

Township of Potter, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2022

Township of Potter, Pennsylvania

Table of Contents
December 31, 2022

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Position - Proprietary Fund	9
Statement of Revenues, Expenses and Change in Net Position - Proprietary Fund	10
Statement of Cash Flows - Proprietary Fund	11
Notes to Financial Statements	12
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	20
Budgetary Comparison Schedule - Special Revenue Fund - Liquid Fuels	21
Budgetary Comparison Schedule - Special Revenue Fund - Fire Protection	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	23
Supplementary Information	
Schedule of Expenses - Water and Sewer Funds	25
Schedule of Findings and Responses	26

Independent Auditors' Report

To the Board of Supervisors of
Township of Potter, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the Township of Potter, Pennsylvania (the Township), as of and for the year ended December 31, 2022, 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the Township as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' 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

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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 and GAS 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 and GAS, 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.
- 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 required supplementary information, as listed in the table of contents be 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.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The Schedule of Expenses - Water and Sewer Funds on page 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

State College, Pennsylvania
INSERT DATE

Township of Potter, Pennsylvania

Statement of Net Position

December 31, 2022

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash	\$ 1,598,916	\$ 117,404	\$ 1,716,320
Taxes receivable	44,533	-	44,533
Note receivable	12,575	-	12,575
Accounts receivable	1,413	23,529	24,942
Total current assets	<u>1,657,437</u>	<u>140,933</u>	<u>1,798,370</u>
Noncurrent assets:			
Restricted cash	7,780	-	7,780
Capital assets:			
Land	830,702	-	830,702
Infrastructure	1,677,417	-	1,677,417
Buildings and improvements	429,420	4,614,541	5,043,961
Equipment	259,889	65,304	325,193
Vehicles	1,116,649	-	1,116,649
Accumulated depreciation	<u>(2,448,427)</u>	<u>(731,900)</u>	<u>(3,180,327)</u>
Capital assets, net of accumulated depreciation	<u>1,865,650</u>	<u>3,947,945</u>	<u>5,813,595</u>
Total noncurrent assets	<u>1,873,430</u>	<u>3,947,945</u>	<u>5,821,375</u>
Total	<u>\$ 3,530,867</u>	<u>\$ 4,088,878</u>	<u>\$ 7,619,745</u>
Liabilities			
Current liabilities:			
Line of credit	\$ -	\$ 2,431	\$ 2,431
Accounts payable	11,001	2,514	13,515
Accrued payroll	8,575	-	8,575
Unearned revenue	169,702	-	169,702
Current portion of notes payable	45,032	35,879	80,911
Total current liabilities	<u>234,310</u>	<u>40,824</u>	<u>275,134</u>
Notes payable	<u>296,289</u>	<u>600,140</u>	<u>896,429</u>
Total liabilities	<u>530,599</u>	<u>640,964</u>	<u>1,171,563</u>
Net Position			
Net investment in capital assets	1,524,329	3,311,926	4,836,255
Restricted for:			
Liquid fuels	420,355	-	420,355
Capital projects	131,262	-	131,262
Parkland	54,594	-	54,594
Unrestricted	<u>869,728</u>	<u>135,988</u>	<u>1,005,716</u>
Total net position	<u>3,000,268</u>	<u>3,447,914</u>	<u>6,448,182</u>
Total	<u>\$ 3,530,867</u>	<u>\$ 4,088,878</u>	<u>\$ 7,619,745</u>

