Total Interfund Transfers	<u>\$ 32,886</u>	<u>\$ 32,886</u>

Certain funds are required to fund a portion or all of the expenses of other funds or cover deficits in those funds. The Township records operating transfers to account for these transactions.

NOTE 10: FUND BALANCES

Under GASB 54, fund balances are recorded as non-spendable, restricted, committed, assigned, and unassigned. The following restrictions are included in the fund financial statements:

Major Funds:

General Fund	<u>Non-spendable:</u>	
	These amounts are prepaid expenses and long-term receivables	\$ 5,249,025
	<u>Restricted Funds:</u>	
	These funds are restricted for capital projects	589,727
	<u>Committed Funds:</u>	
	These funds are to be used for future capital projects	18,802,957
	<u>Assigned</u>	
	These funds are assigned for capital projects	1,390,997
State Fund	<u>Restricted Funds:</u>	
	These funds are restricted for road surface repairs	269,877
Sinking Fund	<u>Restricted Funds:</u>	
	These funds are restricted to debt service	370,285

NOTE 11: LITIGATION

The Township is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Township's financial statements.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12: PUBLIC EMPLOYEES DEFERRED COMPENSATION FUND

The Township maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees and eligible former employees. The assets of the Plan are held by insurance carriers and remain the property of the Township until they become due and payable to the Plan participants under the terms of the Plan. The Township has recorded the assets of the Plan and the corresponding liability in the combined balance sheets. The carrying value of the Plan's assets amounted to \$6,808,197 and \$5,310,131 at December 31, 2019 and 2018, respectively. The employee contributions are based on Internal Revenue Code limits. The employer contributions are discretionary and there were none noted during the current year. Except as otherwise provided, amount in participant account shall be distributable upon attainment of age 70 ½ or severance from employment.

NOTE 13: SELF-INSURED MEDICAL CLAIM PROGRAM

The Township's Employee Health Benefit Plan is a modified self-insurance program for insuring hospitalization and medical costs. The Township is limited to losses of \$105,000 annually per covered person. The Plan covered all full-time employees and eligible dependents.

The claims liability of \$66,673 is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, which requires that an asset or liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability had been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability is illustrated on the following page:

Claims liability, 12/31/17	\$ 92,275
2018 claims	3,680,082
2018 claim payments and administration	<u>(3,636,445)</u>
Claims liability, 12/31/18	135,912
Current year claims	3,278,687
Current year claims payments and administration	<u>(3,347,926)</u>
Claims liability, 12/31/19	<u>\$ 66,673</u>

The above liability is recorded in Accounts Payable within the General Fund.

Future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonably estimated. Thus, the financial statements do not reflect a contingent liability for any unasserted claims.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 14: COMMITMENTS AND CONTINGENCIES

Grant Programs. The Township participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

Contingent Liabilities. There are various claims and suits pending against the Township that arise in the normal course of the Township's activities. In the opinion of counsel and Township management, the ultimate disposition of these various claims and suits will have no material effect on the financial position of the Township.

NOTE 15: SEWER JOINT TRANSPORTATION AGREEMENTS

Summit Township Sewer Authority. Millcreek Township entered into a joint transportation agreement with the Summit Township Sewer Authority in 1994. Under the terms of this agreement the Summit Township Sewer Authority was reimbursing Millcreek Township for its share of the costs of three projects completed by Millcreek Township as follows:

- Pitt/Manor Project – Payable in 80 quarterly installments of \$9,183 ending January 16, 2021.
- ORF Project – Payable in 36 semiannual installments ranging from \$13,973 to \$171,861 ending August 1, 2022.

Fairview Township Sewer Authority. Millcreek Township entered into a joint transportation agreement with the Fairview Township Sewer Authority in 1996. Under the terms of this agreement the Fairview Township Sewer Authority is reimbursing Millcreek Township for its share of the costs of the following projects completed by Millcreek Township:

- Pitt/Manor Project – Payable in 80 quarterly installments of \$6,336 ending January 16, 2021.

During the years ended December 31, 2019 and 2018, the Fairview Township Sewer Authority reimbursed the Millcreek Township \$25,342 and \$25,342, respectively, for these projects.

