



TOWNSHIP OF MIDDLETOWN

**BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2021

TOWNSHIP OF MIDDLETOWN

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INDEPENDENT AUDITOR'S REPORT

September 13, 2022

Members of Council
Township of Middletown
Lima, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Township of Middletown ("the Township"), Lima, Pennsylvania, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Middletown Township Sewer Authority, a blended component unit, which represent 98.5 percent, 97.5 percent, and 93.2 percent, respectively, of the assets, net position, and operating revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Middletown Township Sewer Authority, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those

standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, no such opinion is expressed.

Members of Council
Township of Middletown

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, and the schedule of changes in the Township's net pension liability, investment returns, and related ratios - non-uniformed pension plan, schedule of Township contributions - non-uniformed pension plan notes to schedule of Township contributions - non-uniformed pension plan, schedule of changes in the Township's net pension liability, investment returns, and related ratios - sewer authority plan, schedule of Township contributions - sewer authority plan, and notes to schedule of Township contributions - sewer authority plan on pages 59 – 62 presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2022, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.


BARBACANE, THORNTON & COMPANY LLP

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
DECEMBER 31, 2021

Introduction

Our discussion and analysis of the financial performance of the Township of Middletown ("the Township"), Lima, Pennsylvania, provides an overview of the Township's financial activities for the fiscal year ended December 31, 2021. Please read it in conjunction with the Township's financial statements, which begin on page 15.

Financial Highlights

- The assets and deferred outflows of resources of the Township exceeded its liabilities and deferred inflows of resources at the close of the calendar year by \$49,949,326 (net position). Of this amount, \$8,460,357 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The Township's total net position increased by \$4,536,084 from 2020 to 2021.
- As of December 31, 2021, the Township's governmental (general, capital projects, and special revenue) funds reported combined ending fund balances of \$11,997,714, a decrease of \$2,914,827 as compared to the prior year.
- The Township's governmental activities have outstanding general obligation bonds totaling \$24,335,000 and the business-type activities have outstanding revenue bonds totaling \$13,880,000.
- The net pension asset and liability reported is the difference between the total pension liability and the assets available to fund that liability. The Township's financial statements include two pension plans, the Township plan and the Sewer Authority plan. The Township's pension plan had a net pension asset of \$807,007 compared to a net pension asset of \$471,777 for the prior year. The Sewer Authority's pension plan net pension liability increased from \$115,572 in the prior year to \$132,849.
- The Township's real estate tax rate stayed the same after accounting for the Countywide reassessment. However, the millage rate was reset to 1.01 mills in 2021. Of the 49 municipalities in Delaware County, only six had lower property tax rates than the Township did in 2021.

Overview of the Financial Statements

Management's Discussion and Analysis ("MD&A") is designed to focus on the current year's activities and subsequent changes in the Township's financial position, and also includes currently known facts that may have a significant impact on the Township's financial position now and in the foreseeable future.

GASB Statement No. 34 establishes the required elements of the general purpose external financial report as:

- Management's Discussion and Analysis

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

- Basic Financial Statements:
 - Entity-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements

- Required Supplementary Information (other than MD&A)

The Township's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements.

Entity-wide Financial Statements – The entity-wide financial statements provide a broad overview of the Township's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the Township's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent calendar year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future calendar periods (e.g., uncollected taxes).

Both of the entity-wide financial statements distinguish functions of the Township that are supported principally by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- *Governmental Activities* – The majority of the Township's basic services are reported here, including financial support for the volunteer fire companies and library, plus general administration, building and zoning enforcement, public works, and park operations. Business taxes, building permits, property taxes, intergovernmental revenues, and franchise fees finance most of these activities.

- *Business-type Activities* – The Township charges fees to customers to help it recover all or most of the cost of certain services it provides. The Township sewer and recreation activities are reported here. The Township also includes a separate legal entity in its report - the Middletown Township Sewer Authority ("the Sewer Authority"). The Sewer Authority is considered a blended component unit and is included with the business-type activities. Although legally separate, the Sewer Authority is important because the Township is financially accountable for it and, therefore, it has been included as an integral part of the primary government.

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Fund Financial Statements – An analysis of the Township's major funds provides detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by state law and some by bond covenants. However, the Township Council also establishes many other funds to help it control and manage money for particular purposes (special revenue funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (capital projects funds). The Township's three kinds of funds - governmental, proprietary, and fiduciary - use different accounting approaches.

- *Governmental Funds* – Most of the Township's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in reconciliations on pages 18 and 20.
- *Proprietary Funds* – When the Township charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the Township's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the entity-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.
- *Fiduciary Funds* – The Township is the trustee, or fiduciary, responsible for certain assets, such as the employee pension fund, that - because of a trust arrangement - can be used only for the trust beneficiaries. All the Township's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the financial statements can be found beginning on page 30 of this report.

Financial Analysis of the Government as a Whole

The statement of net position and the statement of activities report information about the Township as a whole and about its activities in a way that helps answer the question, "How did the Township do financially during 2021?" These statements include all assets and deferred accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

These two statements report the Township's net position and the changes in them during the year. This change in net position is important because it informs the reader, for the Township as a whole, whether the financial position of the Township has improved or diminished. The causes of this change may be the result of many factors; some financial, some not. Nonfinancial factors could include changes in the Township's property tax base and the condition of the Township's assets.

Table 1 below shows the net position of the Township's governmental and business-type activities. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$49,949,326 at December 31, 2021. This is an increase of \$4,536,084 from the previous year.

Table 1
Net Position
December 31, 2021 and 2020

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
Current assets	\$ 13,544,477	\$ 15,835,100	\$ 11,395,805	\$ 14,044,014	\$ 24,940,282	\$ 29,879,114
Other assets	-	-	1,356,472	1,725,648	1,356,472	1,725,648
Capital assets	41,858,731	36,520,384	25,402,511	23,022,841	67,261,242	59,543,225
Net pension asset	703,145	411,059	103,862	60,718	807,007	471,777
Deferred outflows - pension	222,820	364,594	204,886	102,263	427,706	466,857
TOTAL ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES	\$ 56,329,173	\$ 53,131,137	\$ 38,463,536	\$ 38,955,484	\$ 94,792,709	\$ 92,086,621
LIABILITIES AND DEFERRED						
INFLOWS OF RESOURCES						
Current liabilities	\$ 2,159,915	\$ 2,232,215	\$ 3,805,434	\$ 3,536,565	\$ 5,965,349	\$ 5,768,780
Long-term liabilities	24,655,379	25,923,355	13,416,688	14,174,779	38,072,067	40,098,134
Deferred inflows - pension	612,899	644,656	193,068	161,809	805,967	806,465
TOTAL LIABILITIES AND						
DEFERRED INFLOWS						
OF RESOURCES	27,428,193	28,800,226	17,415,190	17,873,153	44,843,383	46,673,379
NET POSITION						
Net investment in capital assets	15,972,817	9,347,761	8,982,806	6,541,134	24,955,623	15,888,895
Restricted	9,916,314	13,677,208	6,617,032	9,023,140	16,533,346	22,700,348
Unrestricted	3,011,849	1,305,942	5,448,508	5,518,057	8,460,357	6,823,999
TOTAL NET POSITION	28,900,980	24,330,911	21,048,346	21,082,331	49,949,326	45,413,242
TOTAL LIABILITIES, DEFERRED						
INFLOWS OF RESOURCES,						
AND NET POSITION	\$ 56,329,173	\$ 53,131,137	\$ 38,463,536	\$ 38,955,484	\$ 94,792,709	\$ 92,086,621

The Township's total net position includes \$24,955,623, or 50 percent of the total, net investment in capital assets (land, buildings, and equipment), less any related debt which is still outstanding, and

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

adding any unspent bond proceeds which were issued for future capital projects. The Township uses these capital assets to provide services to residents and to preserve open space for recreational and environmental purposes; consequently, they are not available for future spending as cash, and the resources needed to repay the debt must be provided from other sources. Cash and investments represent most of the current and other assets of the Township.

Business-type activities net position decreased \$33,985 from 2020 to 2021. Depreciable capital assets, net of accumulated depreciation, increased \$2,379,670 from the prior year due to the Sewer Authority's capital improvements to the sewer infrastructure.

Total assets for governmental activities increased in correlation with an increase in long-term liabilities. Total assets of the governmental activities increased due to an increase in investments due to interest rate increases. Overall revenue increased slightly primarily due to development, the receipt of Federal American Recovery Act Grant, and the continued increase of business activities in the Township. The development and grant revenue should be viewed as two-to-three-year trends and are not expected to persist over the medium term. Expenses also increased modestly compared to 2020 due to increased spending in the public safety and culture and parks categories. Due to the uncertain Pandemic recovery, Township staff were able to constrain most expenses by an average of 6% year over year. However, increased funding for public safety and the requirement to further subsidize the Recreational Enterprise Fund (due to the loss of revenue producing programs) resulted in an overall expense increase. The total net position in the governmental activities reflected an increase of \$4,570,069 from 2020 to 2021 due to the factors described above.

Table 2
Changes in Net Position
For the Years Ended December 31, 2021 and 2020

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues:						
Charges for services	\$ 2,510,002	\$ 1,539,341	\$ 4,694,152	\$ 4,706,014	\$ 7,204,154	\$ 6,245,355
Operating grants/contributions	674,987	690,166	-	-	674,987	690,166
Capital grants/contributions	120,280	24,220	169,000	2,824,000	289,280	2,848,220
General revenues:						
Taxes:						
Real estate taxes	3,046,368	2,275,313	-	-	3,046,368	2,275,313
Real estate transfer taxes	885,705	408,742	-	-	885,705	408,742
Mercantile taxes	483,431	569,214	-	-	483,431	569,214
Local services tax	365,229	369,822	-	-	365,229	369,822
Business privilege taxes	948,534	795,783	-	-	948,534	795,783
Franchise fees	267,402	279,666	-	-	267,402	279,666
Fines and forfeits	5,991	9,079	-	-	5,991	9,079
Investment earnings	186,568	233,703	53,397	211,944	239,965	445,647
Grants and contributions not restricted to specific programs	1,105,740	359,249	-	-	1,105,740	359,249
Gain on sale of capital asset	-	47,756	-	-	-	47,756
Miscellaneous	23,258	21,948	-	-	23,258	21,948
TOTAL REVENUES	10,623,495	7,624,002	4,916,549	7,741,958	15,540,044	15,365,960

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Table 2
Changes in Net Position
For the Years Ended December 31, 2021 and 2020

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
(cont'd)						
EXPENSES						
General government	1,833,342	1,674,247	-	-	1,833,342	1,674,247
Public safety	1,309,245	1,071,100	-	-	1,309,245	1,071,100
Public works	1,480,418	1,289,995	-	-	1,480,418	1,289,995
Health and welfare	30,389	35,369	-	-	30,389	35,369
Culture and parks	708,113	2,047,257	-	-	708,113	2,047,257
Interest expense	691,919	616,039	-	-	691,919	616,039
Recreation	-	-	195,562	256,745	195,562	256,745
Sewer	-	-	4,754,972	4,515,642	4,754,972	4,515,642
TOTAL EXPENSES	<u>6,053,426</u>	<u>6,734,007</u>	<u>4,950,534</u>	<u>4,772,387</u>	<u>11,003,960</u>	<u>11,506,394</u>
CHANGE IN NET POSITION	4,570,069	889,995	(33,985)	2,969,571	4,536,084	3,859,566
NET POSITION, BEGINNING OF YEAR	<u>24,330,911</u>	<u>23,440,916</u>	<u>21,082,331</u>	<u>18,112,760</u>	<u>45,413,242</u>	<u>41,553,676</u>
NET POSITION, END OF YEAR	<u>\$ 28,900,980</u>	<u>\$ 24,330,911</u>	<u>\$ 21,048,346</u>	<u>\$ 21,082,331</u>	<u>\$ 49,949,326</u>	<u>\$ 1,674,247</u>

Governmental Activities:

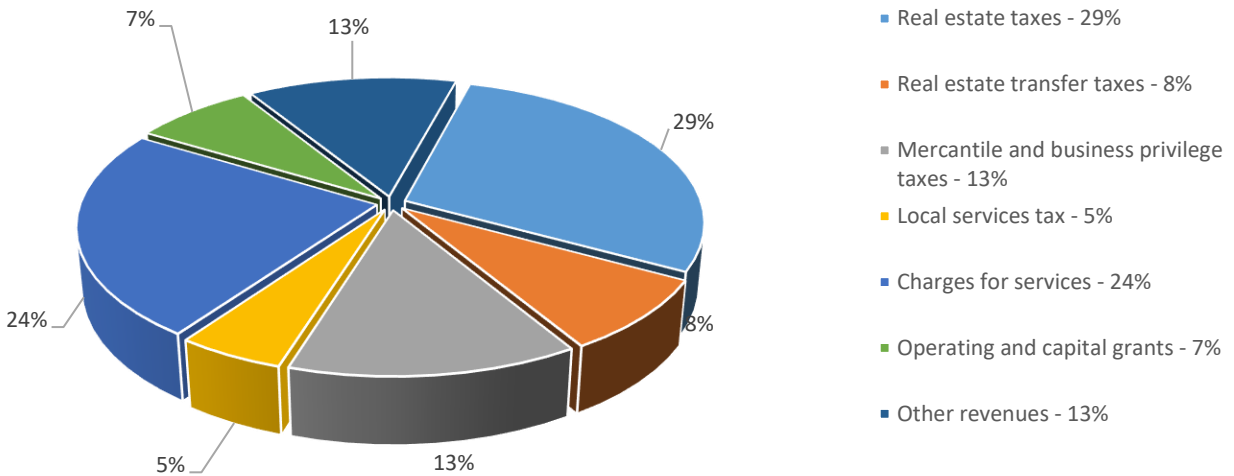
The cost of all governmental activities in 2021 was \$6,053,426. The amount that the Township's various taxpaying groups financed for these activities through Township property tax, local service tax, mercantile tax, business privilege tax, and real estate transfer taxes was \$5,729,267. Other costs were paid by those who directly benefited from the programs (\$2,510,002) or by other governments and organizations that subsidized certain programs with intergovernmental aid and contributions (\$795,267). The increase in the change in net position from \$889,995 in 2020 to \$4,570,069 in 2021 was mainly due to an increase in grants, charges for services, and natural tax revenue growth. The Township did not increase any tax rates from the prior year. See further detail of expenses on the budgetary comparison statements on pages 21 to 24.

As indicated by governmental program expenses, general government accounts for approximately 30 percent of the total expenses of the Township's governmental activities. Public safety and public works account for approximately 22 and 24 percent, respectively, of total expenses for 2021.

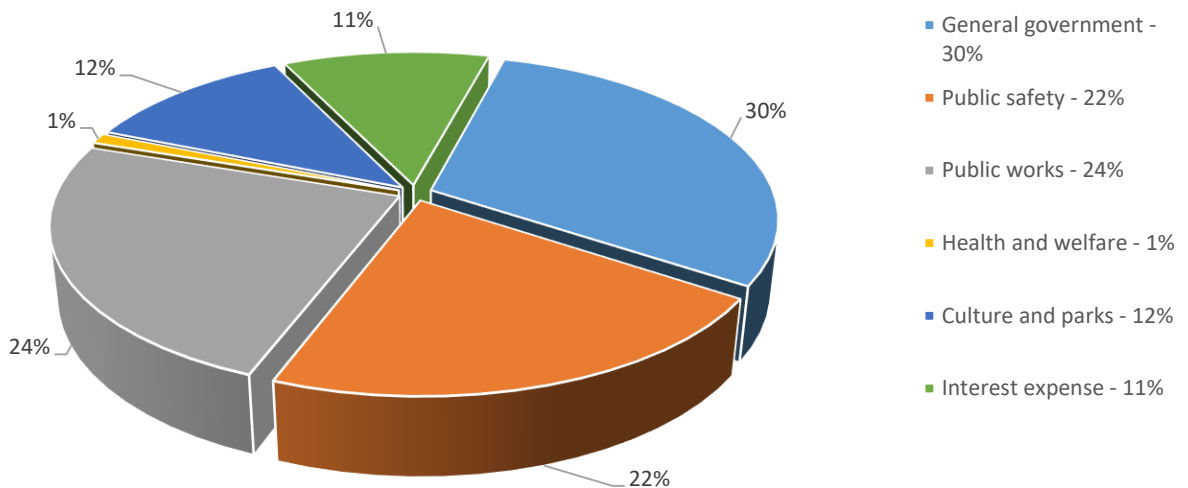
Real estate taxes, mercantile taxes, business privilege taxes, and other general revenues not restricted or applicable to specific programs provide the major revenue sources for governmental activities. As identified below, real estate taxes account for approximately 29 percent of total governmental revenues. The Township's real estate taxes, per Township policy and referendum, are specifically directed towards the repayment of debt for long term capital projects and for the provision of fire service protection. Mercantile and business privilege taxes and operating and capital grants provide approximately 13 and 7 percent of governmental revenues, respectively. The Township relies on these revenues to furnish the quality of life to citizens and businesses to which the Township Council has always been committed.

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

**REVENUES BY SOURCE - GOVERNMENTAL
ACTIVITIES**



**EXPENSES BY SOURCE - GOVERNMENTAL
ACTIVITIES**



TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Business-type Activities:

Business-type activities (Recreation Fund and Sewer Authority) decreased the Township's net position by \$33,985. Total charges for services for the Sewer Authority activities decreased from 2020, while charges for services for the Recreation Fund decreased from 2020 as a result of COVID-19. The Township's Parks & Recreation Department has altered its previous revenue emphasis away from group bus trips towards children's' programming to offset reductions in the former.

The Sewer Authority is a municipal corporation created by the Township in 1966 under the Pennsylvania Municipality Authorities Act of 1945, as amended, for the purpose of financing, engineering, and building the public sanitary sewer system that currently serves 8,033 Equivalent Dwelling Units ("EDUs"). The system includes approximately 70 miles of collection pipelines and 21 pumping stations, which handle about 1.87 million gallons per day. The Sewer Authority is a blended component unit of the Township. Capital grants and contributions in the Sewer Authority decreased due to new grants in the prior year related to sewer system upgrades.

Total current assets of the Sewer Authority in the amount of \$10,913,786 (including \$4,484,602 of restricted assets), with total current liabilities of \$3,805,434, represent a favorable asset to debt ratio of 2.9:1.

Financial Analysis of the Township's Funds

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

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

As of December 31, 2021, the Township's governmental funds reported combined ending balances of \$11,997,714, a decrease of \$2,914,827 as compared to the prior year. Restricted fund balances are depicted on the balance sheet on page 17 and include funds that have been earmarked for community improvements, fire apparatus replacement, highways and streets, and debt service.

- Due to conservative budgeting practices and more favorable economic conditions actual revenues exceeded budgeted revenues in the General Fund. Revenues exceeded the budget primarily due to an increase in licenses and permits, more limited than expected reassessment appeals, and an unexpected rebound in business taxes. Two new residential developments and a hospital expansion accounted for the majority of the revenue fee increase.
- The Capital Projects Fund provided funding for debt service, capital improvements, or other unique expenditures which are not normal operating or maintenance-type expenditures reportable within the General Fund or other governmental funds. Major revenue sources for the

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

capital projects funds are interest, grants, and tax money which are transferred in from other funds to be used for debt service payments and fire apparatus equipment.

- The Special Revenue Tax Fund accounts for the real estate tax receipts and the transfer of such receipts to the fire department and debt service.
- The Highway Aid Fund accounts for receipts from the Commonwealth of Pennsylvania Motor License Fund (gasoline tax distribution) and the approved expenditures of such monies for highway purposes.

Proprietary Funds – The Township's proprietary funds (Recreation and Sewer Authority) provide the same type of information found in the entity-wide financial statements, but in more detail. Factors contributing to the finances of these funds have already been discussed in the section outlining the Township's business-type activities.

General Fund Budgetary Highlights

The adopted budget for the General Fund anticipated expenditures and other financing uses exceeding revenues and other financing sources by \$637,938. Based on actual figures, revenues and other financing sources exceeded expenditures and other financing uses; the Township's net position increased by \$1,138,153.

Capital Assets and Debt Administration

Capital Assets – The Township's investment in capital assets as of December 31, 2021 amounts to \$67,261,242 net of accumulated depreciation (\$41,858,731 for the governmental activities and \$25,402,511 for the business-type activities) versus \$59,543,225 for 2020. The investment in capital assets includes land, construction-in-progress, buildings and improvements, machinery and equipment, vehicles, and land improvements.

**Table 3
Capital Assets**

	Governmental Activities	
	2021	2020
Land	\$ 25,701,117	\$ 25,375,514
Construction-in-progress	6,945,584	2,596,706
Buildings and improvements	12,419,125	11,212,560
Machinery and equipment	4,190,764	4,093,354
Total capital assets	<u>49,256,590</u>	<u>43,278,134</u>
Less accumulated depreciation	<u>(7,397,859)</u>	<u>(6,757,750)</u>
Capital assets, net of depreciation	<u>\$ 41,858,731</u>	<u>\$ 36,520,384</u>

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Table 3
Capital Assets

	Business-type Activities	
	2021	2020
(cont'd)		
Land	\$ 431,546	\$ 431,546
Construction-in-progress	790,157	4,682,441
Collection system	46,655,236	39,307,248
Machinery and equipment	69,443	69,443
Total capital assets	<u>47,946,382</u>	<u>44,490,678</u>
Less accumulated depreciation	<u>(22,543,871)</u>	<u>(21,467,837)</u>
Capital assets, net of depreciation	<u>\$ 25,402,511</u>	<u>\$ 23,022,841</u>

The following major capital assets in the governmental activities are noted during the current fiscal year.

- Final renovation costs for the Roosevelt Community Center
- The cost of the 2021 Road Resurfacing Project
- Final renovation costs for the Smedley Park Improvements
- The purchase of one new public works vehicle
- The purchase of the old Middletown Free Library building on the Township Government Complex

Long-term Debt – At December 31, 2021, the Township's governmental activities had \$24,335,000 in bonds outstanding compared to \$25,535,000 last year. Outstanding bonds for the business-type activities totaled \$13,880,000 at December 31, 2021 compared to \$14,615,000 last year.

Additional information about the Township's long-term debt can be found in Note 5 on pages 42 - 45 of this report.

Economic Factors

- The Township continues to maintain a diversified revenue base from which municipal operations can be supported by a variety of tax revenues, which is expected to continue in future periods barring a broad economic downturn.
- Interest earned from the Township's investments was moderately less than in 2020. Due to the legislative limits on the type of investments the Township is permitted to own, interest earned is closely correlated with federal fund rates.

TOWNSHIP OF MIDDLETOWN
LIMA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2021

- Delaware County completed a court-ordered, countywide reassessment. This revenue-neutral process resulted in Township property tax rates decreasing from 2.01 mills to 1.01 mills. This process did not significantly impact property tax receipts year over year. However, it did generate significant assessment appeals. An outstanding appeal for the Promenade at Granite Run is challenging its assessment of \$4.8M. If this appeal is successful, it could have the potential to reduce real estate tax revenue.
- Due to the lingering effects of the pandemic and the change in programming focus, the revenue received from the Recreation Department's programs increased slightly by \$60,352 from the previous year. This is still below the break-even point for the enterprise fund without a subsidy from the Township's General Fund.
- The Township was awarded a Transit Revitalization Investment District (TRID) fund grant that will provide \$350,000 to the Township per year from the Commonwealth of Pennsylvania for the next 12 years that will finance trail, pedestrian access, and other improvements related to the Middletown Station project. The annual grant is used towards the debt service on the bond that was taken out to finance the project.
- The Township has been allocated a total of \$1,682,348.24 under the American (Pandemic) Rescue Plan Act. These funds are distributed over two years: \$841,174.12 in 2021 and \$841,174.12 in 2022. These funds must be obligated/committed by December 31, 2024 and expended by December 31, 2026.