See notes to financial statements

Township of Potter, Pennsylvania

Statement of Activities

Year Ended December 31, 2022

Functions/Programs	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	Total
Governmental Activities							
General government	\$ (343,541)				\$ (343,541)		\$ (343,541)
Public safety	(359,637)	\$ 107,300	\$ 69,254		(183,083)		(183,083)
Health and human services	(500)	-	-		(500)		(500)
Public works, sanitation	(36,179)	-	-		(36,179)		(36,179)
Public works, highways	(358,761)	-	-	\$ 273,537	(85,224)		(85,224)
Culture and recreation	(73,083)	-	207,772	-	134,689		134,689
Community development	(1,087)	-	-	-	(1,087)		(1,087)
Debt service	(14,410)	-	-	-	(14,410)		(14,410)
Employer paid benefits	(161,899)	-	-	-	(161,899)		(161,899)
Total governmental activities	(1,349,097)	107,300	277,026	273,537	(691,234)		(691,234)
Business-Type Activities							
Sanitary sewer and water system	(205,542)	168,504	-	21,451		\$ (15,587)	(15,587)
Total	\$ (1,554,639)	\$ 275,804	\$ 277,026	\$ 294,988		(15,587)	(706,821)
General Revenues							
Taxes:							
Real estate taxes					377,486	-	377,486
Per capita taxes					22,346	-	22,346
Transfer taxes					114,927	-	114,927
Earned income taxes					525,098	-	525,098
Amusement taxes					61,816	-	61,816
Cable TV franchise fees					7,105	-	7,105
Fines					5,595	-	5,595
Other					830	2,435	3,265
Unrestricted interest					51,209	180	51,389
Total general revenues					1,166,412	2,615	1,169,027
Changes in net position					475,178	(12,972)	462,206
Net Position, Beginning					2,525,090	3,460,886	5,985,976
Net Position, Ending					\$ 3,000,268	\$ 3,447,914	\$ 6,448,182

See notes to financial statements

Township of Potter, Pennsylvania

Balance Sheet - Governmental Funds
December 31, 2022

	General Fund	Special Revenue Fund Liquid Fuels	Capital Projects Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets					
Current assets:					
Cash	\$ 992,700	\$ 420,355	\$ 131,262	\$ 54,594	\$ 1,598,911
Taxes receivable	44,533	-	-	-	44,533
Note receivable	224	-	-	-	224
Accounts receivable	1,413	-	-	-	1,413
Total current assets	1,038,870	420,355	131,262	54,594	1,645,081
Noncurrent asset:					
Restricted cash	7,780	-	-	-	7,780
Total	<u>\$ 1,046,650</u>	<u>\$ 420,355</u>	<u>\$ 131,262</u>	<u>\$ 54,594</u>	<u>\$ 1,652,861</u>
Liabilities and Fund Balances					
Current liabilities:					
Accounts payable	\$ 11,001				\$ 11,001
Unearned revenues	169,702				169,702
Accrued payroll	8,575				8,575
Total current liabilities	189,278				189,278
Deferred inflows of resources:					
Unavailable revenues, taxes	5,110				5,110
Fund balances:					
Restricted	-	\$ 420,355	\$ 131,262	\$ 54,594	606,211
Nonspendable	219	-	-	-	219
Unassigned	852,043	-	-	-	852,043
Total fund balances	852,262	420,355	131,262	54,594	1,458,473
Total	<u>\$ 1,046,650</u>	<u>\$ 420,355</u>	<u>\$ 131,262</u>	<u>\$ 54,594</u>	

Reconciliation to Statement of Net Position

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

Taxes receivable will be collected in the future, but are not available to pay for the current period expenditure and, therefore, are deferred in funds	4,891
The note receivable is expected be collected over several years in the General Fund	12,575
Capital assets used in governmental activities of \$4,314,077 are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$2,448,427	1,865,650
The note payable is expected to paid over several years and is not recorded in the funds	(341,321)
Net position of governmental activities	<u>\$ 3,000,268</u>

See notes to financial statements

Township of Potter, Pennsylvania

 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 Year Ended December 31, 2022