NOTE 16: CONTRACTS AND COMMITMENTS

Sewage Treatment Charges

The Sewer Revenue Fund pays its sewage treatment charges throughout the year based on an annual estimate determined by the City of Erie. At the conclusion of the year, the City of Erie prepares an annual statement of actual sewage treatment charges. The difference between the estimated and actual operations charges represents either a liability payable to the City of Erie, or a credit due to the Sewer Revenue Fund, to be applied against the estimated charges for the succeeding year. The excess of estimated payments over actual sewage treatment charges for 2019 was \$263,439. The estimated 2020 sewage treatment charges are \$4,671,118.

Sewage Transportation Charges

The Sewer Revenue Fund pays sewage transportation charges to the City of Erie based on an agreement concluded in 1992 between Township of Millcreek and the City of Erie which was effective September 1, 1991. Sewage Transportation charges in the amount of \$194,585, has been charged to Sewer Revenue Fund operations for the year ended

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 16: CONTRACTS AND COMMITMENTS (CONTINUED)

Sewage Transportation Charges (Continued)

December 31, 2019. The excess of estimated payments over actual regular and special sewage transportation charges was \$20,873. The estimated 2019 sewage transportation charges are \$215,795.

The Township has entered into labor agreements with bargaining units and contracts expire as follows:

<u>Bargaining Unit</u>	<u>Contract Expires</u>
The American Federation of State, County, and Municipal Employees	December 31, 2021
Township of Millcreek Police Association	December 31, 2019

NOTE 17: CONTINGENCIES

Grants. Amounts received or receivable from government agencies are subject to audit and adjustment by those agencies. The Millcreek Township Sewer Authority has never experienced noncompliance and has never been subject to adjustments or refunds as a result of such audits.

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TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 18: TRANSFER OF OPERATIONS

In August of 2019, the Township of Millcreek (Township) passed a resolution to terminate the existence, and assume the operations of the Millcreek Township Sewer Authority (Authority). As a result of this resolution, all of the assets and liabilities of the Authority were transferred to the Township, and are being accounted for in the Sewer Revenue Fund. The assets and liabilities that were transferred from the Authority to the Township are as follows:

Transferred Assets and Deferred Outflows of Resources	Carrying Value
Cash and cash equivalents	\$ 281,388
Assessments receivable	617,387
Interest receivable	114,377
Operating and office equipment, net	479,390
Deferred outflows related to pension	294,359
Total Transferred Assets and Deferred Outflows of Resources	\$ 1,786,901
<div style="text-align: center; border-bottom: 1px solid black;">Transferred Liabilities, Deferred Inflows of Resources, and Net Position</div>	
Transferred liabilities:	
Other liabilities	\$ 798
OPEB liability	92,599
Net pension liability	501,182
Project deposits	90,000
Deferred inflows related to pension	483,691
Total Transferred Liabilities and Deferred Inflows of Resources	1,168,270
Transferred net position:	
Net investment in capital assets	479,390
Unrestricted	139,241
Total Transferred Net Position	618,631
Total Transferred Liabilities, Deferred Inflows of Resources, and Net Position	\$ 1,786,901

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 19: PRIOR PERIOD RESTATEMENT

The following restatement was necessary to correctly reflect the beginning fund balance in the General Fund, beginning fiduciary net position, and beginning net position for Governmental Activities as a result of the implementation of GASB 84:

	<u>General Fund</u>	<u>Custodial Funds</u>	<u>Governmental Activities</u>
Fund Balance/Net Position at January 1, 2019 as previously reported	\$ 29,691,125	\$ -	\$ 33,925,901
Restatement of Fiduciary Net Position as a result of the implementation of GASB 84	<u>1,145,493</u>	<u>32,728</u>	<u>1,145,493</u>
Net Position at January 1, 2019 as restated	<u>\$ 30,836,618</u>	<u>\$ 32,728</u>	<u>\$ 35,071,394</u>

NOTE 20: SUBSEQUENT EVENTS

Subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has led to widespread voluntary and government-mandated closings of local stores and businesses, which has resulted in significant job losses. These job losses have the potential to have a significant impact on all aspects of the Township's operations. In addition, due to the temporary closure of all businesses that are not deemed life sustaining, State and Federal tax revenues are also significantly decreased. This decrease could result in less grant money that is relied upon by local governments to fund specific projects. In addition, the Township's own source revenue or derived revenues could be affected negatively. Overall, decreased funding could result in the Township having to curtail or eliminate some services.