All these factors were considered in preparing the Township's budget for the 2022 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Township of Middletown's finances to the citizens of the Township of Middletown and other users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to Vince Visoskas, Finance Director, Township of Middletown, P.O. Box 157, Lima, PA 19037-0157.

**TOWNSHIP OF MIDDLETOWN
STATEMENT OF NET POSITION
DECEMBER 31, 2021
(With Summarized Comparative Data for December 31, 2020)**

	Governmental Activities	Business-type Activities	Totals	
			2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 9,121,954	\$ 5,462,791	\$ 14,584,745	\$ 10,927,806
Investments	4,033,216	-	4,033,216	9,820,166
Accounts and other receivables	130,756	1,367,698	1,498,454	1,708,745
Taxes receivable	258,551	-	258,551	61,548
Prepaid expenses	-	80,714	80,714	24,279
Total Current Assets	<u>13,544,477</u>	<u>6,911,203</u>	<u>20,455,680</u>	<u>22,542,544</u>
Restricted Assets:				
Cash and cash equivalents - restricted	-	4,484,602	4,484,602	7,336,570
Total Restricted Assets	<u>-</u>	<u>4,484,602</u>	<u>4,484,602</u>	<u>7,336,570</u>
Noncurrent Assets:				
Investments	-	1,356,472	1,356,472	1,725,648
Land	25,701,117	431,546	26,132,663	25,807,060
Construction-in-progress	6,945,584	790,157	7,735,741	7,279,147
Depreciable capital assets, net	9,212,030	24,180,808	33,392,838	26,457,018
Net pension asset	703,145	103,862	807,007	471,777
Total Noncurrent Assets	<u>42,561,876</u>	<u>26,862,845</u>	<u>69,424,721</u>	<u>61,740,650</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows - pension	222,820	204,886	427,706	466,857
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>222,820</u>	<u>204,886</u>	<u>427,706</u>	<u>466,857</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 56,329,173</u>	<u>\$ 38,463,536</u>	<u>\$ 94,792,709</u>	<u>\$ 92,086,621</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 644,646	\$ 304,892	\$ 949,538	\$ 1,128,917
Unearned revenue	-	2,163,753	2,163,753	2,162,645
Accrued interest payable	163,560	115,954	279,514	389,151
General obligation bonds payable, net	1,351,709	772,223	2,123,932	2,028,252
Other current liabilities	-	18,476	18,476	12,351
Total Current Liabilities	<u>2,159,915</u>	<u>3,375,298</u>	<u>5,535,213</u>	<u>5,721,316</u>
Current Liabilities Payable from Restricted Assets:				
Developers' escrow	-	430,136	430,136	47,464
Total Current Liabilities Payable from Restricted Assets	<u>-</u>	<u>430,136</u>	<u>430,136</u>	<u>47,464</u>
Noncurrent Liabilities:				
General obligation bonds payable, net	24,534,205	13,283,839	37,818,044	39,947,656
Compensated absences	121,174	-	121,174	34,906
Net pension liability	-	132,849	132,849	115,572
Total Noncurrent Liabilities	<u>24,655,379</u>	<u>13,416,688</u>	<u>38,072,067</u>	<u>40,098,134</u>
TOTAL LIABILITIES	<u>26,815,294</u>	<u>17,222,122</u>	<u>44,037,416</u>	<u>45,866,914</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows - pension	612,899	193,068	805,967	806,465
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>612,899</u>	<u>193,068</u>	<u>805,967</u>	<u>806,465</u>
NET POSITION:				
Net investment in capital assets	15,972,817	8,982,806	24,955,623	15,888,895
Restricted	9,916,314	6,617,032	16,533,346	22,700,348
Unrestricted	3,011,849	5,448,508	8,460,357	6,823,999
TOTAL NET POSITION	<u>28,900,980</u>	<u>21,048,346</u>	<u>49,949,326</u>	<u>45,413,242</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 56,329,173</u>	<u>\$ 38,463,536</u>	<u>\$ 94,792,709</u>	<u>\$ 92,086,621</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Summarized Comparative Data for the Year Ended December 31, 2020)**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
							2021	2020
GOVERNMENTAL ACTIVITIES								
General government	\$ 1,833,342	\$ 172,529	\$ 67,162	\$ -	\$ (1,593,651)	\$ -	\$ (1,593,651)	\$ (1,507,343)
Public safety	1,309,245	1,863,928	101,632	-	656,315	-	656,315	167,400
Public works	1,480,418	473,545	506,193	120,280	(380,400)	-	(380,400)	(441,672)
Health and welfare	30,389	-	-	-	(30,389)	-	(30,389)	(35,369)
Culture and parks	708,113	-	-	-	(708,113)	-	(708,113)	(2,047,257)
Interest expense	691,919	-	-	-	(691,919)	-	(691,919)	(616,039)
TOTAL GOVERNMENTAL ACTIVITIES	6,053,426	2,510,002	674,987	120,280	(2,748,157)	-	(2,748,157)	(4,480,280)
BUSINESS-TYPE ACTIVITIES								
Recreation	195,562	317,097	-	-	-	121,535	121,535	47,119
Sewer	4,754,972	4,377,055	-	169,000	-	(208,917)	(208,917)	2,710,508
TOTAL BUSINESS-TYPE ACTIVITIES	4,950,534	4,694,152	-	169,000	-	(87,382)	(87,382)	2,757,627
TOTAL PRIMARY GOVERNMENT	\$ 11,003,960	\$ 7,204,154	\$ 674,987	\$ 289,280	(2,748,157)	(87,382)	(2,835,539)	(1,722,653)
GENERAL REVENUES								
Taxes:								
					3,046,368	-	3,046,368	2,275,313
					885,705	-	885,705	408,742
					483,431	-	483,431	569,214
					365,229	-	365,229	369,822
					948,534	-	948,534	795,783
					267,402	-	267,402	279,666
					5,991	-	5,991	9,079
					186,568	53,397	239,965	445,647
					1,105,740	-	1,105,740	359,249
					-	-	-	47,756
					23,258	-	23,258	21,948
					<u>7,318,226</u>	<u>53,397</u>	<u>7,371,623</u>	<u>5,582,219</u>
					4,570,069	(33,985)	4,536,084	3,859,566
					<u>24,330,911</u>	<u>21,082,331</u>	<u>45,413,242</u>	<u>41,553,676</u>
					<u>\$ 28,900,980</u>	<u>\$ 21,048,346</u>	<u>\$ 49,949,326</u>	<u>\$ 45,413,242</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2021
(With Summarized Comparative Data for December 31, 2020)**

	General Fund	Capital Projects Fund	Special Revenue Tax Fund	Highway Aid Fund	Totals	
					2021	2020
ASSETS						
Cash and cash equivalents	\$ 3,838,272	\$ 4,698,880	\$ -	\$ 584,802	\$ 9,121,954	\$ 5,704,318
Investments	-	4,033,216	-	-	4,033,216	9,820,166
Accounts receivable	51,930	78,826	-	-	130,756	249,068
Taxes receivable	68,021	-	190,530	-	258,551	61,548
Due from other funds	99,354	14,439	14,020	-	127,813	246,504
TOTAL ASSETS	\$ 4,057,577	\$ 8,825,361	\$ 204,550	\$ 584,802	\$ 13,672,290	\$ 16,081,604
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 330,531	\$ 298,475	\$ 15,640	\$ -	\$ 644,646	\$ 776,511
Due to other funds	40,384	-	87,429	-	127,813	246,504
TOTAL LIABILITIES	370,915	298,475	103,069	-	772,459	1,023,015
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue	902,117	-	-	-	902,117	146,048
FUND BALANCES:						
Restricted:						
Capital reserve	-	6,497,594	-	-	6,497,594	11,446,905
Fire apparatus	-	546,510	-	-	546,510	236,040
Highways and streets	-	-	-	584,802	584,802	507,333
Debt service	-	1,482,782	101,481	-	1,584,263	1,075,871
Assigned for future expenditures	2,100,000	-	-	-	2,100,000	1,750,000
Unassigned (deficit)	684,545	-	-	-	684,545	(103,608)
TOTAL FUND BALANCES	2,784,545	8,526,886	101,481	584,802	11,997,714	14,912,541
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,057,577	\$ 8,825,361	\$ 204,550	\$ 584,802	\$ 13,672,290	\$ 16,081,604

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

TOTAL GOVERNMENTAL FUND BALANCES \$ 11,997,714

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 41,858,731

Some of the Township's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 902,117

Some assets and liabilities are not due, receivable, or payable in the current period and, therefore, are not reported in the funds. Those items consist of:

Interest payable	\$ (163,560)	
Compensated absences	(121,174)	
General obligation bonds payable, net	(25,885,914)	
Net pension asset	<u>703,145</u>	(25,467,503)

Deferred inflows and outflows related to the Township's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes of benefit terms, and changes of assumptions. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows of resources - pensions	222,820	
Deferred inflows of resources - pensions	<u>(612,899)</u>	<u>(390,079)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 28,900,980

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Summarized Comparative Data for the Year Ended December 31, 2020)

	General Fund	Capital Projects Fund	Special Revenue Tax Fund	Highway Aid Fund	Totals	
					2021	2020
REVENUES						
Taxes	\$ 2,692,428	\$ 174	\$ 2,280,596	\$ -	\$ 4,973,198	\$ 4,433,677
Licenses and permits	2,131,330	-	-	-	2,131,330	1,403,307
Fines, forfeits, and costs	5,991	-	-	-	5,991	9,079
Interest, dividends, and rents	134,371	45,983	-	6,214	186,568	233,703
Intergovernmental revenues	219,754	1,100,000	-	460,973	1,780,727	1,049,415
Contributions	-	120,280	-	-	120,280	24,220
Charges for services/fees	637,574	8,500	-	-	646,074	415,700
Miscellaneous revenue	7,804	5,684	-	-	13,488	21,948
TOTAL REVENUES	<u>5,829,252</u>	<u>1,280,621</u>	<u>2,280,596</u>	<u>467,187</u>	<u>9,857,656</u>	<u>7,591,049</u>
EXPENDITURES						
Current:						
General government	1,478,397	4,455,441	-	-	5,933,838	3,685,103
Public safety	1,144,096	-	90,080	-	1,234,176	1,025,427
Health and welfare	30,035	-	-	-	30,035	34,880
Public works	1,089,227	327,451	-	389,718	1,806,396	1,897,927
Culture and parks	479,285	1,010,209	-	-	1,489,494	10,075,972
Insurance, employee benefits, payroll taxes	305,872	-	-	-	305,872	372,971
Debt service:						
Principal	-	1,200,000	-	-	1,200,000	1,030,000
Interest and other charges	3,254	783,344	-	-	786,598	615,838
TOTAL EXPENDITURES	<u>4,530,166</u>	<u>7,776,445</u>	<u>90,080</u>	<u>389,718</u>	<u>12,786,409</u>	<u>18,738,118</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,299,086</u>	<u>(6,495,824)</u>	<u>2,190,516</u>	<u>77,469</u>	<u>(2,928,753)</u>	<u>(11,147,069)</u>
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	-	-	11,310,000
Bond premium	-	-	-	-	-	995,765
Transfers in	-	2,329,832	-	-	2,329,832	2,039,335
Transfers out	(174,859)	-	(2,154,973)	-	(2,329,832)	(2,039,335)
Proceeds from sale of capital assets and equipment	-	-	-	-	-	48,636
Refund of prior year expenditures	14,551	-	-	-	14,551	17,917
Refund of prior year revenue	(625)	-	-	-	(625)	(1,029)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(160,933)</u>	<u>2,329,832</u>	<u>(2,154,973)</u>	<u>-</u>	<u>13,926</u>	<u>12,371,289</u>
NET CHANGE IN FUND BALANCES	1,138,153	(4,165,992)	35,543	77,469	(2,914,827)	1,224,220
FUND BALANCES, BEGINNING OF YEAR	<u>1,646,392</u>	<u>12,692,878</u>	<u>65,938</u>	<u>507,333</u>	<u>14,912,541</u>	<u>13,688,321</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,784,545</u>	<u>\$ 8,526,886</u>	<u>\$ 101,481</u>	<u>\$ 584,802</u>	<u>\$ 11,997,714</u>	<u>\$ 14,912,541</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (2,914,827)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the effect of these differences:

Capital outlays	\$ 5,994,136	
Loss on sale of capital assets	(1,014)	
Depreciation expense	<u>(654,774)</u>	5,338,348

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 756,069

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 1,200,000

Governmental funds report the effect of bond premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. 86,709

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(86,268)	
Accrued interest payable	<u>7,970</u>	(78,298)

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the changes in the actuarially determined net pension liability, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 182,068

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,570,069

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Original Appropriated Budget	Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Favorable (Unfavorable) Variance
REVENUES				
Taxes:				
Real estate - current (1)	\$ 314,866	\$ 314,866	\$ 9,529	\$ (305,337)
Real estate - interims	5,000	5,000	-	(5,000)
Real estate - transfer	350,000	350,000	885,705	535,705
Mercantile taxes	366,850	366,850	483,431	116,581
Local services tax	340,000	340,000	365,229	25,229
Business privilege taxes	617,400	617,400	948,534	331,134
Licenses and permits	1,231,800	1,231,800	2,131,330	899,530
Fines, forfeits, and costs	30,000	30,000	5,991	(24,009)
Interest, dividends, and rents	99,000	99,000	134,371	35,371
Intergovernmental revenues	224,250	224,250	219,754	(4,496)
Charges for services/fees	555,340	555,340	637,574	82,234
Miscellaneous revenue	35,000	35,000	7,804	(27,196)
TOTAL REVENUES	4,169,506	4,169,506	5,829,252	1,659,746
EXPENDITURES				
Current:				
General government:				
Township Council	307,915	307,915	337,765	(29,850)
Office of Manager	381,114	381,114	371,481	9,633
Financial administration	402,775	402,775	310,464	92,311
Tax collection	34,500	34,500	42,871	(8,371)
Legal services	100,000	100,000	70,986	29,014
Engineering	325,000	325,000	215,640	109,360
Building and grounds	145,945	145,945	129,190	16,755
Total General Government	1,697,249	1,697,249	1,478,397	218,852
Public safety:				
Fire protection	338,464	338,464	374,785	(36,321)
Code enforcement	676,534	676,534	740,377	(63,843)
Planning and zoning	10,500	10,500	22,564	(12,064)
Emergency management	6,000	6,000	16	5,984
Animal control	5,500	5,500	6,354	(854)
Total Public Safety	1,036,998	1,036,998	1,144,096	(107,098)
Health and welfare	35,400	35,400	30,035	5,365

Continued on next page.

**TOWNSHIP OF MIDDLETOWN
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Original Appropriated Budget	Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Favorable (Unfavorable) Variance
EXPENDITURES (cont'd)				
Public works:				
Recycling operations	465,250	465,250	461,540	3,710
Highway general services	523,575	523,575	530,401	(6,826)
Snow and ice removal	2,750	2,750	1,990	760
Signs and signals	44,400	44,400	52,741	(8,341)
Street lighting	1,200	1,200	-	1,200
Tools, machinery, and equipment	33,800	33,800	24,377	9,423
Highway maintenance and repair	38,275	38,275	18,178	20,097
Total Public Works	1,109,250	1,109,250	1,089,227	20,023
Culture and parks:				
Recreation	163,346	163,346	163,346	-
Parks	26,700	26,700	15,939	10,761
Library	300,000	300,000	300,000	-
Total Culture and Parks	490,046	490,046	479,285	10,761
Nondepartmental:				
Insurance, employee benefits, and payroll taxes	350,501	350,501	305,872	44,629
Interest and other charges	1,500	1,500	3,254	(1,754)
Total Nondepartmental	352,001	352,001	309,126	42,875
TOTAL EXPENDITURES	4,720,944	4,720,944	4,530,166	190,778
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 (551,438)	 (551,438)	 1,299,086	 1,850,524
 OTHER FINANCING SOURCES (USES)				
Transfers out	(85,000)	(85,000)	(174,859)	(89,859)
Refund of prior year expenditures	-	-	14,551	14,551
Refund of prior year revenues	(1,500)	(1,500)	(625)	875
TOTAL OTHER FINANCING USES	(86,500)	(86,500)	(160,933)	(74,433)
NET CHANGE IN FUND BALANCE	\$ (637,938)	\$ (637,938)	1,138,153	\$ 1,776,091
FUND BALANCE, BEGINNING OF YEAR			1,646,392	
FUND BALANCE, END OF YEAR			\$ 2,784,545	

Notes to Schedule:

(1) This includes the mills dedicated to Fire Protection & General Fund.

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
BUDGETARY COMPARISON STATEMENT - SPECIAL REVENUE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Original and Final Appropriated Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes:			
Real estate	<u>\$ 2,054,409</u>	<u>\$ 2,280,596</u>	<u>\$ 226,187</u>
TOTAL REVENUES	<u>2,054,409</u>	<u>2,280,596</u>	<u>226,187</u>
EXPENDITURES			
Public safety tax distribution	<u>80,738</u>	<u>90,080</u>	<u>(9,342)</u>
TOTAL EXPENDITURES	<u>80,738</u>	<u>90,080</u>	<u>(9,342)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,973,671</u>	<u>2,190,516</u>	<u>216,845</u>
OTHER FINANCING USES			
Operating transfer out	<u>(1,973,671)</u>	<u>(2,154,973)</u>	<u>(181,302)</u>
TOTAL OTHER FINANCING USES	<u>(1,973,671)</u>	<u>(2,154,973)</u>	<u>(181,302)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>35,543</u>	<u>\$ 35,543</u>
FUND BALANCE, BEGINNING OF YEAR		<u>65,938</u>	
FUND BALANCE, END OF YEAR		<u>\$ 101,481</u>	

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
BUDGETARY COMPARISON STATEMENT - HIGHWAY AID FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Interest, dividends, and rents	\$ -	\$ 6,214	\$ 6,214
Intergovernmental revenues	447,471	460,973	13,502
TOTAL REVENUES	<u>447,471</u>	<u>467,187</u>	<u>19,716</u>
EXPENDITURES			
Current:			
Snow and ice	45,000	55,159	(10,159)
Signs and signals	18,000	2,660	15,340
Street lighting	6,250	6,360	(110)
Construction and rebuilding	25,000	-	25,000
Capital outlay	353,221	325,539	27,682
TOTAL EXPENDITURES	<u>447,471</u>	<u>389,718</u>	<u>57,753</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	77,469	<u>\$ 77,469</u>
FUND BALANCE, BEGINNING OF YEAR		<u>507,333</u>	
FUND BALANCE, END OF YEAR		<u>\$ 584,802</u>	

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2021
(With Summarized Comparative Data for December 31, 2020)

	Enterprise Funds		Totals	
	Recreation Fund	Sewer Authority	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 482,019	\$ 4,980,772	\$ 5,462,791	\$ 5,223,488
Accounts receivable	-	1,367,698	1,367,698	1,459,677
Prepaid expenses	-	80,714	80,714	24,279
Total Current Assets	<u>482,019</u>	<u>6,429,184</u>	<u>6,911,203</u>	<u>6,707,444</u>
Restricted Assets:				
Cash and cash equivalents, restricted	-	4,484,602	4,484,602	7,336,570
Total Restricted Assets	<u>-</u>	<u>4,484,602</u>	<u>4,484,602</u>	<u>7,336,570</u>
Noncurrent Assets:				
Investments	-	1,356,472	1,356,472	1,725,648
Land	-	431,546	431,546	431,546
Construction-in-progress	-	790,157	790,157	4,682,441
Depreciable capital assets, net	-	24,180,808	24,180,808	17,908,854
Net pension asset	103,862	-	103,862	60,718
Total Noncurrent Assets	<u>103,862</u>	<u>26,758,983</u>	<u>26,862,845</u>	<u>24,809,207</u>
TOTAL ASSETS	<u>585,881</u>	<u>37,672,769</u>	<u>38,258,650</u>	<u>38,853,221</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	32,913	171,973	204,886	102,263
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 618,794</u>	<u>\$ 37,844,742</u>	<u>\$ 38,463,536</u>	<u>\$ 38,955,484</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ -	\$ 304,892	\$ 304,892	\$ 352,406
Unearned revenue	-	2,163,753	2,163,753	2,162,645
Other current liabilities	-	18,476	18,476	12,351
Total Current Liabilities	<u>-</u>	<u>2,487,121</u>	<u>2,487,121</u>	<u>2,527,402</u>
Current Liabilities Payable from Restricted Assets:				
Developers' escrow	-	430,136	430,136	47,464
Bonds payable	-	772,223	772,223	744,078
Accrued liabilities	-	115,954	115,954	217,621
Total Current Liabilities Payable from Restricted Assets	<u>-</u>	<u>1,318,313</u>	<u>1,318,313</u>	<u>1,009,163</u>
Noncurrent Liabilities:				
Bonds payable	-	13,283,839	13,283,839	14,059,207
Net pension liability	-	132,849	132,849	115,572
Total Noncurrent Liabilities	<u>-</u>	<u>13,416,688</u>	<u>13,416,688</u>	<u>14,174,779</u>
TOTAL LIABILITIES	<u>-</u>	<u>17,222,122</u>	<u>17,222,122</u>	<u>17,711,344</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows - pension	90,531	102,537	193,068	161,809
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>90,531</u>	<u>102,537</u>	<u>193,068</u>	<u>161,809</u>
NET POSITION:				
Net investment in capital assets	-	8,982,806	8,982,806	6,541,134
Restricted for capital projects	-	6,513,170	6,513,170	8,962,422
Restricted for net pension asset	103,862	-	103,862	60,718
Unrestricted	424,401	5,024,107	5,448,508	5,518,057
TOTAL NET POSITION	<u>528,263</u>	<u>20,520,083</u>	<u>21,048,346</u>	<u>21,082,331</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 618,794</u>	<u>\$ 37,844,742</u>	<u>\$ 38,463,536</u>	<u>\$ 38,955,484</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Summarized Comparative Data for the Year Ended December 31, 2020)

	Enterprise Funds		Totals	
	Recreation Fund	Sewer Authority	2021	2020
OPERATING REVENUES				
Sewer rents	\$ -	\$ 4,313,267	\$ 4,313,267	\$ 4,360,736
Trip revenue	40,480	-	40,480	77,286
Contributions	276,227	-	276,227	226,578
Miscellaneous revenue	390	63,788	64,178	41,414
TOTAL OPERATING REVENUES	<u>317,097</u>	<u>4,377,055</u>	<u>4,694,152</u>	<u>4,706,014</u>
OPERATING EXPENSES				
Treatment service	-	2,187,701	2,187,701	2,029,434
Pump and sewer line maintenance	-	548,147	548,147	551,642
Trip costs	30,846	-	30,846	85,755
Recreation program	164,716	-	164,716	170,990
Administrative and general	-	712,056	712,056	656,429
Depreciation	-	1,076,034	1,076,034	975,208
TOTAL OPERATING EXPENSES	<u>195,562</u>	<u>4,523,938</u>	<u>4,719,500</u>	<u>4,469,458</u>
OPERATING INCOME (LOSS)	<u>121,535</u>	<u>(146,883)</u>	<u>(25,348)</u>	<u>236,556</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and investment revenue	534	52,863	53,397	211,944
Tapping fee income	-	169,000	169,000	2,469,000
Bond issuance cost	-	-	-	(152,234)
Interest expense	-	(231,034)	(231,034)	(150,695)
Capital contribution - DELCORA	-	-	-	355,000
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>534</u>	<u>(9,171)</u>	<u>(8,637)</u>	<u>2,733,015</u>
CHANGE IN NET POSITION	122,069	(156,054)	(33,985)	2,969,571
NET POSITION, BEGINNING OF YEAR	<u>406,194</u>	<u>20,676,137</u>	<u>21,082,331</u>	<u>18,112,760</u>
NET POSITION, END OF YEAR	<u>\$ 528,263</u>	<u>\$ 20,520,083</u>	<u>\$ 21,048,346</u>	<u>\$ 21,082,331</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Summarized Comparative Data for the Year Ended December 31, 2020)