	General Fund	Special Revenue Fund Liquid Fuels	Special Revenue Fund Fire Protection	Capital Projects Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues						
Taxes	\$ 887,850		\$ 213,785			\$ 1,101,635
Licenses and permits	7,105		-			7,105
Fines and forfeits	5,595		-			5,595
Interest and rents	47,814	\$ 3,144	58	\$ 3	\$ 190	51,209
Intergovernmental	277,762	244,537	28,264	-	-	550,563
Charges for service	83,123	-	-	-	24,177	107,300
Total revenues	1,309,249	247,681	242,107	3	24,367	1,823,407
Expenditures						
General government	179,114	-	11,507	-	-	190,621
Public safety	129,039	-	230,600	-	-	359,639
Health and human services	500	-	-	-	-	500
Public works, sanitation	63,739	-	-	-	-	63,739
Public works, highways	559,550	196,972	-	-	-	756,522
Culture and recreation	40,249	-	-	-	32,834	73,083
Community development	1,087	-	-	-	-	1,087
Debt service	57,846	-	-	-	-	57,846
Employer paid benefits	161,899	-	-	-	-	161,899
Total expenditures	1,193,023	196,972	242,107	-	32,834	1,664,936
Excess (deficit) of revenues over expenditures	116,226	50,709	-	3	(8,467)	158,471
Other Financing Sources (Uses)						
Refund of prior year's expenditures	830	-	-	-	-	830
Transfer in (out)	(9,000)	-	-	-	9,000	-
Total other financing sources	(8,170)	-	-	-	9,000	830
Net change in fund balances	108,056	50,709	-	3	533	159,301
Fund Balance, Beginning	744,206	369,646	-	131,259	54,061	1,299,172
Fund Balance, Ending	\$ 852,262	\$ 420,355	\$ -	\$ 131,262	\$ 54,594	\$ 1,458,473

See notes to financial statements

Township of Potter, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Funds Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2022

Changes in Fund Balances - Total Governmental Funds \$ 159,301

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

Some revenues reported in the statement of activities do not provide
current financial resources and therefore are not reported as revenue
in governmental funds.

Revenues related to real estate taxes in the statement of activities
that do not provide current financial resources and are not
reported as revenues in the fund. 39

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 and reported as depreciation expense.
This is the amount by which capital outlays exceeded depreciation in
the current period.

Depreciation expense	(152,920)	
Capital outlays	<u>425,321</u>	272,401

Notes payable are not due and payable in the current period, and therefore
are not reported as liabilities in the funds. The change in notes payable.

Debt payments		<u>43,437</u>
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Changes in Net Position of Governmental Activities \$ 475,178

Township of Potter, Pennsylvania

Statement of Net Position - Proprietary Fund

December 31, 2022

Assets

Current Assets

Cash	\$	117,404
Accounts receivable, trade		<u>23,529</u>
Total current assets		<u>140,933</u>

Noncurrent Assets

Capital assets:		
Buildings and improvements		4,614,541
Equipment		65,304
Accumulated depreciation		<u>(731,900)</u>
Capital assets, net		<u>3,947,945</u>
Total assets	\$	<u><u>4,088,878</u></u>

Liabilities and Net Position

Current Liabilities

Line of credit	\$	2,431
Accounts payable		2,514
Current portion of note payable		<u>35,879</u>
Total current liabilities		40,824

Note Payable

Note Payable		<u>600,140</u>
Total liabilities		<u>640,964</u>

Net Position

Net investment in capital assets		3,311,926
Unrestricted		<u>135,988</u>
Total net position		<u>3,447,914</u>
Total liabilities and net position	\$	<u><u>4,088,878</u></u>

See notes to financial statements

Township of Potter, Pennsylvania

Statement of Revenues, Expenses and Change in Net Position - Proprietary Fund
Year Ended December 31, 2022

Operating Revenue	
Charges for services	\$ 168,504
Operating Expenses	
General operating	98,450
Depreciation	98,391
Total operating expenses	196,841
Operating loss	(28,337)
Nonoperating Income (Expense)	
Interest income	180
Refund of prior year expenditures	2,435
Interest expense	(8,701)
Total nonoperating expense, net	(6,086)
Loss before capital contributions	(34,423)
Capital Contributions	21,451
Change in net position	(12,972)
Net Position, Beginning	3,460,886
Net Position, Ending	\$ 3,447,914

See notes to financial statements

Township of Potter, Pennsylvania

Statement of Cash Flows - Proprietary Fund
Year Ended December 31, 2022

Cash Flows From Operating Activities

Cash receipts from customers	\$ 154,398
Cash paid to vendors and employees	(97,855)
	<hr/>
Net cash provided by operating activities	56,543

Cash Flows From Capital and Related Financing Activities

Repayment of debt	(38,657)
Capital grants	21,451
Purchase of equipment	(11,008)
Proceeds of construction loan	8,903
Interest paid	(8,701)
Repayment of line of credit	(5,997)
	<hr/>
Net cash used in capital and related financing activities	(34,009)