In addition, the negative events in the financial markets and worldwide due to the COVID-19 pandemic have caused a significant decrease in investment values either directly invested or tied to the equity markets. These declines, at present, are expected to be temporary and not permanent; however, equity market recovery, if it occurs, may take some time. The major resulting impact of the equity market's decline on the Township will be in the form of a decrease in Pension and OPEB plan assets. As a result of the current market conditions, investments and their ratings may fluctuate in the near future.

REQUIRED
SUPPLEMENTARY
INFORMATION

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GENERAL FUND - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:				
Real Estate Taxes	\$ 13,197,672	\$ 13,197,672	\$ 13,545,819	\$ 348,147
Other Taxes	9,473,000	9,473,000	10,315,378	842,378
Licenses and Permits	186,800	186,800	149,337	(37,463)
Fines	200,000	200,000	201,547	1,547
Interest and Rents	709,320	709,320	1,740,762	1,031,442
Grants	1,179,000	1,179,000	1,867,461	688,461
Other Income	1,619,223	1,619,223	1,561,386	(57,837)
Total Revenue	<u>26,565,015</u>	<u>26,565,015</u>	<u>29,381,690</u>	<u>2,816,675</u>
Expenditures:				
General Government	4,616,608	4,616,608	4,149,783	466,825
Public Safety	14,283,209	14,283,209	13,037,129	1,246,080
Public Works - Sanitation	472,805	472,805	496,064	(23,259)
Public Works - Highways and Streets	6,656,861	6,656,861	6,273,124	383,737
Culture and Recreation	991,191	991,191	1,072,568	(81,377)
Other	200,541	200,541	191,823	8,718
Total Expenditures	<u>27,221,215</u>	<u>27,221,215</u>	<u>25,220,491</u>	<u>2,000,724</u>
Excess of Revenues Over (Under) Expenditures	<u>(656,200)</u>	<u>(656,200)</u>	<u>4,161,199</u>	<u>4,817,399</u>
Other Financing Sources:				
Proceeds from General Fixed Asset Disposition	-	-	89,173	89,173
Transfers In	-	-	32,807	32,807
Refund of Prior Year Revenues	-	-	(8,065)	(8,065)
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>113,915</u>	<u>113,915</u>
Net Change in Fund Balance	<u>\$ (656,200)</u>	<u>\$ (656,200)</u>	<u>\$ 4,275,114</u>	<u>\$ 4,931,314</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 STATE FUND - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:				
Grants	\$ 1,824,401	\$ 1,824,401	\$ 1,794,565	\$ (29,836)
Interest	9,791	9,791	31,012	21,221
Total Revenue	<u>1,834,192</u>	<u>1,834,192</u>	<u>1,825,577</u>	<u>(8,615)</u>
Expenditures:				
Public Works - Highways and Streets	<u>1,924,159</u>	<u>1,924,159</u>	<u>1,722,718</u>	<u>201,441</u>
Total Expenditures	<u>1,924,159</u>	<u>1,924,159</u>	<u>1,722,718</u>	<u>201,441</u>
Excess of Revenues Over (Under) Expenditures	<u>(89,967)</u>	<u>(89,967)</u>	<u>102,859</u>	<u>192,826</u>
Net Change in Fund Balance	<u>\$ (89,967)</u>	<u>\$ (89,967)</u>	<u>\$ 102,859</u>	<u>\$ 192,826</u>

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – LAST 10 YEARS
 DECEMBER 31, 2019