	Enterprise Funds		Totals	
	Recreation Fund	Sewer Authority	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from customers	\$ 40,480	\$ 4,470,142	\$ 4,510,622	\$ 4,560,658
Cash receipts from contributions and recreation fees in lieu	276,617	-	276,617	227,078
Cash payments to employees for services	(159,294)	(492,404)	(651,698)	(578,344)
Cash payments to vendors for goods and services	(63,164)	(3,123,659)	(3,186,823)	(2,881,954)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>94,639</u>	<u>854,079</u>	<u>948,718</u>	<u>1,327,438</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Tapping fee income	-	169,000	169,000	2,469,000
Purchases of capital assets	-	(3,557,371)	(3,557,371)	(3,530,341)
Capital contribution - DELCORA	-	-	-	355,000
Bond proceeds	-	-	-	5,900,000
Bond premium	-	-	-	113,218
Bond issuance costs	-	-	-	(152,234)
Bond principal payments	-	(735,000)	(735,000)	(6,335,000)
Bond interest payments	-	(243,257)	(243,257)	(153,663)
Developer escrow activity	-	382,672	382,672	(29,801)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(3,983,956)</u>	<u>(3,983,956)</u>	<u>(1,363,821)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sale of investments	-	369,176	369,176	87,550
Investment earnings	534	52,863	53,397	211,944
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>534</u>	<u>422,039</u>	<u>422,573</u>	<u>299,494</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,173	(2,707,838)	(2,612,665)	263,111
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>386,846</u>	<u>12,173,212</u>	<u>12,560,058</u>	<u>12,296,947</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 482,019</u>	<u>\$ 9,465,374</u>	<u>\$ 9,947,393</u>	<u>\$ 12,560,058</u>
CASH AND CASH EQUIVALENTS	\$ 482,019	\$ 4,980,772	\$ 5,462,791	\$ 5,223,488
CASH - RESTRICTED	-	4,484,602	4,484,602	7,336,570
	<u>\$ 482,019</u>	<u>\$ 9,465,374</u>	<u>\$ 9,947,393</u>	<u>\$ 12,560,058</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 121,535	\$ (146,883)	\$ (25,348)	\$ 236,556
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	1,076,034	1,076,034	975,208
Decrease (Increase) in assets:				
Accounts receivable	-	91,979	91,979	(1,343)
Prepaid items	-	(56,435)	(56,435)	(4,974)
Net pension asset	(43,144)	-	(43,144)	(53,533)
Deferred outflows - pension	20,941	(123,564)	(102,623)	54,418
Increase (Decrease) in liabilities:				
Accounts payable	-	(131,506)	(131,506)	88,169
Unearned revenues	-	1,108	1,108	83,065
Other liabilities	-	6,125	6,125	-
Accrued liabilities	-	83,992	83,992	(2,598)
Net pension liability	-	17,277	17,277	(104,453)
Deferred inflows - pension	(4,693)	35,952	31,259	56,923
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 94,639</u>	<u>\$ 854,079</u>	<u>\$ 948,718</u>	<u>\$ 1,327,438</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital asset purchases in accounts payable and accrued liabilities	\$ -	\$ 83,992	\$ 83,992	\$ 185,659

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2021**

	<u>Pension Trust Fund</u>	<u>Custodial Funds</u>
ASSETS		
Cash and cash equivalents	\$ 70,867	\$ 915,591
Investments, at fair value:		
Equities and options	3,438,324	-
Fixed income securities	1,571,332	-
Accrued interest and dividends	<u>1</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 5,080,524</u></u>	<u><u>\$ 915,591</u></u>
 LIABILITIES		
Due to others	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
 NET POSITION		
Restricted for developers	-	915,591
Net position restricted for pension	<u>5,080,524</u>	<u>-</u>
TOTAL NET POSITION	<u>5,080,524</u>	<u>915,591</u>
 TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 5,080,524</u></u>	<u><u>\$ 915,591</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF MIDDLETOWN
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Pension Trust Fund	Custodial Funds
ADDITIONS		
Contributions:		
Employer	\$ 42,838	\$ -
State Aid	67,162	-
Developer	-	1,263,462
Total Contributions	110,000	1,263,462
Investments:		
Realized gain on sale of investments	266,449	-
Net appreciation in fair value of investments	214,880	-
Interest and investment earnings	101,299	1,151
Net investment Income	582,628	1,151
TOTAL ADDITIONS	692,628	1,264,613
DEDUCTIONS		
Benefits paid	310,947	-
Administrative expenses	24,528	-
Developer expenses	-	657,362
TOTAL DEDUCTIONS	335,475	657,362
CHANGE IN NET POSITION	357,153	607,251
NET POSITION RESTRICTED		
Beginning of year	4,723,371	308,340
End of year	\$ 5,080,524	\$ 915,591

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Middletown ("the Township") complies with accounting principles generally accepted in the United States of America ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

For financial reporting purposes, the primary government of the Township includes all departments and agencies, bureaus, boards, commissions, and certain authorities that make up the Township's legal entity. The Township's reporting entity includes an authority that is a component unit, which is a legally separate organization for which the Township's elected officials are financially accountable.

The Township is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization; or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township. The Township also may be financially accountable if an organization is fiscally dependent on the Township regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Unit

The Township of Middletown Sewer Authority ("the Sewer Authority") was created by the Township to finance the construction and acquisition of certain sewer-related facilities. The facilities were leased, under agreements dated May 1, 1968, February 1, 1978, and October 1, 1984, which were canceled and superseded by an agreement dated October 16, 2014, to the Township, which is obligated to pay minimum lease rentals to the Sewer Authority. Such rental proceeds are to be used to fulfill the obligations of the Sewer Authority under its trust indentures. Under an operating agreement with the Township dated August 11, 2014, the Sewer Authority operates and maintains a Township sewerage collection system in compliance with the terms of the leases, treatment agreement, and various other agreements.

The Sewer Authority is considered a blended component unit and is shown in the financial statements as part of the primary government proprietary funds. The Sewer Authority is audited by other auditors, whose report dated July 26, 2022 is publicly available through the offices of the Township. The Sewer Authority's fiscal year end is April 30.

Basis of Presentation

Entity-wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

those that are considered business-type. These statements exclude fiduciary activities such as pension and custodial funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Township and for each governmental program. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net position is reported as restricted when constraints placed on their use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from special revenue and capital projects funds and the restrictions on their use.

Fund Financial Statements

Fund financial statements report detailed information about the Township. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The four major governmental funds are each presented in a single column on the governmental fund financial statements. Fiduciary fund financial statements are presented by fund type.

The Township reports the following major governmental funds:

- The **General Fund** is the 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.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- The **Capital Projects Fund** accounts for the resources accumulated for future capital projects.
- The **Special Revenue Tax Fund** accounts for the real estate tax receipts and the transfer of such receipts to the fire department and debt service.
- The **Highway Aid Fund** accounts for receipts from the Commonwealth of Pennsylvania Motor License Fund (gasoline tax distribution) and the approved expenditures of such monies for highway purposes.

The Township reports the following proprietary funds:

- The **Recreation Fund** accounts for the revenue and expenses of recreation trips and various recreational programs.
- The **Sewer Authority** accounts for the activities of the Township of Middletown Sewer Authority, a blended component unit of the Township. The Sewer Authority operates the sewage treatment plant, sewage pumping stations, and collection systems.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major governmental funds of the Township include the general fund, capital projects fund, special revenue tax fund, and the highway aid fund.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, certain revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days from year end and available to pay obligations of the current period). This includes investment earnings, real estate transfer taxes, and certain fees for services. Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, in accordance with GAAP, certain governmental fund liabilities and expenditures, such as for compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds.

The Township's only proprietary funds are enterprise funds. These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the Township's enterprise funds are sewer fees, trip revenue, and contributions. Operating expenses for the Township's enterprise funds include sewer disposal, supplies, administrative costs, depreciation, trip, and recreational program costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Trust and Custodial Funds – Trust and custodial funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include pension trust and custodial funds. Pension trust

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

and custodial funds are accounted for in essentially the same manner as proprietary funds since the measurement of the periodic net income and the determination of capital maintenance are critical.

Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted for the general fund, the special revenue tax fund, and the highway aid fund. All annual appropriations lapse at fiscal year end.

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Assets

Restricted assets include developers' escrow deposits pledged to the payment of costs incurred by the Township on behalf of developers as well as bond proceeds restricted for capital projects.

Investments

Investments consist of money market mutual funds, certificates of deposit, the pooled investment programs held by the Pennsylvania Treasurer's Program for Local Governments ("PLGIT"), and the Pennsylvania School District Liquid Asset Fund ("PSDLAF"). The Township's pension funds also invest in mutual funds.

The pooled investment programs are recorded at amortized cost, while all other investments are recorded at fair value. In establishing the fair value of investments, the Township uses the following hierarchy. The lowest level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements as well as the proprietary fund financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant, and equipment (net of salvage value) of the Township are depreciated using the straight-line method over the following estimated useful lives:

Improvements	10 - 40 years
Buildings	15 - 30 years
Machinery and equipment	3 - 20 years
Collection system	30 - 40 years

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category. Certain changes to the net pension asset and net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows of resources in the entity-wide and proprietary fund statements of net position.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category. Certain changes to the net

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

pension asset and liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources on the entity-wide and proprietary fund statements of net position. The governmental funds report deferred inflows of resources from unavailable revenue from property taxes. These amounts are reported on the general fund balance sheet and recognized as a deferred inflow of resources in the period that the amounts become available.

Compensated Absences

Full-time employees are granted sick and vacation benefits in varying amounts to specified maximums. Upon retirement, employees are paid for all unused vacation time with no payment for unused sick time. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. Historically, the general fund has been responsible for liquidation of compensated absences associated with governmental activities.

Long-term Obligations

In the entity-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are reported as a direct deduction from or in addition to the face amount of the bond. Bond issuance costs are expensed when incurred.

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

Fund Balance

Fund balances of the governmental funds are classified, as applicable, as follows:

Nonspendable – amounts that cannot be spent because they are in nonspendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Restricted – amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Committed – amounts limited by Board policy (e.g., future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year end.

Assigned – amounts that are intended for a particular purpose such as future benefits funding or segregation of an amount intended to be used at some time in the future. Amounts may be assigned by the Township Manager or the Director of Finance.

Unassigned – amounts available for consumption or not restricted in any manner.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Township considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Township considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Net Position

Net Investment in Capital Assets – the Township's investment in capital assets plus any unspent funding from debt borrowings, reduced by accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets.

Restricted – represents construction funds under the Trust Indenture earmarked for future capital projects, as well as other amounts limited by external parties or legislation.

Unrestricted – amounts available for consumption or not restricted in any manner.