Cash Flows Provided by Investing Activities

Refunds of prior year expenditures	2,435
Interest received	180
	<hr/>
Net cash provided by investing activities	2,615

Increase in cash 25,149

Cash, Beginning

92,255

Cash, Ending

\$ 117,404

Reconciliation of Operating Loss to Net

Cash Used in Operating Activities	
Operating loss	\$ (28,337)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	98,391
Changes in assets and liabilities:	
Accounts receivable, trade	(14,106)
Accounts payable	595
	<hr/>
Net cash provided by operating activities	<u>\$ 56,543</u>

See notes to financial statements

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Township of Potter, Pennsylvania (the Township) is a municipal sub-division of the Commonwealth of Pennsylvania. The Township provides the following services as authorized by the Second Class Township Code: general government, public safety, sanitation, public works, culture and recreation, public water and sewer and maintains 57 miles of roads.

Summary of Significant Accounting Policies

The financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units.

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Governmental Accounting Standards Board (GASB) Statement No. 14, as amended. The specific criteria used in determining whether other organizations should be included in the Township's financial reporting entity are financial accountability, fiscal dependency and legal separation.

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

The Township is a basic level of government that has oversight responsibility and control of the municipality. The Township receives funding from local and state sources and must comply with concomitant requirements of these funding source entities. However, the Township is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Township members are elected by the public and have decision-making power to significantly influence operations, the power to levy taxes, the power to designate management, and primary accountability for fiscal matters. No other entities are included in these financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All governmental fund types are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, both measurable and available. "Available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A sixty-day availability period is used for revenue recognition for real estate tax revenues. Expenditures are recorded when the related liability is incurred.

Those revenues susceptible to accrual are property taxes, licenses and charges for services.

The activities of the sewer and water funds are reported on the accrual basis of accounting.

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

Basis of Presentation - Government-Wide Financial Statements

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

The Township's General, Special Revenue and Capital Projects Funds are classified as governmental activities.

The statement of activities reports the expenses of a given function or program offset by program revenues directly connected with that function or program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services to users of the Township's services, (2) operating grants and contributions that finance annual operating activities, and (3) capital grants and contributions that fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Basis of Presentation - Fund Financial Statements

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

Major Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. The acquisition, use and balances of the Township's expendable financial resources and the related liabilities are accounted for through governmental funds. The following is a description of the governmental funds of the Township:

General Fund

The General Fund is the general operating fund of the Township. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund. The General Fund is a major fund.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of a specific revenue source that are legally restricted to expenditures for a specific purpose.

The Township accounts for their liquid fuels, fire protection and parkland activities in these funds. The funds that account for liquid fuels and fire protection are considered major funds.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for the acquisition of capital items. The Capital Projects Fund is considered a major fund.

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

Proprietary Funds

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

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs of providing water and sewer services to the general public on a continuing basis are reported in this fund.

Restricted Cash

The Township entered into agreements with various individuals to install small flow treatment facilities on their properties. Savings accounts were opened to defer any costs that may be incurred by the Township in the event of any malfunction of the systems. As of December 31, 2022, the balance was \$7,780.

Accounts Receivable, Trade

Accounts receivable, trade are reported at net realizable value. Accounts are charged to bad debt expense when deemed uncollectible based upon a periodic review of individual accounts. Accounts receivable are considered fully collectible by management and, accordingly, no allowance for doubtful accounts is considered necessary.

Budget

The Township is required by State law to adopt an annual budget for the General Fund. The Township also adopts annual operating budgets for its Liquid Fuels and Fire Protection Funds. The budgets are presented on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Governmental Fund Balances

The Township classifies its governmental fund balances as follows:

- *Nonspendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints such as loan receivables
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the Board of Supervisors which do not lapse at year-end
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township, but not through a formal action of the Board of Supervisors

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

- *Unassigned* - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

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

Capital Assets

Capital assets are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

2. Cash

The Township Code, Section 902.1, authorizes the Township to invest its funds in U.S. Treasury bills, savings accounts, obligations of the United States or its agencies, and shares of investment companies registered under the Investment Company Act of 1940.