	2019	2018	2017	2016	2015	2014
Total Pension Liability:						
Service Cost	\$ 1,904,375	\$ 1,880,056	\$ 1,794,135	\$ 1,615,017	\$ 1,541,508	\$ 1,434,568
Interest	5,759,745	5,486,826	5,224,673	5,061,400	4,811,779	4,628,635
Changes of Benefit Terms	-	-	-	-	72,137	-
Differences Between Expected and Actual Experience	218,152	-	(1,708,068)	-	(1,184,334)	-
Changes of Assumptions	-	-	2,676,500	-	185,874	-
Benefit Payments, Including Refunds of Employee Contributions	(3,861,077)	(3,829,372)	(3,160,022)	(3,324,851)	(2,880,212)	(2,726,344)
Net Change In Total Pension Liability	<u>4,021,195</u>	<u>3,537,510</u>	<u>4,827,218</u>	<u>3,351,566</u>	<u>2,546,752</u>	<u>3,336,859</u>
Total Pension Liability - Beginning	<u>79,218,988</u>	<u>75,681,478</u>	<u>70,854,260</u>	<u>67,502,694</u>	<u>64,955,942</u>	<u>61,619,083</u>
Total Pension Liability - Ending (a)	<u>\$ 83,240,183</u>	<u>\$ 79,218,988</u>	<u>\$ 75,681,478</u>	<u>\$ 70,854,260</u>	<u>\$ 67,502,694</u>	<u>\$ 64,955,942</u>
Plan Fiduciary Net Position:						
Contributions - Employer	2,567,101	2,725,698	2,465,327	2,518,517	2,746,248	2,683,853
Contributions - Employee	552,891	565,157	545,198	484,708	496,743	471,267
Net Investment Income	12,373,681	(2,603,986)	9,021,464	4,344,682	648,241	3,046,896
Benefit Payments, Including Refunds of Employee Contributions	(3,861,077)	(3,829,372)	(3,160,022)	(3,324,851)	(2,880,212)	(2,726,344)
Administrative Expense	(203,319)	(223,426)	(196,321)	(168,182)	(255,533)	(311,074)
Net Change in Plan Fiduciary Net Position	<u>11,429,277</u>	<u>(3,365,929)</u>	<u>8,675,646</u>	<u>3,854,874</u>	<u>755,487</u>	<u>3,164,598</u>
Plan Fiduciary Net Position - Beginning	<u>69,146,345</u>	<u>72,512,274</u>	<u>63,836,628</u>	<u>59,981,754</u>	<u>59,226,267</u>	<u>56,061,669</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 80,575,622</u>	<u>\$ 69,146,345</u>	<u>\$ 72,512,274</u>	<u>\$ 63,836,628</u>	<u>\$ 59,981,754</u>	<u>\$ 59,226,267</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 2,664,561</u>	<u>\$ 10,072,643</u>	<u>\$ 3,169,204</u>	<u>\$ 7,017,632</u>	<u>\$ 7,520,940</u>	<u>\$ 5,729,675</u>
Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability	96.80%	87.29%	95.81%	90.10%	88.86%	91.18%
Covered Employee Payroll	\$ 12,547,578	\$ 12,662,992	\$ 12,406,557	\$ 12,051,971	\$ 12,104,395	\$ 12,249,051
Net Pension Liability as a Percentage of Covered Employee Payroll	21.24%	79.54%	25.54%	58.23%	62.13%	46.78%

This schedule is present to illustrate the requirement to present information for 10 years; however, until a full 10-year trend is compiled, information for those years which information is available is shown.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 SCHEDULE OF TOWNSHIP CONTRIBUTIONS – LAST 10 YEARS
 DECEMBER 31, 2019

Year Ended December 31,	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2010	\$ 1,621,813	\$ 1,621,813	\$ -	\$ 10,843,624	15.0%
2011	1,679,506	1,529,417	150,089	-	
2012	1,692,843	1,542,754	150,089	11,159,633	13.8%
2013	2,352,690	2,352,690	-	-	
2014	2,683,853	2,683,853	-	12,249,051	21.9%
2015	2,746,224	2,745,909	315	12,104,395	22.7%
2016	2,518,513	2,518,513	-	12,051,971	20.9%
2017	2,465,327	2,465,327	-	12,406,557	19.9%
2018	2,725,698	2,725,698	-	12,662,992	21.5%
2019	2,567,100	2,567,101	(1)	12,547,578	20.5%

The notes to the required supplementary information related to pensions are an integral part of this schedule.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
SCHEDULE OF INVESTMENT RETURNS – LAST 10 YEARS
DECEMBER 31, 2019

The annual money-weighted rate of return, net of investment expense not funded through the MMO is as follows:

2014	5.77%
2015	1.12%
2016	6.93%
2017	14.52%
2018	-4.00%
2019	18.00%

This schedule is present to illustrate the requirement to present information for 10 years; however, until a full 10-year trend is compiled, information for those years which information is available is shown.