Real Estate Taxes

For 2021, the following tax was levied on assessed value of real estate:

General purposes	-	0.000 mills
Fire protection	-	0.093 mills
Debt service	-	0.917 mills
Total	-	1.010 mills

The tax collection calendar is as follows:

Initial Billing	-	February 1
Discount Period	-	February 1 - March 31
Face Period	-	April 1 - May 31
Penalty Period	-	June 1 and thereafter
Lien Date	-	December 31

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Township's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. Presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Township's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2021, the carrying amount of the Township's deposits was \$19,984,938, and the bank balance was \$20,035,365 (exclusive of the pension funds). Of the bank balance, \$750,000 was covered by federal depository insurance. Deposits in excess of the Federal Depository Insurance Corporation's ("FDIC") limit of \$250,000 per financial institution are collateralized under Pennsylvania Act 72, where financial institutions pledge collateral on a pooled basis to secure public deposits in excess of the FDIC insurance limits. Of the Township's deposits, \$13,539,481 was covered by collateral pledged under Act 72. The remaining \$5,745,884 of cash deposits of the Township are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and the Pennsylvania Local Government Insurance Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized rating organization, and is subject to an independent annual audit. At December 31, 2021, both PLGIT and PSDLAF were rated AAAM by Standard & Poor's.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

Investments

Statutes authorize the Township to invest in obligations of the U.S. Treasury; agencies and instrumentalities; deposits in savings accounts or time deposits; or share amounts of institutions insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Share Insurance Fund. The Township also is authorized to invest in obligations of the United States of America or any of its instrumentalities or agencies backed by the full faith and credit of the United States of America or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. Additionally, the Township may invest in shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for Township funds. Other permissible investments include commercial paper securities, bankers' acceptances, and negotiable certificates of deposit.

As of December 31, 2021, excluding the pension funds (see Note 7), the Township had the following investments:

	<u>Investment</u>	<u>Fair Value Level 2</u>
<i>Measured at fair value</i>		
Negotiable certificates of deposit, greater than one year	\$ 1,356,472	\$ 1,356,472
	1,356,472	<u>\$ 1,356,472</u>
<i>Measured at amortized cost</i>		
Investments in 2a7-like investment pools:		
PLGIT	<u>4,033,216</u>	
Total Investments	<u>\$ 5,389,688</u>	

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2021, none of the Township's investments were subject to custodial credit risk.

Interest Rate Risk

The Township's investment policy limits investment maturities to three years as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2021, \$1,356,472 of certificates of deposit had maturities greater than one year.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$25,375,514	\$ 325,603	\$ -	\$25,701,117
Construction in progress	2,596,706	4,348,878	-	6,945,584
Total Capital Assets Not Being Depreciated	<u>27,972,220</u>	<u>4,674,481</u>	<u>-</u>	<u>32,646,701</u>
Capital assets being depreciated:				
Improvements	8,689,763	1,222,245	15,680	9,896,328
Buildings	2,522,797	-	-	2,522,797
Machinery and equipment	4,093,354	97,410	-	4,190,764
Total Capital Assets Being Depreciated	<u>15,305,914</u>	<u>1,319,655</u>	<u>15,680</u>	<u>16,609,889</u>
Less accumulated depreciation for:				
Improvements	2,872,531	341,350	14,666	3,199,215
Buildings	1,564,044	53,941	-	1,617,985
Machinery and equipment	2,321,175	259,484	-	2,580,659
Total accumulated depreciation	<u>6,757,750</u>	<u>654,775</u>	<u>14,666</u>	<u>7,397,859</u>
Total Capital Assets Being Depreciated, Net	<u>8,548,164</u>	<u>664,880</u>	<u>1,014</u>	<u>9,212,030</u>
Governmental Activities Capital Assets, Net	<u>\$36,520,384</u>	<u>\$ 5,339,361</u>	<u>\$ 1,014</u>	<u>\$41,858,731</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Land	\$ 431,546	\$ -	\$ -	\$ 431,546
Construction-in-progress	4,682,441	428,256	4,320,540	790,157
Total Capital Assets Not Being Depreciated	<u>5,113,987</u>	<u>428,256</u>	<u>4,320,540</u>	<u>1,221,703</u>
Capital assets being depreciated:				
Collection system	39,307,248	7,347,988	-	46,655,236
Machinery and equipment	69,443	-	-	69,443
Total Capital Assets Being Depreciated	<u>39,376,691</u>	<u>7,347,988</u>	<u>-</u>	<u>46,724,679</u>
Less accumulated depreciation	<u>21,467,837</u>	<u>1,076,034</u>	<u>-</u>	<u>22,543,871</u>
Total Capital Assets Being Depreciated, Net	<u>17,908,854</u>	<u>6,271,954</u>	<u>-</u>	<u>24,180,808</u>
Business-type Activities Capital Assets, Net	<u>\$23,022,841</u>	<u>\$ 6,700,210</u>	<u>\$ 4,320,540</u>	<u>\$25,402,511</u>

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

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

Governmental Activities:	
General government	\$ 270,932
Public safety	56,351
Public works	259,484
Culture and parks	<u>68,008</u>
 Total Depreciation Expense – Governmental Activities	 <u>\$ 654,775</u>

All of the depreciation expense in the business-type activities was charged to the sewer function.

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The balance of short-term interfund receivables/payables at December 31, 2021 was as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 99,354	\$ 40,384
Capital Projects Fund	14,439	-
Special Revenue Tax Fund	<u>14,020</u>	<u>87,429</u>
	<u>\$ 127,813</u>	<u>\$ 127,813</u>

Interfund balances represent temporary loans recorded at year end as a result of the tax collection billing cycle. The balances are repaid shortly after year end.

The composition of interfund transfers for the year ended December 31, 2021 is as follows:

<u>Transfer Out:</u>		<u>Transfers In:</u>	
General Fund	\$ 174,859	General Fund	\$ -
Special Revenue Tax Fund	<u>2,154,973</u>	Capital Projects Fund	<u>2,329,832</u>
	<u>\$ 2,329,832</u>		<u>\$ 2,329,832</u>

Transfers represent funds set aside for the anticipation of future capital needs and to fund current debt service.

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT

General Obligation Bonds

During 2019, the Township issued \$8,370,000 of General Obligation Bonds dated June 10, 2019. The bonds mature November 1, 2032, with interest payable semi-annually at rates ranging from two to four percent. The bonds were issued to provide funds to finance the costs of renovating a vacant elementary school into a township community center which will include the Middletown Free Library and Middletown Township Historical Society. The schedule of future principal maturities and annual interest at December 31, 2021 is as follows:

<u>Maturity Year</u>	<u>Principal</u>	<u>Annual Interest</u>
2022	\$ 705,000	\$ 249,550
2023	740,000	220,650
2024	765,000	193,050
2025	795,000	170,825
2026	800,000	149,400
2027 - 2031	3,280,000	337,200
2032	<u>365,000</u>	<u>7,300</u>
Totals	<u>\$ 7,450,000</u>	<u>\$ 1,327,975</u>

During 2019, the Township issued \$6,385,000 of General Obligation Bonds dated September 9, 2019. The bonds mature August 1, 2035, with interest payable semi-annually at rates ranging from two to four percent. The bonds were issued to be used towards the refunding of the Township's General Obligation Bonds, Series of 2014 for the purpose of reducing the debt service that would otherwise be payable on the 2014 bonds. The schedule of future principal maturities and annual interest at December 31, 2021 is as follows:

<u>Maturity Year</u>	<u>Principal</u>	<u>Annual Interest</u>
2022	\$ 335,000	\$ 146,370
2023	345,000	132,970
2024	365,000	119,170
2025	380,000	104,570
2026	400,000	89,370
2027 - 2031	2,085,000	366,450
2032 - 2035	<u>1,855,000</u>	<u>101,218</u>
Totals	<u>\$ 5,765,000</u>	<u>\$ 1,060,118</u>

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

During 2020, the Township issued \$11,310,000 of General Obligation Bonds dated November 10, 2020. The bonds mature November 10, 2050, with interest payable semi-annually at rates ranging from two to four percent. The bonds were issued to provide funds to finance the purchase of land for recreational purposes, the development of Smedley Park, and the costs of renovating a vacant elementary school into a township community center which will include the Middletown Free Library and Middletown Township Historical Society. The schedule of future principal maturities and annual interest at December 31, 2021 is as follows:

<u>Maturity Year</u>	<u>Principal</u>	<u>Annual Interest</u>
2022	\$ 225,000	\$ 351,783
2023	225,000	350,950
2024	235,000	348,700
2025	235,000	346,350
2026	235,000	344,000
2027 - 2031	1,245,000	1,664,250
2032 - 2036	3,010,000	1,379,300
2037 - 2041	2,475,000	885,950
2042 - 2046	1,910,000	500,000
2047 - 2050	1,325,000	107,400
Totals	<u>\$ 11,120,000</u>	<u>\$ 6,278,683</u>

Advanced Refunding

The Township has defeased its 2010 General Obligation Bond Series. The defeased bonds are not included in the Township's financial statements, as they are being held in escrow by the paying agent until their final maturity. At December 31, 2021, \$4,740,000 of defeased bonds related to the 2010 bond issue is outstanding.

Revenue Bonds

The Sewer Authority issued \$9,805,000 of Guaranteed Sewer Revenue Bonds, Series of 2016, for the purpose of funding capital projects such as the Chester Creek Inceptor, building lines for treatment plant at the DELCORA plant, certain other capital improvements, and payment for the costs of issuing the bonds. Principal payments on the bonds are paid annually on October 1 of each year, interest is paid semi-annually on April 1 and October 1 of each year. This bond issue was refinanced on July 19, 2021.

On September 16, 2019, the Sewer Authority issued \$5,900,000 of Guaranteed Sewer Revenue Bonds, Series of 2019, for the purpose of refunding the 2014 Bond Issue and for payment of the

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

costs of issuing the bonds. Principal payments on the bonds are paid annually on October 1st of each year, interest is paid semi-annually on April 1st and October 1st of each year.

On July 19, 2021, the Sewer Authority issued \$7,705,000 of Guaranteed Sewer Revenue Bonds, Series of 2021, for the purpose of refunding the 2016 Bond Issue and for payment of the costs of issuing the bonds. Principal payments on the bonds are paid annually on October 1st of each year, interest is paid semi-annually on April 1st and October 1st of each year.

With respect to the 2016 and 2019 bond issuances, the Sewer Authority received a premium of \$93,495 and \$113,218, respectively, which will be amortized over the lives of the bond issues. For the year, the premium amortization was \$12,223 and is reflected against interest expense in the accompanying statement of revenues, expenses, and changes in net position. Amortization will be approximately \$12,000 each of the next five years.

The schedule of future principal maturities and annual interest at April 30, 2021 is as follows:

<u>Maturity Year</u>	<u>Principal</u>	<u>Annual Interest</u>
2022	\$ 760,000	\$ 342,166
2023	790,000	315,666
2024	815,000	292,616
2025	835,000	268,836
2026	855,000	248,236
2027 - 2031	4,560,000	966,600
2032 - 2036	4,640,000	392,047
2037	<u>625,000</u>	<u>9,375</u>
Totals	<u>\$ 13,880,000</u>	<u>\$ 2,835,542</u>

Changes in Long-term Liabilities

A schedule of the changes in long-term liabilities is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$25,535,000	\$ -	\$(1,200,000)	\$24,335,000	\$ 1,265,000
Premium	1,637,623	-	(86,709)	1,550,914	86,709
Net	27,172,623	-	(1,286,709)	25,885,914	1,351,709
Compensated absences	34,906	86,268	-	121,174	-
Governmental Activities, Long-term Liabilities	<u>\$27,207,529</u>	<u>\$ 86,268</u>	<u>\$(1,286,710)</u>	<u>\$26,007,087</u>	<u>\$ 1,351,709</u>

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-type Activities:					
Revenue bonds	\$14,615,000	\$ -	\$ (735,000)	\$13,880,000	\$ 760,000
Premium	188,285	-	(12,223)	176,062	12,223
Net	14,803,285	-	(747,223)	14,056,062	772,223
Net pension liability	115,572	17,277	-	132,849	-
Business-type Activities Long-term Liabilities	<u>\$14,918,857</u>	<u>\$ 17,277</u>	<u>\$ (747,223)</u>	<u>\$14,188,911</u>	<u>\$ 772,223</u>

NOTE 6 FUND BALANCE

As of December 31, 2021, fund balances are composed of the following:

	General Fund	Capital Projects	Special Revenue Tax Fund	Highway Aid Fund	Total Government Funds
Restricted:					
Capital reserve	\$ -	\$ 6,497,594	\$ -	\$ -	\$ 6,497,594
Fire apparatus	-	546,510	-	-	546,510
Highway and streets	-	-	-	584,802	584,802
Debt service	-	1,482,782	101,481	-	1,584,263
Assigned for future expenditures	2,100,000	-	-	-	2,100,000
Unassigned (deficit)	684,545	-	-	-	684,545
Total Fund Balance	<u>\$ 2,784,545</u>	<u>\$ 8,526,886</u>	<u>\$ 101,481</u>	<u>\$ 584,802</u>	<u>\$11,997,714</u>

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN

Plan Description

The Township contributes to a public employee retirement system ("PERS") for its employees hired before January 1, 2019. Full-time employees hired after that date are covered by a defined contribution retirement plan. The PERS is a single-employer PERS administered by a committee comprised of the Township Council and key Township employees. The assets of the PERS are held and invested by investment brokers under direction of an independent investment advisor.