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a formal deposit policy for custodial credit risk. At December 31, 2022, the Township's total bank deposits were \$1,687,235. Of this amount, \$757,773 was insured by the FDIC. The remaining bank deposits of \$929,462 were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Rather, these deposits were collateralized with securities held by the pledging financial institution, but not in the Township's name.

3. Capital Assets

The useful lives of capital assets are as follows:

	<u>Years</u>
Infrastructure	7-20
Buildings and improvements	10-50
Equipment	5-40
Vehicles	7

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

Changes in the Township's capital assets in 2022 are as follows:

	January 1	Additions/ Transfers	Disposals/ Transfers	December 31
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 830,702	\$ -	\$ -	\$ 830,702
Capital assets being depreciated:				
Infrastructure	1,441,465	235,952	-	1,677,417
Buildings and improvements	401,860	27,560	-	429,420
Equipment	255,039	4,850	-	259,889
Vehicles	959,690	156,959	-	1,116,649
Total capital assets	<u>3,058,054</u>	<u>425,321</u>	<u>-</u>	<u>3,483,375</u>
Accumulated depreciation:				
Infrastructure	(1,076,574)	(55,268)	-	(1,131,842)
Buildings and improvements	(276,538)	(15,762)	-	(292,300)
Equipment	(237,236)	(4,676)	-	(241,912)
Vehicles	(705,159)	(77,214)	-	(782,373)
Total accumulated depreciation	<u>(2,295,507)</u>	<u>(152,920)</u>	<u>-</u>	<u>(2,448,427)</u>
Total capital assets being depreciated	<u>762,547</u>	<u>272,401</u>	<u>-</u>	<u>1,034,948</u>
Governmental activities capital assets, net	<u>\$ 1,593,249</u>	<u>\$ 272,401</u>	<u>\$ -</u>	<u>\$ 1,865,650</u>
Business-type activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,603,533	\$ 11,008	\$ -	\$ 4,614,541
Equipment	65,304	-	-	65,304
Total capital assets	<u>4,668,837</u>	<u>11,008</u>	<u>-</u>	<u>4,679,845</u>
Accumulated depreciation:				
Buildings and improvements	(582,363)	(78,761)	-	(661,124)
Equipment	(51,146)	(19,630)	-	(70,776)
Total accumulated depreciation	<u>(633,509)</u>	<u>(98,391)</u>	<u>-</u>	<u>(731,900)</u>
Business-type activities capital assets, net	<u>\$ 4,035,328</u>	<u>\$ (87,383)</u>	<u>\$ -</u>	<u>\$ 3,947,945</u>

4. Tax Revenue

The Township has five main sources of tax revenue: property tax, real estate transfer tax, amusement tax, per capita tax and earned income tax. The property tax is levied at 1.58 mills of 50% of the property's assessed value. The per capita tax is \$10.00 per adult and the earned income tax is ½% of taxable wages of an individual.

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

Property taxes are levied on March 1. Taxes are collected at a discount until April 30, at their face value until May 31, and at a penalty thereafter. Delinquent property taxes are turned over to the County of Centre for collection at December 31.

5. Line of Credit

The Township has established one line of credit for use in the operation of the sewer plant. The line of credit is in the amount of \$50,000. This line has an interest rate of 2.145% at December 31, 2022. The borrowing on this line of credit was \$2,431 at December 31, 2022. This line contains a provision that if the Township fails to make a payment, outstanding amounts are due immediately. There was \$47,625 remaining to be borrowed on the line at December 31, 2022.

6. Long-Term Debt - Direct Borrowings

In October 2011, the Township entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority (PENNVEST) to refinance a construction loan the Township had with a local financial institution. The loan was used to finance the design and construction of the sanitary sewer treatment facility.

In January 2019, the Township entered into a loan agreement with PENNVEST to refinance a construction loan the Township had with a local financial institution. There was an additional draw down on this loan in February 2020 and February 2021.

In September 2019, the Township entered into a note agreement with a local financial institution. The loan was used to finance the purchase of park facilities (baseball fields).

In February 2021, the Township entered into a note agreement with a local financial institution. The loan was used to finance the purchase of equipment.