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
NOTES TO THE SUPPLEMENTARY SCHEDULES RELATED TO PENSIONS
DECEMBER 31, 2019

The following actuarial methods and assumptions were used in the calculation of the most recent actuarially determined contribution reported in the supplementary schedules:

Actuarial Valuation Date:	January 1, 2017														
Actuarial Cost Method:	Entry age normal														
Amortization Method:	Level dollar, closed														
Remaining Amortization Period:	<u>General Employees Plan:</u> 5 years aggregate <u>Police:</u> – 7 years aggregate														
Asset Valuation Method:	4-year smoothing														
Inflation:	2.75%														
Salary Increases:	<u>General Employees:</u> 4.5% including inflation <u>Police:</u> 5.0% including inflation														
Investment rate of return:	7.25% net of investment expenses not funded through the MMO, and including inflation														
Mortality:	<u>General Employees:</u> RP-2014 Mortality Table with rates set forward 5 years for disabled members. Mortality Improvement rates derived from the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report <u>Police:</u> Same as General Employees with 50% of the Blue Collar Adjustment														
Retirement Age:	If eligible for Early or Normal Retirement, annual rates of retirement based on the following:														
	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Age Group</th> <th style="text-align: center;">Rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">55-59</td> <td style="text-align: center;">2%</td> </tr> <tr> <td style="text-align: center;">60-61</td> <td style="text-align: center;">10%</td> </tr> <tr> <td style="text-align: center;">62</td> <td style="text-align: center;">40%</td> </tr> <tr> <td style="text-align: center;">63-65</td> <td style="text-align: center;">30%</td> </tr> <tr> <td style="text-align: center;">66-69</td> <td style="text-align: center;">20%</td> </tr> <tr> <td style="text-align: center;">70+</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	Age Group	Rate	55-59	2%	60-61	10%	62	40%	63-65	30%	66-69	20%	70+	100%
Age Group	Rate														
55-59	2%														
60-61	10%														
62	40%														
63-65	30%														
66-69	20%														
70+	100%														
Benefit Changes:	General employees service increment added for early retirement and deferred vested participants in 2015.														
Changes to Assumptions:	<u>Police:</u> Effective January 1, 2015 for Police employees, 100% of participants with at least 25 years will retire at 60 and not 62. Effective January 1, 2017 for Police employees, Inflation rate reduced from 3.0% to 2.75%, interest rate reduced from 7.5% to 7.25%, mortality table updated from RP-2000 Combined Healthy mortality table with Blue Collar adjustment and projected mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report, disability updated from 60% of the rates of disablement from Advanced Pension Tables to rates based on the Social Security Administration's 2010 projection of disability incidence, withdrawal assumption changed from Table T-1 of the Actuary's Pension Handbook to no employee withdrawal other than for retirement, disability or death. <u>General Employees:</u> Effective January 1, 2017 for General employees, Inflation rate lowered from 3.0% to 2.75%, interest rate lowered from 7.5% to 7.25%, mortality table changed from RP-2000 Combined Healthy mortality table with rates projected using 100% of scale AA to the RP-2014 mortality table with projected mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.														

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS – LAST 10 YEARS
 DECEMBER 31, 2019

Fiscal Year Beginning	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 1,091,209	\$ 1,190,950
Benefit Payments	(1,270,273)	(1,085,576)
Differences between projected and actual experience	(153,997)	
Interest	<u>1,589,217</u>	<u>1,540,445</u>
Net Change in Total OPEB Liability	1,256,156	1,645,819
Total OPEB Liability - Beginning	<u>42,071,194</u>	<u>40,425,375</u>
Total OPEB Liability - Ending	<u><u>\$ 43,327,350</u></u>	<u><u>\$ 42,071,194</u></u>
Covered Payroll	\$ 12,542,600	\$ 12,051,972
Total OPEB Liability as a Percentage of Covered Employee Payroll	345%	349%

This schedule is present to illustrate the requirement to present information for 10 years; however, until a full 10-year trend is compiled, information for those years which information is available is shown.