Detailed information about the plan's fiduciary net position is available in the separately issued Township of Middletown Non-Uniformed Pension Plan financial report.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

Plan Membership

At December 31, 2021, pension plan membership consisted of the following:

Active employees	15
Retirees and beneficiaries currently receiving benefits	23
Vested terminated members	<u>2</u>
Total	<u>40</u>

Benefit Provisions

The following table provides information concerning types of covered employees and benefit provisions for the Township's PERS:

Covered employees	All regular, full-time employees with one year of employment; full-time requirement, 1,000 hours or more annually.
Benefit vesting	Twenty percent after three years of service, increasing by 20 percent to 100 percent after seven years of service.
Normal retirement date	First day of the month coincident with or next following participant's 65 th birthday and completion of five years of service.
Annual retirement benefit	Monthly retirement benefits are equal to 2.2 percent of the average monthly compensation multiplied by the years of benefit service up to a maximum of 15 years. Average monthly compensation means the average of an employee's monthly compensation over the highest five-consecutive-year period out of the final 10 years of employment.
Provision for early retirement	Yes, upon attainment of age 55 and completion of 15 years of service. Yearly retirement benefit is equal to actuarial equivalent of the pension accrued to the date of early retirement.
Provision for late retirement	No

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

Provision for preretirement death benefit	Yes
Required employee contributions	None
Actuarial cost method	Entry age normal

The benefit provisions of the Township's PERS are established by Township resolution.

Contributions

The Township's employees are not required to contribute to the PERS. Pennsylvania Law Act 205 of 1984 ("Act 205") requires that annual contributions be based upon the minimum municipal obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation. The state provides an allocation of funds (distribution of foreign casualty insurance premium taxes) which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state contribution must be funded by the employer in accordance with Act 205.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and paid from pension funds.

Deposits and Investments

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2021, the carrying amount of the Township of Middletown Non-Uniformed Pension Plan's deposits was \$70,867, which is equal to the deposits in a money market fund held by the trustee of the plan in the Township's name. None of this balance was subject to custodial credit risk.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

Investments

The investment objective of the Township of Middletown Non-Uniformed Pension Plan is to maintain a balanced portfolio comprised of equity and fixed income, as such is intended to be structured less aggressively than equity-oriented portfolios.

As of December 31, 2021, the Township of Middletown Non-Uniformed Pension Plan had the following investments with fair values and maturities as noted:

	<u>Fair Value</u>	<u>Level 1</u>
Mutual funds - equities and options	\$ 3,438,324	\$ 3,438,324
Mutual funds - fixed income	<u>1,571,332</u>	<u>1,571,332</u>
TOTAL	<u>\$ 5,009,656</u>	<u>\$ 5,009,656</u>

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Money-weighted Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 12.69 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Asset

The net pension asset was measured at December 31, 2021, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2021. No significant events or changes in assumptions occurred between the valuation date and the end of the year. The components of the net pension asset of the Township at December 31, 2021 was as follows:

Plan fiduciary net position	\$ 5,080,524
Total pension liability	<u>(4,273,517)</u>
Township's net pension asset	<u>\$ 807,007</u>
Plan fiduciary net position as a percentage of the total pension liability	118.88%

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

The Township's change in total pension liability, plan fiduciary net position, and net pension liability (asset) for the year ended December 31, 2021 were as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at December 31, 2020	\$ 4,251,594	\$ 4,723,371	\$ (471,777)
Changes for the year:			
Service cost	83,714	-	83,714
Interest	308,999	-	308,999
Experience	(59,843)	-	(59,843)
Benefit payments	(310,947)	(310,947)	-
Employer contributions	-	110,000	(110,000)
Net investment income	-	558,100	(558,100)
Net Changes	<u>21,923</u>	<u>357,153</u>	<u>(335,230)</u>
Balance at December 31, 2021	<u>\$ 4,273,517</u>	<u>\$ 5,080,524</u>	<u>\$ (807,007)</u>

Actuarial Methods and Assumptions

The total pension liability in the January 1, 2021 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	5.0 percent, average, including inflation
Investment rate of return	7.5 percent including inflation

Net Pension Asset, Pension Expense, and Deferred Inflows and Outflows of Resources

For the year ended December 31, 2021, the Township recognized pension expense of \$158,813. At December 31, 2021, the Township reported deferred outflows and inflows of resources related to the pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$ 151,329
Net difference between projected and actual investment earnings	104,863	552,101
Net difference due to changes of assumptions	<u>150,870</u>	<u>-</u>
	<u>\$ 255,733</u>	<u>\$ 703,430</u>

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

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

<u>Year Ended December 31,</u>	
2022	\$ (89,668)
2023	(194,531)
2024	(98,900)
2025	(54,626)
2026	<u>(9,972)</u>
	<u>\$ (447,697)</u>

Mortality rates were based on the RP-2000 Table for Males and Females. This table does not include projected mortality improvements.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	65.0%	5.5 - 7.5%
Fixed income	35.0%	1.0 - 3.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of unfunded liability.

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 TOWNSHIP DEFINED BENEFIT PENSION PLAN (cont'd)

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the plan, calculated using the discount rate of 7.5 percent, as well as what the plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	<u> </u>	<u> </u>	<u> </u>
Plan's net pension liability (asset)	\$ (400,237)	\$ (807,007)	\$ (1,158,377)

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN

Plan Description

The Sewer Authority maintains a single-employer defined benefit pension plan and participates in the Pennsylvania Municipal Retirement System ("PMRS"), an agent multiple-employer public employees' retirement system administered by the Pennsylvania Municipal Retirement Board. PMRS acts as a common investment and administrative agent for participating municipal pension plans. The agent maintains each municipality's accounts separately with that municipality's contributions and related employees' contributions. The assets may only be used for payment of benefits to members of the plan.

PMRS issues a separate publicly available Annual Comprehensive Financial Report which can be obtained by contacting the PMRS accounting office at 1010 North 7th Street, Suite 301, Harrisburg, PA 17102-1400.

Plan Membership

As of January 1, 2020 (the date of the latest actuarial valuation), pension plan membership consisted of the following:

Active employees	4
Retirees and beneficiaries currently receiving benefits	5
Vested terminated members	<u>-</u>
Total	<u><u>9</u></u>

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN (cont'd)

Benefit Provisions

The following table provides information concerning types of covered employees and benefit provisions for the Township's PERS:

Covered employees	All regular, full-time employees
Benefit vesting	100 percent after five years of service
Normal retirement date	Age 65 and the completion of five years of service
Annual retirement benefit	Equal to two percent of final salary multiplied by total years of credited service, not to exceed 40 percent of final salary. Final salary is the average annual compensation paid during the member's highest five consecutive years of employment.
Provision for early retirement	Separation from employment upon attainment of age 55 with 15 years of credited service with a reduced benefit entitlement.

Contributions

The plan does not require employee contributions. An actuarially determined contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The actuarially determined contribution provided is based upon the plan's minimum municipal obligation ("MMO") as defined in Pennsylvania Act 205 of 1984 ("Act 205"). The MMO is based upon the plan's biennial actuarial valuation. Any funding requirements established by the MMO in excess of required employee contributions must be paid by the municipality in accordance with Act 205. The MMO for the year ended April 30, 2021 amounted to \$48,389.

Net Pension Liability

The net pension liability as of the measurement date of December 31, 2020 was as follows:

Total pension liability	\$ 1,016,724
Plan fiduciary net position	<u>(883,875)</u>
Net pension liability	<u>\$ 132,849</u>
Plan fiduciary net position as a percentage of the total pension liability	86.93%

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN (cont'd)

The changes in the net pension liability are as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2019	\$ 892,133	\$ 776,561	\$ 115,572
Service cost	36,424	-	36,424
Interest	47,175	-	47,175
Changes in assumptions	39,782	-	39,782
Differences between expected and actual experience	61,945	-	61,945
Contributions – employer	-	48,389	(48,389)
Net investment income	-	121,549	(121,549)
Benefit payments	(60,735)	(60,735)	-
Administrative expenses	-	(1,889)	1,889
Net Changes	<u>124,591</u>	<u>107,314</u>	<u>17,277</u>
Balance at December 31, 2020	<u>\$ 1,016,724</u>	<u>\$ 883,875</u>	<u>\$ 132,849</u>

Pension Expense and Deferred Outflows of Resources

For the year ended April 30, 2021, the Sewer Authority recognized pension expense of \$25,343. At April 30, 2021, the Sewer Authority reported deferred outflows and (inflows) of resources related to the pension plan from the following sources:

Net difference between expected and actual experience	\$ 123,564
Net difference in projected and actual investment earnings	(102,537)
Contributions subsequent to the date of measurement	<u>48,409</u>
	<u>\$ 69,436</u>

An amount of \$48,409 is reported as deferred outflows of resources resulting from the Sewer Authority's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended April 30, 2021. Other amounts will be reported as deferred outflows of resources related to the pension and will be recognized in pension expense as follows:

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN (cont'd)

Year Ended December 31,

2021	\$ 88,195
2022	9,020
2023	(11,315)
2024	(16,464)
	\$ 69,436

Actuarial Methods and Assumptions

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

Actuarial cost method	Entry age
Amortization period	Level dollar based on the amortization periods in Act 205
Asset valuation method	Based on municipal reserves
Discount rate	5.25%
Inflation rate	2.8%
Salary increases	Age related scale with merit and inflation component
COLA increases	3.0% for those eligible for a COLA
Pre-retirement mortality	Males – RP-2000 with one-year setback Females – RP-2000 with five-year setback
Post-retirement mortality	Males – RP-2000 with one-year setback Females – RP-2000 with five-year setback

Mortality rates were based on the RP-2000 Table for Males and Females. This table does not include projected mortality improvements.

The PMRS System's long-term expected rate of return was determined using a building block method in which best estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to this method:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of three percent to produce real rates of return.

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN (cont'd)

3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations.
4. These weighted real rates of return are then subjected to probability simulation to understand the likelihood of success in achieving various portfolio return levels.

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

	Target Allocation	Nominal Rate of Return	Long-term Expected Real Rate of Return
Domestic equities (large cap)	25%	7.6%	5.3%
Domestic equities (small cap)	15%	8.3%	6.1%
International equities (developed markets)	15%	7.8%	5.5%
International equities (emerging markets)	10%	8.2%	6.0%
Real estate	15%	7.5%	5.3%
Time	5%	6.0%	3.8%
Fixed income	15%	4.1%	1.9%
Total	100%	7.8%	5.6%

Based on the four-part analysis, the Board established the Plan's long-term expected rate of return at 4.5 percent.