Long-term debt consists of the following at December 31, 2022:

1.89% note payable; monthly payment of principal and interest of \$2,046; matures January 2030; secured by a lien on sewer operation	\$ 166,838
1.00% note payable; monthly payment of principal and interest of \$1,840; matures August 2046; secured by a lien on sewer operation	469,181
5.25% note payable; monthly payment of principal and interest of \$1,931; matures October 2034; secured by a lien on real estate	210,952
2.55% note payable; yearly payment of principal and interest of \$34,675; matures February 2026; secured by a lien on real estate	130,369
Total	<u>\$ 977,340</u>

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

The following is a summary of long-term debt transactions for the year ended December 31, 2022:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Long-term debt at January 1, 2022	\$ 384,758	\$ 665,773	\$ 1,050,531
Long-term debt proceeds	-	8,903	8,903
Long-term debt payment	<u>(43,437)</u>	<u>(38,657)</u>	<u>(82,094)</u>
Long-term debt at December 31, 2022	341,321	636,019	977,340
Portion due or payable in one year	<u>(45,032)</u>	<u>(35,879)</u>	<u>(80,911)</u>
Total	<u>\$ 296,289</u>	<u>\$ 600,140</u>	<u>\$ 896,429</u>

The Township's outstanding notes from direct borrowings contain provisions that if there is an event of default that materially impairs collateral or the Township's ability to satisfy the note obligations, all amounts outstanding are due immediately. Events of default include failure to pay any principal or interest installments when due and failure by the Township to observe or perform any covenants in the note agreements.

Annual debt service requirements on direct borrowings are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Years ending December 31:					
2023	\$ 45,032	\$ 12,813	\$ 35,879	\$ 7,202	\$ 100,926
2024	46,462	11,382	37,683	7,022	102,549
2025	47,989	9,855	38,266	6,438	102,548
2026	49,770	8,278	38,858	5,845	102,751
2027	16,502	6,668	39,461	5,243	67,874
2028-2032	94,472	22,655	130,722	18,844	266,693
2033-2037	41,094	2,126	83,631	13,720	140,571
2038-2042	-	-	87,917	9,435	97,352
2043-2047	-	-	92,423	4,929	97,352
2048-2050	<u>-</u>	<u>-</u>	<u>51,179</u>	<u>707</u>	<u>51,886</u>
Total	<u>\$ 341,321</u>	<u>\$ 73,777</u>	<u>\$ 636,019</u>	<u>\$ 79,385</u>	<u>\$ 1,130,502</u>

7. Retirement Plan

The Township sponsors an Internal Revenue Code Section 401(a) defined contribution pension plan administered by the Pennsylvania State Association of Township Supervisors (PSATS) (the 401a Plan). The 401(a) Plan provides retirement benefits for all full time qualifying employees. Under the 401(a) Plan provisions, the Township contributes 6% of eligible wages for employees who have provided two years of service. Employees are not required to contribute to the 401(a) Plan. The Township contributed \$18,332 to the 401(a) Plan in 2022. In addition to the 401(a) Plan, the Township offers an Internal Revenue Code Section 457(b) deferred compensation plan (the 457 Plan) that qualifying employees may contribute to. The Township does not contribute to the 457 Plan.

Township of Potter, Pennsylvania

Notes to Financial Statements
December 31, 2022

8. Changes in Accounting Principles

The GASB has approved the following:

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*

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

Township of Potter, Pennsylvania

Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues			
Taxes	\$ 673,000	\$ 887,850	\$ 214,850
Licenses and permits	5,650	7,105	1,455
Fines and forfeits	1,650	5,595	3,945
Interest and rents	4,075	47,814	43,739
Intergovernmental	102,512	277,762	175,250
Charges for service	58,994	83,123	24,129
	<u>845,881</u>	<u>1,309,249</u>	<u>463,368</u>
Expenditures			
General government	195,275	179,114	16,161
Public safety	37,420	129,039	(91,619)
Health and human services	500	500	-
Public works, sanitation	3,700	63,739	(60,039)
Public works, highways	345,440	559,550	(214,110)
Culture and recreation	6,000	40,249	(34,249)
Community development	10,908	1,087	9,821
Debt service	55,600	57,846	(2,246)
Employer paid benefits	188,474	161,899	26,575
	<u>843,317</u>	<u>1,193,023</u>	<u>(349,706)</u>
Deficit of revenues over expenditures	<u>2,564</u>	<u>116,226</u>	<u>113,662</u>
Other Financing Sources (Uses)			
Refund of prior year's expenditures	1,436	830	2,266
Transfers out	(4,000)	(9,000)	(13,000)
	<u>(2,564)</u>	<u>(8,170)</u>	<u>(10,734)</u>
Net changes in fund balances	<u>\$ -</u>	<u>108,056</u>	<u>\$ 108,056</u>
Fund Balance, Beginning		<u>744,206</u>	
Fund Balance, Ending		<u>\$ 852,262</u>	

Township of Potter, Pennsylvania

Budgetary Comparison Schedule - Special Revenue Fund - Liquid Fuels
Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Revenues			
Interest and rents	\$ 1,000	\$ 3,144	\$ 2,144
Intergovernmental	<u>243,071</u>	<u>244,537</u>	<u>1,466</u>
Total revenues	244,071	247,681	3,610
Expenditures			
Public works, highways	<u>435,917</u>	<u>196,972</u>	<u>238,945</u>
Net changes in fund balances	<u>\$ (191,846)</u>	50,709	<u>\$ (242,555)</u>
Fund Balance, Beginning		<u>369,646</u>	
Fund Balance, Ending		<u>\$ 420,355</u>	

Township of Potter, Pennsylvania

Budgetary Comparison Schedule - Special Revenue Fund - Fire Protection
Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Revenues			
Taxes	\$ 216,750	\$ 213,785	\$ (2,965)
Interest and rents	60	58	(2)
Intergovernmental	-	28,264	28,264
	<u>216,810</u>	<u>242,107</u>	<u>25,297</u>
Expenditures			
General government	11,667	11,507	160
Public safety	205,143	230,600	(25,457)
	<u>216,810</u>	<u>242,107</u>	<u>(25,297)</u>
Net changes in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning		<u>-</u>	
Fund Balance, Ending		<u>\$ -</u>	

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

Independent Auditors' Report

To the Board of Supervisors of of
Township of Potter, 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Potter, Pennsylvania (the Township), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated INSERT DATE. Our report indicated that the Township has excluded a management's discussion and analysis, that accounting principles generally accepted in the United States of America require to be included to supplement the basic financial statements. Our opinions are not affected by this missing information.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001, that we consider to be a material weakness.

Report on 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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2022-001.

The Township's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Township's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Township's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

State College, Pennsylvania
INSERT DATE

Township of Potter, Pennsylvania

Schedule of Expenses - Water and Sewer Funds

Year Ended December 31, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Depreciation	\$ -	\$ 98,381	\$ 98,381
Payroll taxes and benefits	6,425	51,935	58,360
Maintenance	5,715	8,313	14,028
Interest	-	5,163	5,163
Electric	1,415	7,176	8,591
Engineering	-	1,519	1,519
Testing	3,336	9,558	12,894
Licenses/dues	1,253	2,457	3,710
Chemicals	1,179	763	1,942
Administration	-	456	456
Telephone	-	498	498
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 19,323</u>	<u>\$ 186,219</u>	<u>\$ 205,542</u>

Township of Potter, Pennsylvania

Schedule of Findings and Responses

Year Ended December 31, 2022

Finding 2022-001: Internal Control Over Financial Reporting - Lack of Segregation of Duties - Material Weakness

Criteria: The absence of segregation of duties and responsibilities generally precludes meaningful internal control over financial reporting.

Condition: The Township operates with a limited accounting staff. To the extent possible, duties and responsibilities are divided among the various employees; however, it is not always possible to adequately segregate duties.

Cause: Responsibility for the performance of accounting duties is vested in one individual.

Effect: The Township cannot be assured that errors, fraud or irregularities will be detected by its internal control over financial reporting. This constitutes a material weakness in internal control over financial reporting.

Recommendation: While it is advisable to have adequate segregation of duties among employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the Board of Supervisors in the Township's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.

Views of Responsible Officials and Planned Corrective Actions: Management is aware of the situation and seeks to have the Board of Supervisors review and approve transactions at their monthly board meetings; however, management has made a cost-benefit decision not to hire additional staff to segregate duties at this time.