OTHER
SUPPLEMENTARY
INFORMATION

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 DECEMBER 31, 2019

	Pension and Other Employee Benefits Trust Funds			Custodial Funds			Total Custodial Fund
	Trust Fund	Deferred Compensation	Total Pension and Other Employee Benefit Trust Funds	Earned Income Tax Escrow	Escheats Escrow	Performance and Surety Bond	
<u>Assets</u>							
Cash and Cash Equivalents	\$ 1,528,920	\$ -	\$ 1,528,920	\$ 663,338	\$ 3,610	\$ 1,079,446	\$ 1,746,394
Investments	78,934,847	6,808,197	85,743,044	-	-	-	-
Accrued Interest Receivable	146,635	-	146,635	-	-	-	-
Accounts Receivable	-	-	-	138,533	-	19,935	158,468
Total Assets	\$ 80,610,402	\$ 6,808,197	\$ 87,418,599	\$ 801,871	\$ 3,610	\$ 1,099,381	\$ 1,904,862
<u>Liabilities and Net Position</u>							
Liabilities:							
Accounts Payable	\$ 34,780	\$ -	\$ 34,780	\$ -	\$ -	\$ 70,957	\$ 70,957
Earned Income Tax Escrow Liability	-	-	-	801,871	-	-	801,871
Contractor Deposits	-	-	-	-	-	1,028,424	1,028,424
Escheat Liability	-	-	-	-	3,610	-	3,610
Total Liabilities	34,780	-	34,780	801,871	3,610	1,099,381	1,904,862
Net Position:							
Restricted for:							
Pensions	80,575,622	6,808,197	87,383,819	-	-	-	-
Total Liabilities and Net Position	\$ 80,610,402	\$ 6,808,197	\$ 87,418,599	\$ 801,871	\$ 3,610	\$ 1,099,381	\$ 1,904,862

TOWNSHIP OF MILLCREEK, PENNSYLVANIA
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Pension and Other Employee Benefits Trust Funds			Custodial Funds			Total Custodial Funds
	Pension Trust	Deferred Compensation	Total Pension and Other Employee Benefit Trust Funds	Earned Income Tax Escrow	Escheats Escrow	Performance and Surety Bond	
<u>Additions:</u>							
Contributions	\$ 3,119,992	\$ 297,036	\$ 3,417,028	\$ -	\$ -	\$ -	\$ -
Investment Earnings	12,191,887	1,010,081	13,201,968	-	-	-	-
Capital Transfers	-	52,281	52,281	-	-	-	-
Transfers In	-	-	-	-	-	79	79
Total Additions	15,311,879	1,359,398	16,671,277	-	-	79	79
<u>Deductions:</u>							
Benefit Payments	3,861,077	340,510	4,201,587	-	-	-	-
Administrative Expense	21,525	12,948	34,473	-	-	-	-
Transfers Out	-	-	-	12,793	-	20,014	32,807
Total Deductions	3,882,602	353,458	4,236,060	12,793	-	20,014	32,807
Increase (Decrease) in Net Position	11,429,277	1,005,940	12,435,217	(12,793)	-	(19,935)	(32,728)
<u>Net Position:</u>							
Beginning of year as restated (Note 19)	69,146,345	5,802,257	74,948,602	12,793	-	19,935	32,728
End of year	<u>\$ 80,575,622</u>	<u>\$ 6,808,197</u>	<u>\$ 87,383,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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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

INDEPENDENT AUDITOR'S REPORT

Board of Township Supervisors
Township of Millcreek
Erie, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Township of Millcreek, Pennsylvania (the "Township") as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2020.

Internal Control over Financial Reporting

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

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

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



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Township of Millcreek
Erie, Pennsylvania
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Compliance and Other Matters

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

Purpose of this Report

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

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Pittsburgh, Pennsylvania
July 30, 2020