Discount Rate

The discount rate used to measure the total pension liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumes that the employers will continue the historical and legally required practice of contributing to the plan based on an actuarially determined contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining unfunded actuarial liability as a level dollar amount over a closed period.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Sewer Authority, calculated using the discount rate of 5.25 percent, as well as what the Sewer Authority's net pension liability would be

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEWER AUTHORITY DEFINED BENEFIT PENSION PLAN (cont'd)

if it were calculated using a discount rate that is one percentage point lower (4.25 percent) or one percentage point higher (6.25 percent) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Plan's net pension liability	\$ 242,955	\$ 132,849	\$ 38,405

NOTE 9 RESTRICTED ASSETS

The Sewer Enterprise Fund maintains a developer escrow account for amounts received under the terms of Sanitary Sewer Agreements between the Sewer Authority and various developers. The escrowed amounts represent security payment of costs and expenses incurred by the Sewer Authority pursuant to the terms of the agreements. Restricted assets consist of the proceeds from the bond issue that are maintained in separate trust accounts. A schedule of the purposes for which cash and cash equivalents are held in the restricted assets of the fund at April 30, 2021 is shown below:

Cash - developers' escrow	\$ 430,136
Cash - capital projects	<u>4,054,466</u>
Total	<u>\$ 4,484,602</u>

NOTE 10 EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2021, expenditures over appropriations were as follows:

	General Fund	Special Revenue Tax Fund	Special Revenue Highway Aid Fund
General Government:			
Township council	\$ 29,850	\$ -	\$ -
Tax collection	8,371	-	-
Public Safety:			
Fire protection	36,321	-	-
Code enforcement	63,843	-	-
Planning and zoning	12,064	-	-
Animal control	854	-	-
Public safety tax distribution	-	9,342	-

TOWNSHIP OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 EXPENDITURES OVER APPROPRIATIONS (cont'd)

	<u>General Fund</u>	<u>Special Revenue Tax Fund</u>	<u>Special Revenue Highway Aid Fund</u>
Public Works:			
Highway general services	6,826	-	-
Signs and signals	8,341	-	-
Snow and ice	-	-	10,159
Street lighting	-	-	110
Nondepartmental:			
Interest and other charges	1,754	-	-

The major variances noted above were primarily the result of increased construction activity in the Township which required increased professional services related to reviewing various plans and legal documents related to ongoing projects. The noted overages were absorbed by revenues exceeding budgeted amounts across all three budgets.

NOTE 11 COMMITMENTS

The Township is engaged in a project under a formal agreement. The commitment under the contract is as follows:

	<u>Project Amount</u>	<u>Completed as of 12/31/2021</u>	<u>Commitments</u>
Roosevelt Community Center Redevelopment Project	\$ 5,641,479	\$ 5,608,821	\$ 32,658

In addition, the Township has incurred costs in the amount of \$1,336,763 not under formal contracts as of December 31, 2021.

The Sewer Authority's construction-in-progress of \$790,157 represents costs incurred by the Sewer Authority for in-process activities designed to expand, replace, or extend useful lives of existing sewer lines.

NOTE 12 UNCERTAINTY

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Township's income in 2022. Other financial impact could occur though such potential impact is unknown at this time.

TOWNSHIP OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 SUBSEQUENT EVENTS

The Township has evaluated all subsequent events through September 13, 2022, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWNSHIP OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY, INVESTMENT RETURNS,
AND RELATED RATIOS - NON-UNIFORMED PENSION PLAN**

	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<u>TOTAL PENSION LIABILITY</u>								
Service cost	\$ 83,714	\$ 80,424	\$ 76,594	\$ 53,782	\$ 51,221	\$ 71,479	\$ 68,075	\$ 82,391
Interest cost	308,998	307,247	300,063	280,217	270,730	263,861	251,697	240,836
Change for experience	(59,843)	-	(69,283)	-	(200,530)	-	(26,197)	-
Changes of assumptions	-	-	210,976	-	158,833	-	-	-
Benefit payments	<u>(310,947)</u>	<u>(304,562)</u>	<u>(264,833)</u>	<u>(202,956)</u>	<u>(193,084)</u>	<u>(170,503)</u>	<u>(151,471)</u>	<u>(124,334)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	21,922	83,109	253,517	131,043	87,170	164,837	142,104	198,893
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>4,251,595</u>	<u>4,168,486</u>	<u>3,914,969</u>	<u>3,783,926</u>	<u>3,696,756</u>	<u>3,531,919</u>	<u>3,389,815</u>	<u>3,190,922</u>
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 4,273,517</u>	<u>\$ 4,251,595</u>	<u>\$ 4,168,486</u>	<u>\$ 3,914,969</u>	<u>\$ 3,783,926</u>	<u>\$ 3,696,756</u>	<u>\$ 3,531,919</u>	<u>\$ 3,389,815</u>
<u>PLAN FIDUCIARY NET POSITION</u>								
Contributions:								
Employer	\$ 110,000	\$ 74,303	\$ 11,286	\$ 11,031	\$ 7,433	\$ 10,140	\$ 43,218	\$ 39,803
State aid	-	78,781	75,598	69,659	58,472	72,355	74,496	73,581
Net investment income (loss)	582,628	671,869	738,199	(205,924)	562,773	226,322	26,991	186,883
Benefit payments	(310,947)	(304,562)	(264,833)	(202,956)	(193,084)	(170,503)	(151,471)	(124,334)
Administrative expenses	<u>(24,528)</u>	<u>(21,330)</u>	<u>(20,168)</u>	<u>(24,270)</u>	<u>(26,722)</u>	<u>(23,065)</u>	<u>(30,129)</u>	<u>(30,902)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	357,153	499,061	540,082	(352,460)	408,872	115,249	(36,895)	145,031
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>4,723,371</u>	<u>4,224,310</u>	<u>3,684,228</u>	<u>4,036,688</u>	<u>3,627,816</u>	<u>3,512,567</u>	<u>3,549,462</u>	<u>3,404,431</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ 5,080,524</u>	<u>\$ 4,723,371</u>	<u>\$ 4,224,310</u>	<u>\$ 3,684,228</u>	<u>\$ 4,036,688</u>	<u>\$ 3,627,816</u>	<u>\$ 3,512,567</u>	<u>\$ 3,549,462</u>
TOWNSHIP'S NET PENSION LIABILITY (ASSET)	<u>\$ (807,007)</u>	<u>\$ (471,776)</u>	<u>\$ (55,824)</u>	<u>\$ 230,741</u>	<u>\$ (252,762)</u>	<u>\$ 68,940</u>	<u>\$ 19,352</u>	<u>\$ (159,647)</u>
Plan fiduciary net position as a percentage of total pension liability	118.88%	111.10%	101.34%	94.11%	106.68%	98.14%	99.45%	104.71%
Covered employee payroll	\$ 973,734	\$ 940,576	\$ 918,163	\$ 974,781	\$ 900,679	\$ 815,636	\$ 939,871	\$ 1,037,255
Township's net pension liability (asset) as a percentage of covered payroll	-82.88%	-50.16%	-6.08%	23.67%	-28.06%	8.45%	2.06%	-15.39%
Annual money-weighted rate of return, net of investment expense	12.69%	15.93%	20.28%	-5.14%	15.68%	9.88%	5.05%	5.46%

Notes to Schedule:

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**TOWNSHIP OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWNSHIP CONTRIBUTIONS - NON-UNIFORMED PENSION PLAN**

Year	Actuarial Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Payroll
2012	\$ 119,040	\$ 119,040	\$ -	*	*
2013	111,976	111,976	-	1,048,026	10.68%
2014	113,384	113,384	-	1,037,255	10.93%
2015	117,714	117,714	-	939,871	12.52%
2016	72,495	82,495	(10,000)	815,636	10.11%
2017	55,905	65,905	(10,000)	900,679	7.32%
2018	65,710	80,690	(14,980)	974,781	8.28%
2019	86,884	86,884	-	918,163	9.46%
2020	123,205	153,084	(29,879)	940,676	16.27%
2021	107,452	110,000	(2,548)	973,734	11.30%

* Not available due to biennially required ACT 205 report.

Notes to Schedule:

Valuation Date: January 1, 2019

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Inflation	3.00%
Salary increases	5.00%
Investment rate of return	7.50%
Retirement age	Normal retirement age
Mortality	PubG-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2018 to reflect mortality improvement.

**TOWNSHIP OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY, INVESTMENT RETURNS,
AND RELATED RATIOS - SEWER AUTHORITY PLAN**

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
<u>TOTAL PENSION LIABILITY</u>							
Service cost	\$ 36,424	\$ 33,931	\$ 34,002	\$ 25,421	\$ 25,763	\$ 21,252	\$ 11,753
Interest cost	47,175	46,035	46,607	45,814	44,046	42,840	40,111
Changes of assumptions	39,782	-	-	-	19,822	11,583	-
Difference between actual and expected experience	61,945	-	(30,703)	-	47,747	-	44,996
Benefit payments	(60,735)	(60,735)	(60,735)	(68,575)	(61,920)	(54,692)	(58,751)
NET CHANGE IN TOTAL PENSION LIABILITY	124,591	19,231	(10,829)	2,660	75,458	20,983	38,109
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	892,133	872,902	883,731	881,071	805,613	784,630	746,521
TOTAL PENSION LIABILITY, END OF YEAR	\$ 1,016,724	\$ 892,133	\$ 872,902	\$ 883,731	\$ 881,071	\$ 805,613	\$ 784,630
<u>PLAN FIDUCIARY NET POSITION</u>							
Contributions:							
Employer	\$ 48,389	\$ 47,003	\$ 27,701	\$ 25,222	\$ 11,339	\$ 6,787	\$ 3,885
Net investment income (loss)	121,549	138,912	(64,593)	119,386	55,720	(1,419)	27,373
Benefit payments	(60,735)	(60,735)	(60,735)	(68,575)	(61,920)	(54,692)	(58,751)
Administrative expenses	(1,889)	(1,496)	(1,834)	(1,876)	(2,100)	(1,821)	(1,715)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	107,314	123,684	(99,461)	74,157	3,039	(51,145)	(29,208)
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	776,561	652,877	752,338	678,181	675,142	726,287	755,495
PLAN FIDUCIARY NET POSITION, END OF YEAR	\$ 883,875	\$ 776,561	\$ 652,877	\$ 752,338	\$ 678,181	\$ 675,142	\$ 726,287
SEWER AUTHORITY'S NET PENSION LIABILITY	\$ 132,849	\$ 115,572	\$ 220,025	\$ 131,393	\$ 202,890	\$ 130,471	\$ 58,343
Plan fiduciary net position as a percentage of total pension liability	86.93%	87.05%	74.79%	85.13%	76.97%	83.80%	92.56%
Covered employee payroll	\$ 290,609	\$ 270,717	\$ 274,987	\$ 205,590	\$ 214,515	\$ 188,607	\$ 164,044
Sewer Authority's net pension liability as a percentage of covered payroll	45.71%	42.69%	80.01%	63.91%	94.58%	69.18%	35.57%

Notes to Schedule:

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**TOWNSHIP OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWNSHIP CONTRIBUTIONS - SEWER AUTHORITY PLAN**

Year Ended April 30,	Actuarial Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Payroll
2015	\$ 3,725	\$ 3,885	\$ (160)	\$ 164,044	2.37%
2016	6,767	6,787	(20)	188,607	3.60%
2017	11,319	11,339	(20)	214,515	5.29%
2018	25,222	25,222	-	205,590	12.27%
2019	27,681	27,701	(20)	274,987	10.07%
2020	47,003	47,003	-	270,717	17.36%
2021	48,389	48,389	-	290,609	16.65%

Notes to Schedule:

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

Valuation Date: December 31, 2020

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Amortization method	Level dollar based upon the amortization periods in Act 205
Asset valuation method	Based upon the municipal reserves
Discount rate	5.25%
Inflation	2.80%
Salary increases	Age related scale with merit and inflation component
Investment rate of return	4.50%
Retirement age	Normal retirement age
Pre-retirement mortality	Males - RP2000 Non-Annuitant Male table, Females - RP2000 Non-Annuitant Female table
Post-retirement mortality	Males - RP2000 Non-Annuitant Male table, Females - RP2000 Non-Annuitant Female table

OTHER REPORT



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

September 12, 2022

Members of Council
Township of Middletown
Lima, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Middletown ("the Township"), Middletown, Pennsylvania, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated September 13, 2022. Our report includes a reference to other auditors who audited the financial statements of the Middletown Township Sewer Authority ("the Sewer Authority"), as described in our report on the Township's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Sewer Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or

Members of Council
Township of Middletown

detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of This Report

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

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP