

Borough of Fox Chapel

Financial Statements and Required Supplementary and Supplementary Information

**Year Ended December 31, 2016
with Independent Auditor's Report**

MaherDuessel
Certified Public Accountants

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BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2016

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BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2016

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Independent Auditor's Report

Members of Council
Borough of Fox Chapel

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Fox Chapel (Borough), Pennsylvania, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Highway Aid Fund, and the Sewer Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension trust fund information on pages i through xv and 39 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The information is the responsibility of management and was derived from or relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maier Duessel

Pittsburgh, Pennsylvania
April 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Borough of Fox Chapel (Borough) is located in western Pennsylvania, approximately six miles northeast of the City of Pittsburgh. The Borough was incorporated as a local government in 1934 and is governed under the Borough Code adopted by the Commonwealth of Pennsylvania in 1966. The Borough has operated under the Council-Manager form of government since 1936. Under this system, Borough Council is the legislative and policy-making body. The Mayor has direct responsibility for the Police Department. The Manager is the administrative officer of the Borough. Council acts as a board of directors to establish policy and gives directives to the Manager. With the exception of the police, the Manager is in charge of all Borough employees. The Borough provides services in many areas to its residents including various general government services, public safety, public works, sanitation, and recreation.

This section of the Fox Chapel financial report presents a narrative overview and analysis of the Borough's financial performance for the fiscal year ended December 31, 2016. Please read this management and discussion in conjunction with the accompanying financial statements and notes which follow in order to obtain a thorough understanding of the Borough's financial condition at December 31, 2016.

FINANCIAL HIGHLIGHTS

- In 2016, the Borough's total net position increased by \$1,134,575 to \$23.0M, an increase of 5.2%.
- The fund balance of the General Fund on December 31, 2016 was \$1,728,546, of which \$292,000 was assigned for use in the 2017 budget and \$1,436,546 remained unassigned. In 2016, the fund balance in the General Fund increased by \$192,409.
- Total revenue in all budgeted funds was \$239,065 under budget due to decreases in earned income and real estate transfer tax in the General Fund. Total expense in all budgeted funds was \$1.2M under budget due to significant General Fund savings in public works and Sewer Fund savings due to project delays. Unbudgeted funds include: Sanitary Authority, Library Authority, Fire Truck and K-9 Funds.
- The total assessed valuation of the Borough on December 31, 2016 was \$1,181,042,128, an increase of \$5.75M or 0.49%, from the valuation on December 31, 2015 bringing in an additional \$19,800 in real estate tax revenue. Real estate tax and earned income tax were the primary sources of income in 2016 at 32% and 29% respectively, followed by charges for services at 26%. In 2016, the Borough real estate tax millage was unchanged at 2.5 mills for general purposes.
- The earned income tax rate remained at 0.5% with 2016 estimated tax (accrual) decreasing by \$175,819 over 2015 estimated tax, a decrease of 6.1% for reasons unknown. In 2012, a new State-wide collection system was implemented requiring employers to withhold earned income tax and participate in a mandatory tax collection group with a contracted collector chosen by the group. This system limits the amount of information available to the municipality to investigate tax revenue decreases.
- In 2016, combined pension plan net position increased by \$866,197, or 7.2%, over 2015 due to investment gains. The defined benefit Police Plan has a net pension asset of \$959,080 and the defined benefit portion of the General Employees Plan has a net pension liability of \$297,144. The pension plan fiduciary net position as a percentage of the total pension liability for the General Employees and Police Plans was 95.18% and 115.89%, respectively. The Borough adopted asset smoothing in 2009 as the asset valuation method for both pension plans. This is expected to lessen the impact of volatile market highs and lows on the long-term valuation of the plans.

- In 2014, the Borough closed the General Employees Defined Benefit Pension Plan to new participants and created a defined contribution plan for new hires. A similar change could not be made to the Police Plan due to Pennsylvania law.
- At December 31, 2016, the Borough has no outstanding debt.
- Major capital purchases in 2016 included: a loader, dump truck, skid steer, and leaf machine along with fuel pumps and a fuel monitoring system.
- The Fox Chapel Library Authority was created in December 2009 to secure outside financing that would be used along with capital campaign funds to construct a new library. When a favorable construction bid was received in the spring of 2010, it was determined that the Borough's Land Fund had enough funds available to loan funds to the Library Authority to complete the construction. A total of \$2,574,200 was loaned. The first annual principal and interest payment was received by the Borough in 2012 with full repayment due by 2017. On December 31, 2016, the outstanding balance was \$554,200.
- Borough roads are in average condition with some requiring extensive drainage work in the future. A long-term road rebuilding and paving program was adopted by Council in 2012 that required an increase of \$500,000 or more annually to the road paving/drainage budgets. In 2016, approximately \$903,400 was spent on road paving and drainage. The Borough bids contracted road paving jointly with O'Hara Township to attract larger paving companies and get lower bids due to volume. The public works crew has been saving the Borough \$200,000 per year doing the drainage work in-house rather than paying a contractor. In 2011, the Borough reduced staff by one person in public works saving approximately \$100,000 per year.
- In June, 2013, Borough Council adopted the Administrative Consent Order (ACO) Feasibility Study Report (Report) which was then submitted to the Allegheny County Health Department (ACHD), PA DEP, and the Allegheny County Sanitary Authority (ALCOSAN). The report concluded a need for 2.6 miles of repairs of sewer pipe in the upper reaches of the sanitary sewer system and 2.5 miles of sewer main upsizing. The cost of these repairs totals \$10.7M. Borough Council concluded that work on the repairs to the sewer pipes should begin in 2014 and progress until completed. Borough Council calculated the sewer rates needed to fund these projects and increased the rates accordingly. The ACHD has verified that the Feasibility Study Report meets the criteria required.

A part of the ALCOSAN Consent Decree negotiations relates to "Regionalization" in which ALCOSAN proposes to assume ownership, operation, maintenance and potential future wet weather augmentation responsibilities for "multi-municipal conveyance sewers greater than 10" in diameter." The current "Regionalization" scope of work includes a significant amount of trunk sewers in Fox Chapel Borough including those referenced in the June 2013 Report. Therefore, the Borough may need to revise its Feasibility Study Report. In December 2014, Fox Chapel Borough asked the ACHD for an extension to the ACO. In response to several requests from municipalities for an ACO extension, ACHD/PADEP concluded that the ACO has lapsed and required the municipalities to sign a Phase I Consent Order and Agreement (Phase I COA) with the ACHD. Fox Chapel signed the Phase I COA in December 2015. The Phase I COA, following specific provisions outlined therein, requires a "Source Flow Reduction Study" be conducted in the municipal collection/conveyance system in FY 2016/FY2017 with submittal to the ACHD by December 2017. On November 30, 2016, the Borough submitted a progress report describing actions taken toward achieving compliance with the Phase 1 COA. The ACHD, by letter dated January 13, 2017, determined that the progress report met the minimum requirements of the COA.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of three parts: management's discussion and analysis, the basic financial statements (including notes to the financial statements) and budgetary comparisons of individual fund statements. The basic financial statements present two different views of the Borough through the use of government-wide statements and fund financial statements:

- The first two statements (pages 1-2) are government-wide financial statements that provide long-term and short-term information about the Borough's overall financial status, as well as the financial status of its component units.
- The remaining statements (pages 3-11) are fund financial statements that focus on individual parts of Borough government and report operations in more detail than the government-wide statements.
 - The governmental funds statements describe how general government services such as public safety and recreation were financed.
 - Fiduciary fund statements provide information about the retirement plans for municipal employees in which the Borough acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support municipal activities.

The financial statements include notes that provide an explanation for certain information in the financial statements and also provide more details for this information. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. All of the Borough's individual funds have been determined to be major funds and will thus be reported individually rather than being combined with other similar fund types.

Figure A-1

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

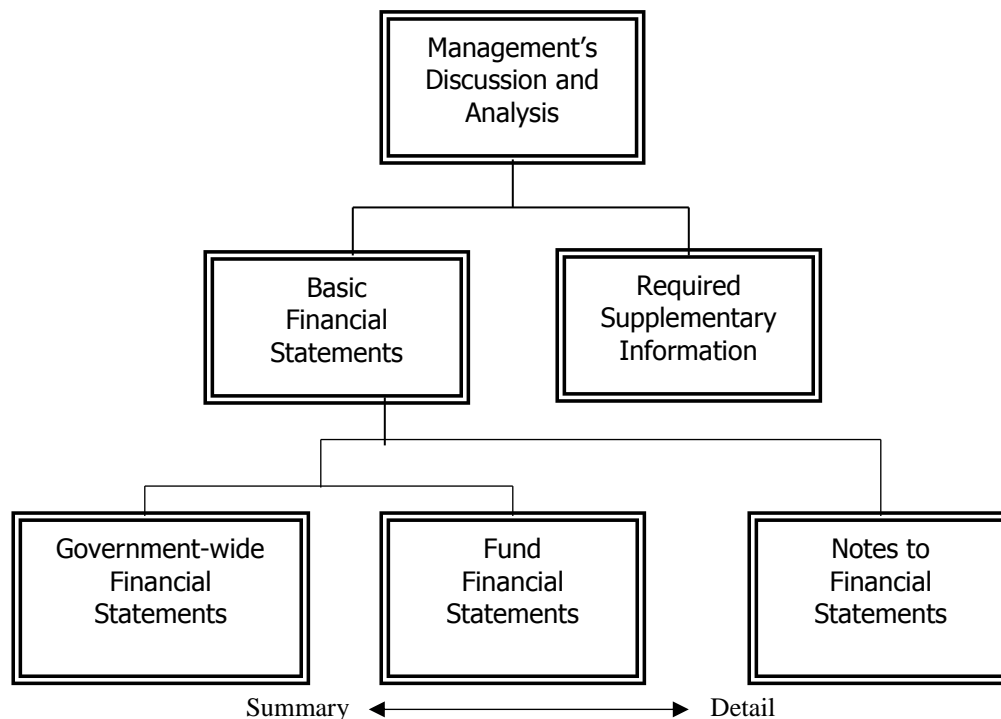


Figure A-2 summarizes the major features of the Borough's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

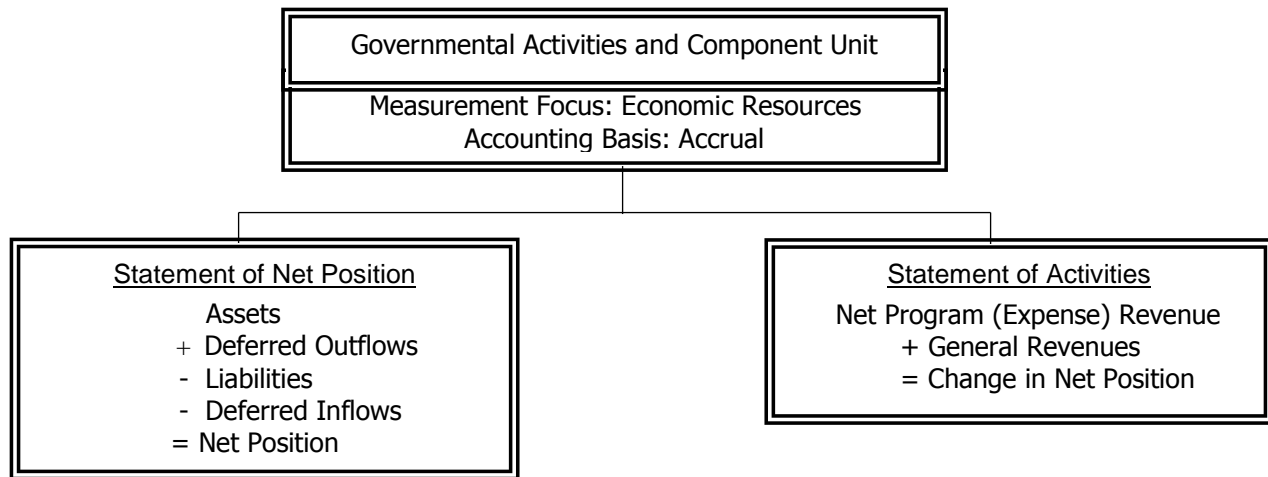
Figure A-2 Major Features of Fox Chapel's Government-wide and Fund Financial Statements			
	Fund Statements		
	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire municipal government (except fiduciary funds) and the Borough's component unit	The activities of the Borough that are not proprietary or fiduciary, such as police, fire, and recreation	Instances in which the Borough is the trustee or agent for someone else's resources, such as the retirement plan for municipal employees
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the Borough's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the Borough as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Borough's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Borough's net position and how it has changed. The statement of net position includes all of the Borough's assets and liabilities, except fiduciary funds and major infrastructure placed in service prior to 2004. Net position—the difference between the Borough's assets and liabilities—is one way to measure the Borough's financial health. Over time, increases or decreases in the Borough's net position are an indicator of whether its financial health is improving or deteriorating. The statement of activities focuses on how the Borough's net position changed during the year. Additional non-financial factors such as changes in the Borough's real property tax base, earned income tax base and general economic conditions must be considered to assess the overall position of the Borough. The primary features of government-wide financial statements are reflected in Figure A-3.

**Figure A-3
Government-wide Financial Statements**



The Borough's government-wide financial statements are divided into two categories:

- *Governmental activities*—Most of the Borough's basic services are included here such as the police, fire, public works and code enforcement departments and general administration. Property and earned income taxes, charges for services and State grants finance most of these activities.
- *Component units*—The Borough includes the Fox Chapel Sanitary Authority and the Fox Chapel Library Authority in this report. The Borough created the Sanitary Authority in 1960 for the purpose of financing and constructing a sanitary sewage system throughout the Borough. The sewer system is operated and maintained by the Borough in accordance with the Agreement of Lease dated May 1, 1960, as supplemented and principally serves the residents of the Borough. The Fox Chapel Library Authority (Library Authority) is blended into the Borough's financial statements because of the significance of its operational and financial relationship with the Borough. The Borough created the Library Authority in 2009 for the purpose of assisting with the financing and construction of a new library. The Library Authority is operated and maintained by the Borough in accordance with the Agreement of Lease dated May 15, 2010.

Fund Financial Statements

The fund financial statements provide more detailed information about the Borough's individual funds, not the Borough as a whole. Funds are accounting groups that the Borough uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law.

The Borough has two kinds of funds:

- *Governmental funds* - Most of the Borough's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.
- *Fiduciary funds* - The Borough is the trustee, or *fiduciary*, for two single-employer pension plans covering general employees and police employees. These plans cover all full-time employees. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Borough's fiduciary activities are reported in a separate statement of fiduciary net

position and a statement of changes in fiduciary net position. We exclude these activities from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Summary of Statement of Net Position December 31, 2016 and December 31, 2015

	Governmental Activities		
	2016	2015	Variance
Current and other assets	\$ 7,097,081	\$ 8,076,850	\$ (979,769)
Net pension asset	959,080	846,241	112,839
Property held for sale	713,829	-	713,829
Capital assets	14,974,991	14,188,494	\$ 786,497
Total Assets	\$ 23,744,981	\$ 23,111,585	\$ 633,396
Deferred Outflows of Resources:			
Changes in pension assumptions	\$ 363,658	\$ 454,573	\$ (90,915)
Net difference between projected and actual earnings on pension investments	540,424	720,565	(180,141)
Total Deferred Outflows of Resources	\$ 904,082	1,175,138	(271,056)
Current and other liabilities	\$ 728,899	\$ 1,499,184	\$ (770,285)
Net pension liability	297,144	413,782	(116,638)
Total Liabilities	\$ 1,026,043	\$ 1,912,966	\$ (886,923)
Deferred Inflows of Resources:			
Differences between expected and actual pension experience	\$ 362,721	\$ 453,401	\$ (90,680)
Difference between projected and actual earnings on pension plan investments	\$ 205,368	\$ -	\$ 205,368
Total Deferred Inflows of Resources	\$ 568,089	\$ 453,401	\$ 114,688
Net Position:			
Invested in capital assets, net of related debt	\$ 14,974,991	\$ 14,188,494	\$ 786,497
Restricted	1,277,700	1,400,210	(122,510)
Unrestricted	6,802,240	6,331,652	470,588
Total Net Position	\$ 23,054,931	\$ 21,920,356	\$ 1,134,575

Net position:

In 2016, total net position of governmental activities increased by \$1,134,575 to \$23.0M, an increase of 5.2%. Investment in capital assets, net of related debt as of December 31, 2016, increased by \$786,497, or 5.5%, with the addition of \$903,420 of infrastructure assets, \$157,513 of machinery and equipment, and other capital purchases that exceeded current year depreciation. The unrestricted net position of \$6,802,240 identifies funds available to maintain operations or invest in additional capital assets.

Infrastructure assets:

At December 31, 2016, the Borough's total net position is \$23M. Of this amount, \$14.9M is accounted for by capital assets. Historically, infrastructure (roads, sewers etc.) has not been reported or depreciated in governmental financial statements. GASB Statement No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, at least prospectively, from the time of adoption of GASB Statement No. 34. The

Borough has chosen to report all infrastructure additions in excess of \$500,000 per system, per year, prospectively, beginning in 2004, the first such additions being reported in 2012. The following presents the Borough's change in net position for the fiscal years ended December 31, 2016 and December 31, 2015:

Change in Net Position
Years Ended December 31, 2016 and 2015

Governmental Activities

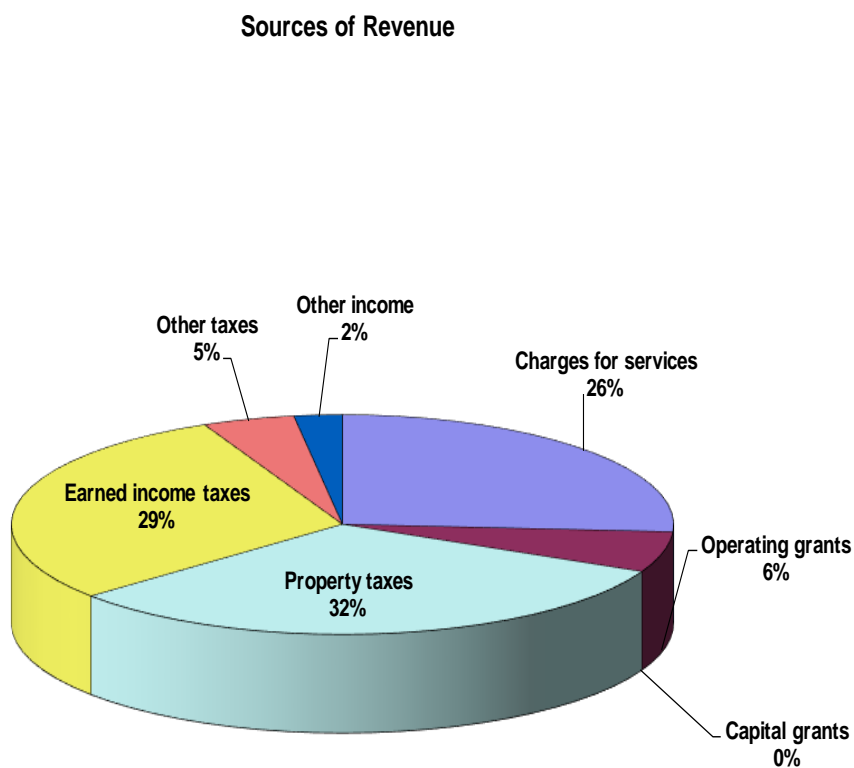
	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 2,400,404	\$ 2,327,156	\$ 73,248
Operating grants	550,123	497,188	52,935
Capital grants	-	-	-
General Revenues:			
Property taxes	2,907,687	2,884,924	22,763
Earned income taxes	2,709,935	2,885,754	(175,819)
Other taxes	413,999	489,652	(75,653)
Interest income	112,090	118,876	(6,786)
Other revenue	104,564	153,066	(48,502)
Total Revenues	<u>\$ 9,198,802</u>	<u>\$ 9,356,616</u>	<u>\$ (157,814)</u>
Program Expenses:			
Administration	\$ 722,933	\$ 707,289	\$ 15,644
Tax collection	53,585	57,561	(3,976)
Borough building	154,181	137,935	16,246
Police	1,629,609	1,609,964	19,645
Fire	293,413	277,197	16,216
Code enforcement	144,384	138,455	5,929
Health and human services	1,560	875	685
Rubbish collection	791,097	822,427	(31,330)
Sewer system	1,539,398	1,736,650	(197,252)
Public works	1,687,876	1,710,747	(22,871)
Library	845,300	834,100	11,200
Parks and recreation	200,891	59,768	141,123
Debt service	-	-	-
Total Expenses	<u>\$ 8,064,227</u>	<u>\$ 8,092,968</u>	<u>\$ (28,741)</u>
Change in Net Position	<u>\$ 1,134,575</u>	<u>\$ 1,263,648</u>	<u>\$ (129,073)</u>
Net position-beginning of year	\$ 21,920,356	\$ 20,656,708	\$ 1,263,648
Net position-end of year	\$ 23,054,931	\$ 21,920,356	\$ 1,134,575

Governmental Activities

REVENUE SOURCES

Total 2016 government-wide revenue of \$9.2M was \$157,814 less than 2015 revenue, a decrease of 1.7%. The 2016 revenue is derived primarily from real estate tax at 32% and earned income tax at 29% of the total. Charges for services total 26% of revenue followed by operating grants at 6%, other taxes at 5% and other general revenue at 2%. The Statement of Activities shows **accrued** 2016 earned income tax revenues of \$2,709,935, a projected decrease of \$175,819 or 6.1% from 2015 **accrued** earned income tax. This **accrued** earned income tax revenue includes taxes collected in 2016 as well as taxes receivable at year-end which is an **estimate** based on prior years' experience. In 2012, a new State-wide system of earned income tax collection was implemented making it very difficult to project total tax for accrual until we have at least five years of experience under the new collection system.

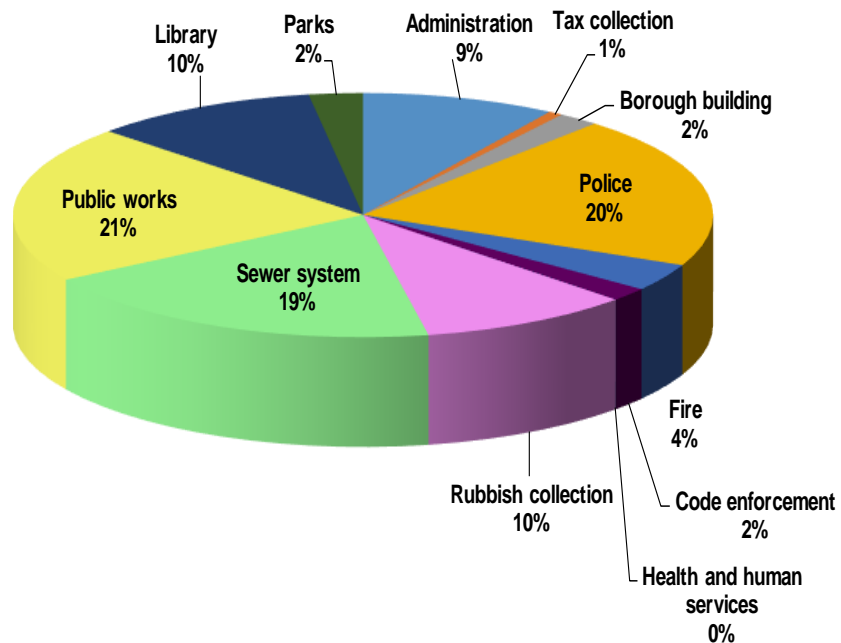
The following chart graphically depicts the government-wide sources of revenues for the fiscal year ending December 31, 2016:



PROGRAM EXPENSES

Total expense for all programs in 2016 was \$8.1M, down \$28,741, or 0.4%, from 2015. The expenses reflect the delivery of a wide range of services with the largest being public works/sewers at 40% followed by public safety (police, fire, and code enforcement) at 26%, general government at 12%, rubbish collection at 10%, library at 10%, and parks at 2%.

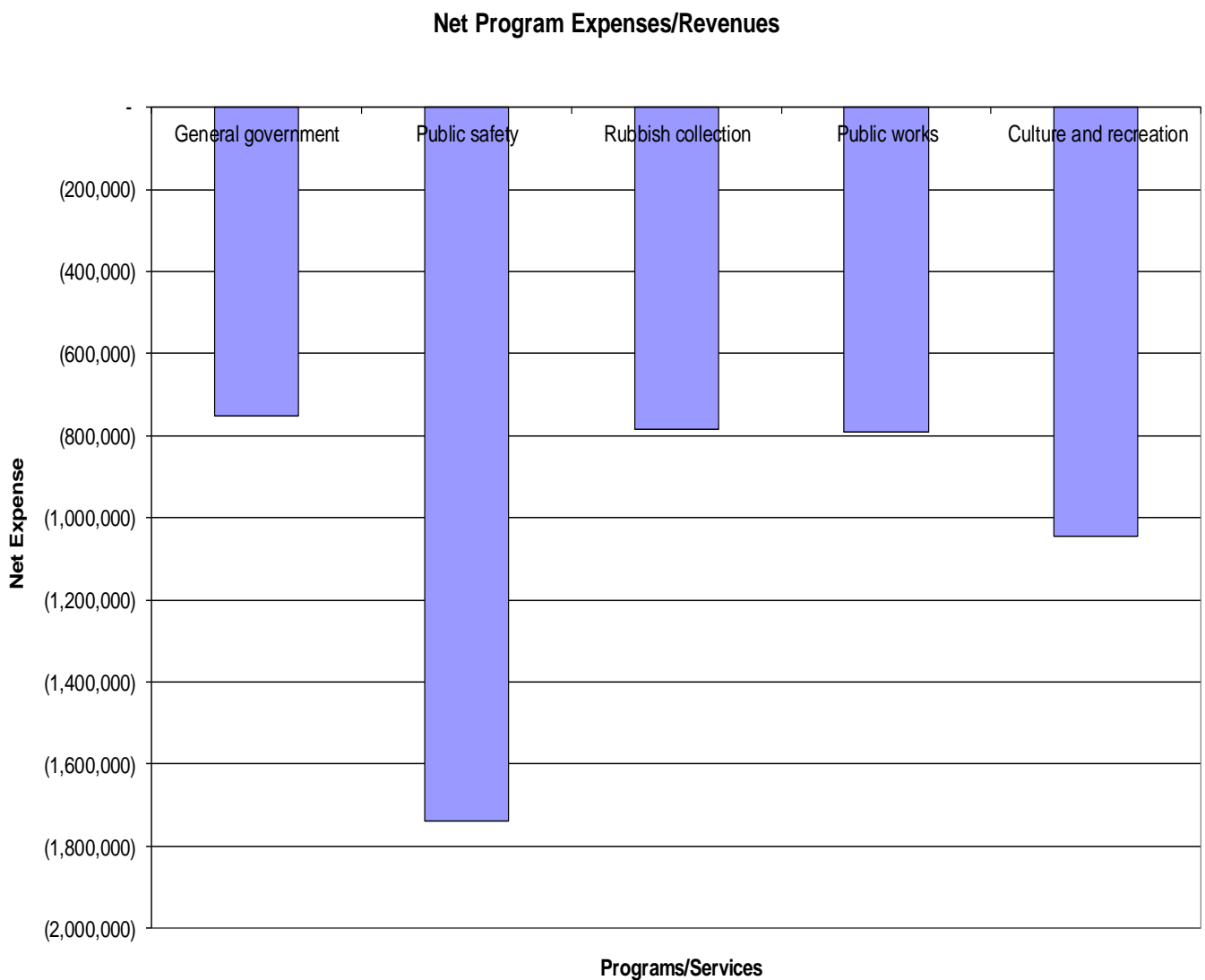
Program Expenses



NET PROGRAM EXPENSES/REVENUES:

Public safety, comprised of police, fire, health and human services, and code enforcement, required the most revenue for support at \$1.74M. This is followed by culture and recreation, primarily library aid, at \$1.05M. Public works, which includes roads, storm sewers and sanitary sewers, required \$0.79M in support followed by rubbish collection at \$0.78M (no separate fee is charged for rubbish collection), and general government (administration, tax collection, and building/grounds) at \$0.75M.

Net program expenses/revenues indicate the amount of support required from taxes and other general revenues for the year. The following chart graphically depicts the net program expenses/revenues by function/program for the fiscal year ended December 31, 2016:



FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As the Borough completed the year 2016, its governmental funds reported a combined fund balance of \$5.12M, an increase of \$372,643, or 7.9%, from the combined fund balance at year-end 2015. The General Fund gained \$192,409 due to savings in road salt, road materials, contracted road paving and refuse collection. The Library Authority Fund gained \$433,200 due to a principal reduction of \$430,000 on the advance from the Land Fund. The Squaw Run Interceptor Project Fund gained \$367,540 in the form of sewer fees while the Sewer Fund gained \$259,317 on the year because the sewer lining project was deferred until early 2017 due to contractor availability. The Capital Reserve Fund gained \$170,034 because the amount transferred from the General Fund for depreciation exceeded the equipment purchases for the year. The Land Fund lost \$1,139,319 because \$465,400 in budgeted aid was given to the Community Library Association so that CLA could make its \$500,000 loan and rental payment to the Library Authority and the Library Authority could make its \$496,823 payment to the Borough Land Fund. The Borough also purchased a house on land adjacent to the Borough building at a cost of approximately \$700,000 that will be discussed in more detail below.

The December 31, 2016 balance of \$1,036,367 in the Interceptor Fund and \$981,229 in the Sewer and Sanitary Authority Funds are restricted by law for sewer infrastructure, and \$10,246 in the Highway Aid Fund is restricted by law for road maintenance. In the General Fund, \$292,000 has been assigned for use in the 2017 budget while \$1,436,546 is unassigned and available to fund current and future projects of the Borough. In the Capital Reserve Fund, the balance of \$777,330 is assigned for capital purchases or improvements as is the \$127,974 in the Fire Truck Fund. Likewise, the balance of \$976,512 in the Land Fund is assigned for capital purposes, \$554,200 of which has been advanced to the Library Authority. The \$11,803 balance in the K-9 Fund has been assigned for use in the K-9 program. By definition, the negative fund balance of (\$532,526) in the Library Authority Fund must be considered unassigned.

In 2010, the Borough created the Fox Chapel Library Authority to borrow the remaining funds needed to commence construction of a new library facility adjacent to the Borough building. Cash and future pledge payments were committed to the project by the Community Center and Library Association which had been engaged in a multi-year fundraising campaign. When the construction bid was awarded, it was determined that the Fox Chapel Library Authority would be able to borrow sufficient funds from the Fox Chapel Borough Land Fund to complete the construction such that a commercial bank loan would not be needed. In April 2011, the new library opened to the public. In total, the Borough loaned \$2,574,200 to the Library Authority to complete construction which depleted the reserves in the Borough's Land Fund. The Borough will receive lease payments from the Library Authority that will fully repay the loan by 2017. In 2010, the non-profit Community Library Association was created to run the new facility and make annual lease rental payments to the Fox Chapel Library Authority such that the Library Authority can make annual debt payments to the Borough of Fox Chapel. The Borough will assist the Community Library Association with their annual lease payments to the Fox Chapel Library Authority to a maximum of \$1,450,000 such that only \$1.57M will permanently be returned to the Land Fund and available for future use. In 2016, Borough assistance to the Community Library Association amounted to \$465,400.

In 2016, total revenue in all budgeted funds was \$239,065 under budget due to decreases in earned income and real estate transfer tax in the General Fund. Total expense in all budgeted funds was \$1.2M under budget due to significant General Fund savings in public works and Sewer Fund savings due to project delays. Unbudgeted funds include: Sanitary Authority, Library Authority, Fire Truck and K-9 Funds.

General Fund Budgetary Highlights

Total 2016 revenue of \$6,750,907 was a decrease of \$179,032, or 2.6%, from 2015 due to a reduction of \$115,095 in earned income tax collected and an \$81,167 decrease in real estate transfer tax, slightly offset by a \$19,823 increase in real estate tax revenue generated by an increased assessed value. Total 2016 expenses of \$6,323,554 were \$23,685 less than 2015, a decrease of 0.4%. Expenses were under budget by \$759,446, or 10.7%, due primarily to savings in public works. General Fund revenues exceeded expenses

by \$192,409 in a year in which the budget projected a deficit of \$335,200, resulting in a net gain of \$527,609. A portion of these funds was assigned to be used in 2017. The fund balance on December 31, 2016 was \$1,728,546, of which \$292,000 was assigned for use in the 2017 budget and \$1,436,546 was unassigned.

Cumulatively, General Fund expenditures were \$759,446, or 10.7%, under budget. Public Works expense was \$498,780 under budget of which \$350,500 was the result of savings in contracted road paving (\$177,500), road salt (\$92,200), engineering (\$36,700), wages and overtime (\$29,900) and fuel (\$14,200). Another \$65,000 was budgeted to replace a traffic signal to be offset by a potential grant. This project was cancelled so that we could reapply for the grant. A bridge repair project was budgeted at \$75,000 and bid but was not completed because no bids were received. The Borough was awarded two grants to install two pedestrian bridges and extend the Squaw Run Trail in 2016. The 2016 cost of the project came in well under the grant budget resulting in savings of \$198,336 in Parks and Recreation. Some additional cost was incurred in 2017 for installation of the bridges. Police expense was \$34,953 under budget due to savings in wages and overtime (\$11,500), unspent uniform allowance (\$8,200), fuel (\$5,300), and training (\$4,500). Code Enforcement was \$14,239 under budget because a total contracted recodification due to be completed in 2016 will not be completed until 2017. Administration was \$27,705 over budget due to legal expense incurred in litigation with a developer.

OTHER MAJOR FUNDS

Sewer Fund

The Sewer Fund was established to account for the operations of the Borough's sanitary sewer facilities. Such operations include the collection of sewer user fees and expenditures for the operation and maintenance of the system as well as payments to the Allegheny County Sanitary Authority (ALCOSAN) for treatment services provided. Billing service for sanitary sewage is contracted to Fox Chapel Authority which also provides and bills for water. In 2014, sewer consumption rates were doubled to pay for repairs mandated by the ALCOSAN Consent Order. In addition, a \$45 per account/per quarter/per equivalent dwelling unit fee was implemented to raise funds in advance for a major upsizing of the sewer interceptor currently mandated by the ALCOSAN Consent Order (which is subject to change). The Borough component of the sewer rate charge did not change in 2016. However, the ALCOSAN component increased 11%. In 2016, the fund balance increased \$259,317, but because the budget was a \$335,900 deficit budget, the gain was \$595,217 when actual revenue and expense is compared to budget. The gain was due to sewer repair expense falling short of budget by \$570,000. In 2015, Council authorized \$300,000 of sewer pipe and manhole lining of which \$228,000 was spent on pipe lining. In October 2015, Council authorized an additional \$139,000 of sewer pipe lining.

When the 2016 budget was prepared, the contractor hired to line the additional pipe notified the Borough that they would be unable to perform the work until January 2016. The 2016 budget, as adopted, contained \$250,000 for our 2016 manhole lining project, \$139,000 for the pipe lining work authorized in October 2015, \$100,000 for manhole lining, and \$100,000 for a sewer installation project for a total budget of \$589,000. Due to a mild December, the pipe lining contractor was able to do the \$139,000 lining project and was paid in December 2015 (causing the 2016 budget to be inflated by \$139,000). The Borough has been unable to find a contractor willing to line our manholes because many are in the woods so \$100,000 allocated for such purpose went unspent. The \$100,000 sewer installation project has been delayed due to difficulty in obtaining the required easements. Once again in 2016, the contractor hired for the \$250,000 pipe lining project was unable to perform the work until early 2017 resulting in another \$250,000 that was not spent for sewer repairs in 2016. In 2017, the contract was awarded early so the work should be completed in the budget year.

The fund balance of the Sewer Fund was \$981,229 on December 31, 2016, all of which was restricted for sewer infrastructure.

Capital Reserve Fund

The Capital Reserve Fund is used to accumulate funds for future replacement of capital assets including vehicles, machinery, and equipment. This fund may also be used to accumulate funds for the construction or renovation of buildings. In December 2016, \$400,000 was transferred from the General Fund to offset a portion of the current depreciation of the above-mentioned items as budgeted. The most significant capital expenditures in 2016 included a loader (\$127,009), dump truck (\$75,000), skid steer (\$54,674), leaf machine (\$38,350) and gas pumps and fuel monitoring system (\$24,852). The fund balance of the Capital Reserve Fund as of December 31, 2016 was \$777,330, all of which was assigned for capital purchases and improvements.

Land Fund

The Land Fund was established for the accumulation of funds for future park and land acquisitions by the Borough. At times, the Land Fund has also been used to loan money to the Fox Chapel Sanitary Authority for the retirement of outstanding bonds and for the construction of sewers. In 2010 and 2011, a total of \$2,574,200 was loaned to the Fox Chapel Library Authority to complete the construction of a new library adjacent to the municipal building. These funds will be repaid in annual installments with final payment scheduled for 2017.

Due to the deteriorating condition of the Borough's public works facilities, plans are being developed to construct new facilities in the present location behind the Borough building. Design possibilities were being hampered by the size of the Borough's available property in this location. During 2016, a home on an adjacent piece of property was listed for sale. The Borough purchased the home for approximately \$700,000, changed the lot lines to add a piece of property to the public works site, and listed the home and remaining property for sale. The Borough expects to save at least \$500,000 on the future construction of new public works facilities due to design changes made possible by the additional piece of land. The purchase will also provide land for 10 additional parking spaces at the library adjacent to the municipal building.

The fund balance of the Land Fund as of December 31, 2016 was \$976,512 but only \$422,225 is available for current projects as the remaining \$554,200 has been advanced to the Library Authority with repayment due in 2017.

Highway Aid Fund

The Highway Aid Fund is used to account for the receipt of State aid revenues from Liquid Fuels Tax with disbursements restricted for use in building and maintaining roads and bridges in the Borough. Twenty percent of each year's allotment may be accumulated for the purchase of equipment. In 2016, the Borough received \$218,807 in State aid and later transferred \$165,055 to the General Fund to offset the cost of road salt and storm drainage. An additional \$53,000 was transferred to the Capital Reserve Fund to offset the cost of the new loader that was purchased in 2016. The fund balance of the Highway Aid Fund on December 31, 2016 was \$10,246, all of which was restricted to road maintenance and other permitted uses of PA Liquid Fuels funds.

Fire Truck Fund

In 2015 and 2016, the Borough solicited funds directly from residents to build a fund to finance future fire truck purchases, the next of which is scheduled for 2018. This fund drive raised \$76,575 in 2016. The balance of the Fire Truck Fund on December 31, 2016 was \$127,974.

Sanitary Authority Fund

The Fox Chapel Sanitary Authority has been inactive for several years now due to lack of projects.

Library Authority Fund

The Fox Chapel Library Authority was created in December 2009 to borrow funds to construct a new library adjacent to the municipal building. Revenue of \$1,878,193 in 2010 consisted mainly of the transfer of funds raised by the Community Center and Library Association capital campaign that were designated for the construction of a new library. Additional funding included an advance of \$2,574,200 from the Fox Chapel Borough Land Fund. The library opened in April, 2011. The Library Authority began making annual loan payments to the Borough in 2012 with full repayment due by 2017. Funds will be obtained by the Library Authority through annual lease rental payments from the Community Library Association over the same period. The fund balance of the Library Authority as of December 31, 2016 was negative \$532,526 due to the advance of \$554,200, a liability, all of which was unassigned.

K-9 Fund

In 2016, the Borough established a K-9 Fund to raise funds for the operations of our K-9 program and future replacement of the K-9 vehicle. It is funded solely by donations from residents and civic groups. As of December 31, 2016, the fund contained \$11,803.

TRUST AND AGENCY OPERATIONS

Pension Trust Fund

The Borough of Fox Chapel administers two defined benefit pension plans – General Employees and Police. These plans cover all full-time employees. In 2008, Council amended the General Employees Plan by reducing vesting from 12 years to 3 years of full-time service. On December 31, 2016, there were 13 vested and 1 non-vested participants in the General Employees Plan and 10 vested and 1 non-vested participants in the Police Plan. Employee contribution rates were set at 5% for employees in both plans. During 2016, combined total net position increased by \$866,197, or 7.2%, due to investment gains. On the Statement of Net Position, the Police Plan shows a net pension asset of \$959,080 and the General Employees Plan a net pension liability of \$297,144. In 2009, the Borough adopted asset smoothing instead of market value as the asset valuation method. It is believed that this methodology will “smooth” the market’s highs and lows in the long-term valuation of the plans.

During 2016, the General Employees Plan had a required municipal contribution of \$167,392 to the defined benefit plan and \$2,299 to the defined contribution plan. The Police Plan had a required municipal contribution of \$35,992. State aid accounted for \$153,113 of the Borough’s total required contribution of \$205,683 for a required net pension outlay of \$52,570 from Borough funds. In addition, the employees contributed \$112,577. The pension plan fiduciary net position as a percentage of the total pension liability for the defined benefit General Employees and Police Plans was 95.18% and 115.89%, respectively, which represented an increase from 2015 due to investment gains.

In 2014, Borough Council closed the General Employees Defined Benefit Pension Plan to new members and created a defined contribution plan for all new hires. Plan participants contribute 5% of wages and the Borough contributes an equal amount. By Pennsylvania law, all police pension plans must be defined benefit plans so no similar changes can be made to the Police Plan. The required supplementary information located at the conclusion of the Notes to Financial Statements provides more details on the plans’ funding progress.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets consist primarily of land, buildings and improvements, machinery, equipment, infrastructure and vehicles. The following is a summary of capital assets at December 31, 2016 and 2015:

Summary of Capital Assets

	Balance at December 31, 2016	Balance at December 31, 2015	Variance
Land	\$ 8,825,586	\$ 8,825,586	\$ -
Construction in Progress	114,907	86,380	28,527
Infrastructure	3,595,392	2,691,972	903,420
Buildings and improvements	2,194,836	2,194,836	-
Furniture and equipment	403,433	398,458	4,975
Machinery and equipment	1,260,448	1,103,003	157,445
Vehicles	2,831,344	2,815,202	16,142
Total capital assets	\$ 19,225,946	\$ 18,115,437	\$ 1,110,509
Less accumulated depreciation for:			
Infrastructure	\$ 558,594	\$ 349,015	\$ 209,579
Building and improvements	1,251,257	1,207,509	43,748
Furniture and equipment	333,877	315,145	18,732
Machinery and equipment	637,660	715,252	(77,592)
Vehicles	1,469,567	1,340,022	129,545
Total accumulated depreciation	\$ 4,250,955	\$ 3,926,943	\$ 324,012
Total assets less accumulated depreciation	\$ 14,974,991	\$ 14,188,494	\$ 786,497

More detailed information about the Borough's capital assets can be found in Note 3 of the Notes to the Financial Statements.

Long-term Debt

The Borough began and ended the year 2016 with no debt.

CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and vendors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives and disburses. If you have questions about this report or need additional financial information, please contact:

Borough of Fox Chapel Finance Department
401 Fox Chapel Road
Pittsburgh, PA 15238
412-850-5021

BOROUGH OF FOX CHAPEL

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,466,344
Receivables:	
Lease	554,200
Taxes	922,461
Other	154,076
Net pension asset - Police Plan	959,080
Property held for sale	713,829
Capital assets, not depreciated	8,940,493
Capital assets net of accumulated depreciation	6,034,498
Total Assets	23,744,981
Deferred Outflows of Resources	
Related to pensions	904,082
Liabilities	
Accounts payable	331,654
Escrow deposits	213,060
Noncurrent liabilities:	
Net pension liability - General Employees Plan	297,144
Accumulated compensated absences	184,185
Total Liabilities	1,026,043
Deferred Inflows of Resources	
Related to pensions	568,089
Net Position	
Net investment in capital assets	14,974,991
Restricted for:	
Road construction/maintenance	10,246
Sewage infrastructure	2,017,654
Unrestricted	6,052,040
Total Net Position	\$ 23,054,931

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Administration	\$ 722,933	\$ 153,983	\$ 24,222	\$ -	\$ (544,728)
Tax collection	53,585	-	-	-	(53,585)
Borough building	154,181	-	-	-	(154,181)
Police department	1,629,609	5,378	108,187	-	(1,516,044)
Fire department	293,413	-	147,193	-	(146,220)
Code enforcement	144,384	63,628	4,375	-	(76,381)
Health and human services	1,560	625	-	-	(935)
Rubbish collection	791,097	-	7,967	-	(783,130)
Sewer system	1,539,398	2,158,552	8,749	-	627,903
Public works	1,687,876	18,238	249,430	-	(1,420,208)
Library	845,300	-	-	-	(845,300)
Parks and recreation	200,891	-	-	-	(200,891)
Total governmental activities	<u>\$ 8,064,227</u>	<u>\$ 2,400,404</u>	<u>\$ 550,123</u>	<u>\$ -</u>	<u>(5,113,700)</u>
General revenues:					
Taxes:					
Real estate					2,907,687
Earned income					2,709,935
Other					413,999
Interest income					112,090
Miscellaneous income					<u>104,564</u>
Total general revenues					<u>6,248,275</u>
Change in Net Position					1,134,575
Net Position:					
Beginning of year					<u>21,920,356</u>
End of year					<u>\$ 23,054,931</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	K-9 Fund	Library Authority	Total Governmental Funds
Assets											
Cash and cash equivalents	\$ 1,963,102	\$ 10,246	\$ 1,118,038	\$ 58	\$ 777,330	\$ 422,312	\$ 1,013,807	\$ 127,974	\$ 11,803	\$ 21,674	\$ 5,466,344
Receivables:											
Taxes	922,461	-	-	-	-	-	-	-	-	-	922,461
Other	25,596	-	128,480	-	-	-	-	-	-	-	154,076
Due from other funds	-	-	-	-	-	-	22,560	-	-	-	22,560
Interfund advance	-	-	-	-	-	554,200	-	-	-	-	554,200
Total Assets	\$ 2,911,159	\$ 10,246	\$ 1,246,518	\$ 58	\$ 777,330	\$ 976,512	\$ 1,036,367	\$ 127,974	\$ 11,803	\$ 21,674	\$ 7,119,641
Liabilities											
Accounts payable	\$ 88,838	\$ -	\$ 242,729	\$ -	\$ -	\$ 87	\$ -	\$ -	\$ -	\$ -	\$ 331,654
Interfund advance	-	-	-	-	-	-	-	-	-	554,200	554,200
Due to other funds	-	-	22,560	-	-	-	-	-	-	-	22,560
Escrow liability	213,060	-	-	-	-	-	-	-	-	-	213,060
Total Liabilities	301,898	-	265,289	-	-	87	-	-	-	554,200	1,121,474
Deferred Inflows of Resources											
Unavailable revenue - earned income taxes	785,220	-	-	-	-	-	-	-	-	-	785,220
Unavailable revenue - real estate taxes	95,495	-	-	-	-	-	-	-	-	-	95,495
Total Deferred Inflows of Resources	880,715	-	-	-	-	-	-	-	-	-	880,715
Fund Balance (Deficit)											
Nonspendable:											
Interfund advance	-	-	-	-	-	554,200	-	-	-	-	554,200
Restricted:											
Road construction/maintenance	-	10,246	-	-	-	-	-	-	-	-	10,246
Sewage infrastructure	-	-	981,229	58	-	-	1,036,367	-	-	-	2,017,654
Assigned:											
Use in 2017 budget	292,000	-	-	-	-	-	-	-	-	-	292,000
Capital purchases/construction	-	-	-	-	777,330	422,225	-	127,974	-	-	1,327,529
K-9 program	-	-	-	-	-	-	-	-	11,803	-	11,803
Unassigned	1,436,546	-	-	-	-	-	-	-	-	(532,526)	904,020
Total Fund Balance (Deficit)	1,728,546	10,246	981,229	58	777,330	976,425	1,036,367	127,974	11,803	(532,526)	5,117,452
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	\$ 2,911,159	\$ 10,246	\$ 1,246,518	\$ 58	\$ 777,330	\$ 976,512	\$ 1,036,367	\$ 127,974	\$ 11,803	\$ 21,674	\$ 7,119,641

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2016

Total Fund Balance - Governmental Funds	\$ 5,117,452
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities and property held for sale are not financial resources and, therefore, are not reported as assets in governmental funds.	15,688,820
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Lease revenue to be collected in the future.	554,200
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Property taxes and earned income taxes receivable will be collected next year but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the fund financial statements.

Earned income tax	\$ 785,220	
Real estate tax	<u>95,495</u>	880,715

The actuarially accrued net pension asset, net pension liability, and deferred inflows and outflows of resources for pensions are not recorded on the fund financial statements.	997,929
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund. Long-term liabilities at year-end consist of:

Accumulated compensated absences	<u>(184,185)</u>
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Total Net Position - Governmental Activities	<u>\$ 23,054,931</u>
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See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	K-9 Fund	Library Authority	Total Governmental Funds
Revenues:											
Taxes:											
Real estate	\$ 2,926,252	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,926,252
Earned income	2,836,682	-	-	-	-	-	-	-	-	-	2,836,682
Other	413,999	-	-	-	-	-	-	-	-	-	413,999
Licenses and permits	161,978	-	-	-	-	-	-	-	-	-	161,978
Fines and related costs	4,967	-	-	-	-	-	-	-	-	-	4,967
Interest, rents, and royalties	4,763	82	1,750	-	1,219	68,437	2,380	251	8	500,023	578,913
Intergovernmental revenues	242,945	218,807	-	-	-	-	-	-	-	-	461,752
Charges for services	74,907	-	-	-	-	-	-	-	-	-	74,907
Sewer fees	-	-	2,158,553	-	-	-	-	-	-	-	2,158,553
Contributions	-	-	-	-	-	-	-	76,575	11,795	-	88,370
Miscellaneous	84,414	-	-	-	12,900	-	-	-	-	-	97,314
Total revenues	6,750,907	218,889	2,160,303	-	14,119	68,437	2,380	76,826	11,803	500,023	9,803,687
Expenditures:											
Current:											
Administration	595,305	-	28,930	-	-	-	-	-	-	-	624,235
Tax collection	53,585	-	-	-	-	-	-	-	-	-	53,585
Borough building	84,192	-	-	-	-	-	-	-	-	-	84,192
Police department	1,469,347	-	-	-	-	-	-	-	-	-	1,469,347
Fire department	125,542	-	-	-	-	-	-	-	-	-	125,542
Code enforcement	120,161	-	-	-	-	-	-	-	-	-	120,161
Health and human services	1,560	-	-	-	-	-	-	-	-	-	1,560
Rubbish collection	789,411	-	-	-	-	-	-	-	-	-	789,411
Sewer system	-	-	1,449,763	-	-	-	-	-	-	-	1,449,763
Public works	1,319,800	-	-	-	-	-	-	-	-	-	1,319,800
Library	349,900	-	-	-	-	465,400	-	-	-	30,000	845,300
Parks and recreation	198,864	-	-	-	-	-	-	-	-	-	198,864
Employee benefits	210,447	-	-	-	-	-	-	-	-	-	210,447
Insurance	98,547	-	-	-	-	-	-	-	-	-	98,547
Miscellaneous (refunds and judgments)	3,473	-	-	-	-	-	-	-	-	-	3,473
Debt service:											
Interest	-	-	-	-	-	-	-	-	-	36,823	36,823
Capital outlay	903,420	-	44,033	-	310,185	742,356	-	-	-	-	1,999,994
Total expenditures	6,323,554	-	1,522,726	-	310,185	1,207,756	-	-	-	66,823	9,431,044
Excess (Deficiency) of Revenues Over Expenditures	427,353	218,889	637,577	-	(296,066)	(1,139,319)	2,380	76,826	11,803	433,200	372,643
Other Financing Sources (Uses):											
Operating transfers in	165,056	-	-	-	466,100	-	365,160	-	-	-	996,316
Operating transfers out	(400,000)	(218,056)	(378,260)	-	-	-	-	-	-	-	(996,316)
Total other financing sources (uses)	(234,944)	(218,056)	(378,260)	-	466,100	-	365,160	-	-	-	-
Net Change in Fund Balance	192,409	833	259,317	-	170,034	(1,139,319)	367,540	76,826	11,803	433,200	372,643
Fund Balance (Deficit):											
Beginning of year	1,536,137	9,413	721,912	58	607,296	2,115,744	668,827	51,148	-	(965,726)	4,744,809
End of year	\$ 1,728,546	\$ 10,246	\$ 981,229	\$ 58	\$ 777,330	\$ 976,425	\$ 1,036,367	\$ 127,974	\$ 11,803	\$ (532,526)	\$ 5,117,452

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

Net Change in Fund Balance - Governmental Funds \$ 372,643

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 amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlays	\$ 1,308,415	
Less: Depreciation expense	<u>(506,918)</u>	801,497

Property held for sale is recorded as an asset on the statement of net position. 713,829

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to increase net position. 7,250

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues changed by this amount during the year.

Earned Income Tax	(126,747)	
Real Estate Tax	<u>(15,092)</u>	(141,839)

Lease receivable results in current financial capital outlays in the governmental funds, while the repayment of the principal of the lease provides current financial resources to the governmental funds. This amount is the net effect of these differences in the treatment of lease receivable. (430,000)

In the statement of activities, accumulated employee benefits (pensions, vacation and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (188,805)

Change in Net Position of Governmental Activities \$ 1,134,575

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes:				
Real estate	\$ 2,879,200	\$ 2,879,200	\$ 2,926,252	\$ 47,052
Earned income	2,925,000	2,925,000	2,836,682	(88,318)
Other	411,000	411,000	413,999	2,999
Licenses and permits	151,400	151,400	161,978	10,578
Fines and related costs	7,400	7,400	4,967	(2,433)
Interest, rents, and royalties	4,100	4,100	4,763	663
Intergovernmental revenues	471,700	471,700	242,945	(228,755)
Charges for services	62,000	62,000	74,907	12,907
Miscellaneous	70,000	70,000	84,414	14,414
Total revenues	<u>6,981,800</u>	<u>6,981,800</u>	<u>6,750,907</u>	<u>(230,893)</u>
Expenditures:				
Current:				
Administration	567,600	567,600	595,305	(27,705)
Tax collection	59,000	59,000	53,585	5,415
Borough building	81,500	81,500	84,192	(2,692)
Police department	1,504,300	1,504,300	1,469,347	34,953
Fire department	124,700	124,700	125,542	(842)
Code enforcement	134,400	134,400	120,161	14,239
Health and human services	1,800	1,800	1,560	240
Rubbish collection	790,800	790,800	789,411	1,389
Public works	2,722,000	2,722,000	2,223,220	498,780
Library	350,000	350,000	349,900	100
Parks and recreation	397,200	397,200	198,864	198,336
Employee benefits	211,700	211,700	210,447	1,253
Insurance	108,000	108,000	98,547	9,453
Miscellaneous	30,000	30,000	3,473	26,527
Total expenditures	<u>7,083,000</u>	<u>7,083,000</u>	<u>6,323,554</u>	<u>759,446</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(101,200)</u>	<u>(101,200)</u>	<u>427,353</u>	<u>528,553</u>
Other Financing Sources (Uses):				
Operating transfers in	166,000	166,000	165,056	(944)
Operating transfers out	(400,000)	(400,000)	(400,000)	-
Total other financing sources (uses)	<u>(234,000)</u>	<u>(234,000)</u>	<u>(234,944)</u>	<u>(944)</u>
Net Change in Fund Balance	<u>\$ (335,200)</u>	<u>\$ (335,200)</u>	<u>\$ 192,409</u>	<u>\$ 527,609</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

HIGHWAY AID FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents and royalties	\$ 100	\$ 100	\$ 82	\$ (18)
Intergovernmental revenues	213,700	213,700	218,807	5,107
Total revenues	213,800	213,800	218,889	5,089
Expenditures:				
Public works	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	213,800	213,800	218,889	5,089
Other Financing Sources (Uses):				
Operating transfers out	(216,000)	(216,000)	(218,056)	(2,056)
Net Change in Fund Balance	<u>\$ (2,200)</u>	<u>\$ (2,200)</u>	<u>\$ 833</u>	<u>\$ 3,033</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SEWER FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 200	\$ 200	\$ 1,750	\$ 1,550
Sewer fees	2,146,800	2,146,800	2,158,553	11,753
Total revenues	2,147,000	2,147,000	2,160,303	13,303
Expenditures:				
Administration	34,800	34,800	28,930	5,870
Sewer system	2,066,700	2,066,700	1,493,796	572,904
Total expenditures	2,101,500	2,101,500	1,522,726	578,774
Excess (Deficiency) of Revenues Over Expenditures	45,500	45,500	637,577	592,077
Other Financing Sources (Uses):				
Operating transfers out	(381,400)	(381,400)	(378,260)	3,140
Net Change in Fund Balance	<u>\$ (335,900)</u>	<u>\$ (335,900)</u>	<u>\$ 259,317</u>	<u>\$ 595,217</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF PLAN NET POSITION FIDUCIARY FUNDS - PENSION TRUST FUNDS

DECEMBER 31, 2016

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Assets				
Cash and cash equivalents	\$ 544,792	\$ 562,843	\$ -	\$ 1,107,635
Investments:				
Corporate bonds	841,008	684,095	-	1,525,103
Municipal bonds	1,241,280	1,025,897	-	2,267,177
Registered investment companies	-	-	6,434	6,434
Equities	4,338,376	3,573,134	-	7,911,510
Other:				
Accrued income receivable	29,498	24,113	-	53,611
Total Assets	6,994,954	5,870,082	6,434	12,871,470
Liabilities				
Pension benefits payable	-	-	-	-
Net Position Restricted For Pension Benefits	\$ 6,994,954	\$ 5,870,082	\$ 6,434	\$ 12,871,470

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUNDS - PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2016

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Additions:				
Contributions:				
Employer (including state aid)	\$ 35,992	\$ 167,392	\$ 2,299	\$ 205,683
Employee	55,385	54,893	2,299	112,577
Total contributions	91,377	222,285	4,598	318,260
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	403,002	327,887	316	731,205
Interest and dividends	189,413	155,690	-	345,103
Asset exchange	6,210	4,651	-	10,861
	598,625	488,228	316	1,087,169
Less investment expense	39,015	32,914	-	71,929
Net investment income (loss)	559,610	455,314	316	1,015,240
Total additions	650,987	677,599	4,914	1,333,500
Deductions:				
Benefits	167,505	293,887	-	461,392
Administrative expense	2,951	2,960	-	5,911
Total deductions	170,456	296,847	-	467,303
Change in Net Position	480,531	380,752	4,914	866,197
Net position - beginning	6,514,423	5,489,330	1,520	12,005,273
Net position - ending	<u>\$ 6,994,954</u>	<u>\$ 5,870,082</u>	<u>\$ 6,434</u>	<u>\$ 12,871,470</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Borough of Fox Chapel (Borough) is located in western Pennsylvania, approximately six miles northeast of the City of Pittsburgh. The Borough was incorporated as a local government in 1934 and is governed under the Borough Code adopted by the Commonwealth of Pennsylvania in 1966. The Borough operates under the council-manager form of government. The Borough provides services in many areas to its residents, including various general government services, public safety, public works, recreation, community development, and sanitation.

Following is a brief description of the component units in accordance with applicable guidance, which is included within the financial reporting entity:

The Fox Chapel Sanitary Authority (Sanitary Authority) is blended into the Borough's financial statements because of the significance of its operational and financial relationship with the Borough. The Borough created the Sanitary Authority in 1960 for the purpose of financing and constructing a sanitary sewerage system throughout the Borough. The system is operated and maintained by the Borough in accordance with the Agreement of Lease dated May 1, 1960, as supplemented. The Borough makes lease payments in accordance with the lease sufficient to pay all debt service on outstanding debt. The Sanitary Authority, which is governed by a five-member Board appointed by the Council, principally serves the residents of the Borough.

The Fox Chapel Library Authority (Library Authority) is blended into the Borough's financial statements because of the significance of its operational and financial relationship with the Borough. The Borough created the Library Authority in 2009 for the purpose of assisting with the financing and constructing of a new library. The Library Authority is operated and maintained by the Borough in accordance with the Agreement of Lease dated May 15, 2010. The Library Authority, which is governed by a five-member Board appointed by the Council, principally serves the residents of the Borough.

Government-Wide and Fund 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 non-fiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a particular function or segment. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deferred inflows of resources reported on the governmental funds balance sheet arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when resources are received by the Borough before it has legal claim to them, as when intergovernmental funds are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Borough has a legal claim to the resources, the unavailable revenue is removed as a deferred inflow of resources or the unearned revenue is removed as a liability and the revenue is recognized.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

The accounts of the Borough are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures or expenses, as appropriate.

Governmental Funds:

The Borough presents the following major governmental funds:

General Fund

The General Fund is the principal operating fund of the Borough, which is used to account for all financial transactions except those required to be accounted for in other funds.

Highway Aid Fund

The Highway Aid Fund accounts for state aid revenues (liquid fuels tax) received from the Pennsylvania Department of Transportation for building and improving roads and bridges within the Borough.

Sewer Fund

The Sewer Fund was established to account for the operations of the Borough's sanitary sewer facilities. Such operations include collection of sewer user fees and expenditures for the operation and maintenance of the system, as well as, payments to the Allegheny County Sanitary Authority for treatment services provided.

Sanitary Authority Fund

The Sanitary Authority Special Revenue Fund reports the operations of the Sanitary Authority's General Fund.

Capital Reserve Fund

The Capital Reserve Fund was established to control funds designated for specific capital expenditures and funds appropriated by the Council to provide for additions to and replacements of operating equipment and other capital assets.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Land Acquisition Fund

The Land Acquisition Fund was established for the accumulation of funds for future capital asset acquisition and construction by the Borough.

Interceptor Fund

The Interceptor Fund was established in 2014 to accumulate funds for a 2018 capital improvement to the Squaw Run Interceptor as will be mandated by the Pennsylvania Department of Environmental Protection and the Allegheny County Health Department. A special quarterly sewer fee was adopted in 2014 to fund the project.

Fire Truck Fund

The Fire Truck Fund was established in 2015 to accumulate funds for the future purchase of a new fire truck through an annual appeal to Borough residents and institutions.

K-9 Fund

The K-9 Fund was established in 2016 to accumulate donations for the future replacement of the K-9 or K-9 vehicle.

Library Authority Fund

The Library Authority Fund reports the operations of the Library Authority's General Fund. Such operations include receipt of lease payments.

Fiduciary Funds:

Pension Trust Funds

The Pension Trust Funds are used to account for assets held by the Borough in a trustee capacity for employee retirement. The Borough maintains three pension plans: defined benefit police, defined benefit, and defined contribution for general employees.

Budgets and Budgetary Accounting

An appropriated budget is adopted annually for the following funds on a basis consistent with accounting principles generally accepted in the United States of America: General, Highway Aid, Sewer, Interceptor, Capital Reserve, and Land Acquisition. Budgetary control for various funds of the Library Authority is maintained through the lease agreement with the

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Borough. The Sanitary Authority Special Revenue Fund, Fire Truck Capital Project Fund, K-9 Fund, and Library Authority Special Revenue Fund have no legally adopted budget.

The Borough adopts its budget in accordance with the requirements of the Borough Code, in particular Article XIII; Act 185; the Local Government Unit Debt Act; and Act 511, the Local Tax Enabling Act. Specific requirements include:

1. The fiscal year shall coincide with the calendar year.
2. The budget for the following year must be adopted by the Council by December 31 of the current year.
3. Preparation of the budget must begin at least thirty (30) days prior to its adoption.
4. The proposed budget must be available for public inspection ten (10) working days prior to its adoption.
5. After January 1, the budget may not be amended nor may the tax rates be changed except that amendments are permitted up to February 15 in the years following municipal elections.
6. Council may, in its reasonable discretion, modify the budget after its final adoption provided such modifications are within the current year's revenues or such additional monies as required therefore are promptly made available through borrowing as allowed by law. No modifications were made to the 2016 budget.

All annual appropriations lapse at year-end. The level of control (level at which expenditures cannot legally exceed appropriations) over expenditures in budgeted funds is the surplus or deficit of the fund as a whole.

Investments

Investments are stated at fair value. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair Value Measurements

The Borough categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Inventory

Inventory, consisting of mainly road department materials, is recorded as an expenditure when purchased. The inventory balance at December 31, 2016 was not material.

Interfund Advances and Transfers

Interfund advances receivable are considered to be available, expendable resources, and are reported as assets in the "due from other funds" account. Interfund advances payable are considered to be committed expendable resources and are reported as liabilities in the "due to other funds" accounts. Interfund transactions occur for various reasons and are eliminated from the government-wide financial statements.

The balances at December 31, 2016 are as follows:

	Due To	Due From
Sewer Fund	\$ 22,560	\$ -
Interceptor Fund	-	22,560
	<u>\$ 22,560</u>	<u>\$ 22,560</u>
	Transfer In	Transfer Out
General Fund	\$ 165,056	\$ 400,000
Highway Aid Fund	-	218,056
Sewer Fund	-	378,260
Capital Reserve Fund	466,100	-
Interceptor Fund	365,160	-
	<u>\$ 996,316</u>	<u>\$ 996,316</u>

Additionally, as described in Note 6, the interfund advance in the amount of \$554,200 and interest income of \$36,823 has been eliminated from the government-wide financial statements.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Compensated Absences

A liability for compensated absences is determined by the payments which would be available to employees if they would leave or retire from the Borough. These amounts are reflected as long-term liabilities in the government-wide statements unless retirements are likely within the upcoming fiscal year. Costs associated with retirements in the immediate succeeding year are reflected as current liabilities. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Net Position

The government-wide financial statements are required to report three components of net position:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes funds that are legally restricted for road construction/maintenance and sewage infrastructure.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Borough Council. Such commitment is made via a Borough Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Borough Council resolution. The Borough currently does not have any committed funds.
- Assigned – This category represents intentions of the Borough Council to use the funds for specific purposes. Such assignment is made by the Borough Manager and Finance Director jointly. This category includes amounts set aside to balance the 2017 budget, capital purchases and construction, and the K-9 program.
- Unassigned – This category represents all other funds not otherwise defined.

The Borough's policy is to use funds in the order of the most restrictive to the least restrictive.

Deficit Fund Balance

The Library Authority has a deficit fund balance as a result of spending proceeds of the interfund advance due to the Land Acquisition Fund. This deficit will be funded by future lease rental payments received from the Community Library Association (CLA).

Property Held for Sale

Property held for sale represents property purchased by the Borough which is not being used for Borough operations and, therefore, is not considered a capital asset.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Capital Assets

Capital assets, which include land, buildings and improvements, furniture, machinery, equipment, infrastructure, and vehicles, are recorded at cost. To the extent the Borough's capitalization threshold of \$500 for non-infrastructure depreciable assets and \$500,000 per system for depreciable infrastructure assets is met, capital outlays are recorded and depreciated using the straight-line, half-year method over the following estimated useful lives:

Buildings and improvements	10 - 40 years
Furniture and fixtures	7 - 10 years
Machinery and equipment	10 - 20 years
Infrastructure	10 - 50 years
Vehicles	2 - 20 years

Maintenance and repairs are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Adoption of Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*," was adopted during the current year by the Borough. This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 76, "*Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*," was adopted during the current year by the Borough. This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55. This statement had no impact on the Borough's financial statements for the year ended December 31, 2016.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*," was adopted in the current year by the Borough. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 2.

Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 80 (Component Units), 81 (Split-Interest Agreements), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), and 85 (Omnibus 2017). Management has not yet determined the impact of these statements on the Borough's financial statements.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. government obligations, short term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes also allow the pooling of governmental funds for investment purposes. The deposit and investment policy of the Borough adheres to state statutes. Governmental funds are either maintained in demand deposits and certificates of deposit or invested with the Pennsylvania Local Government Investment Trust (PLGIT). There were no deposit or investment transactions during the year that were in violation of either the state statutes or the Borough's policy.

Deposits

The following is a description of the Borough's deposit risks:

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough's deposit policy limits the instruments which funds can be invested in to those requirements of the law as governed by the Pennsylvania Borough Code and the Pennsylvania Fiscal Code. As of December 31, 2016, \$500,000 of the Borough's \$4,983,673 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$4,483,673 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

institution's name. These deposits have carrying amounts of \$4,664,803 as of December 31, 2016.

Investments

The Borough's cash equivalent investments in PLGIT are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The Borough's position in the external investment pool is the same as the value of the pool shares and is reported at amortized cost, which approximates fair value. PLGIT activities are invested directly in a portfolio of securities, which are held by a third-party custodian. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania. The Borough can withdraw funds from the external investment pool without limitation or fees upon adequate notice.

As of December 31, 2016, the PLGIT bank and book balances totaled \$801,541, which are considered to be a cash equivalent for presentation on the statement of net position and governmental funds balance sheet.

The following is a description of the Borough's investment risks:

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Borough has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2016, investments in PLGIT have received a AAA rating from Standard & Poor's.

Interest Rate Risk – The Borough has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments have an average maturity of less than one year.

Pension Trust Fund

The Pension Trust Funds' investments are held separately from those of other Borough funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The Borough maintains investment policies that summarize the investment philosophy of the Borough and establishes investment guidelines and performance objectives for both the Police and General Employees' Pension Plans.

The Pension Trust Funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near-term and that such a change could materially affect the amount reported on the combined statement of net position.

As of December 31, 2016, the Borough had the following investments in its Pension Trust Funds:

Cash or Investment Type	Fair Value	Investment Maturities from December 31, 2016			
		Less Than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Corporate bonds	\$ 1,525,103	\$ -	\$ 791,353	\$ 733,750	\$ -
Municipal bonds	2,267,177	114,960	1,209,940	822,219	120,058
Total fixed income investments	3,792,280	\$ 114,960	\$ 2,001,293	\$ 1,555,969	\$ 120,058
Money market funds	1,107,635				
Corporate common stocks	7,911,510				
Registered investment companies	6,434				
Total cash and other investments	9,025,579				
Total cash and investments reported on the statement of plan net position	\$ 12,817,859				

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

The Borough's pension trust funds categorize its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The pension trust funds have the following recurring fair value measurements at December 31, 2016:

<u>Investments by Fair Value Level</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
Corporate bonds, municipal bonds, and mutual funds	\$ 3,792,280	\$ 3,792,280	\$ -	\$ -
Equities:				
Health Care	1,562,229	1,562,229	-	-
Industrials	1,222,667	1,222,667	-	-
Information technology	1,040,352	1,040,352	-	-
Consumer staples	907,704	907,704	-	-
Financial	839,456	839,456	-	-
Energy	661,303	661,303	-	-
Materials	649,910	649,910	-	-
Telecommunication services	578,533	578,533	-	-
Consumer discretionary	449,356	449,356	-	-
Total equities	7,911,510	7,911,510	-	-
Registered investment companies	6,434	6,434	-	-
Total Investments	11,710,224	11,710,224	-	-
Cash and cash equivalents:				
Money market funds	1,107,635			
Total Cash, Cash Equivalents, and Investments in Combined Statement of Net Position	\$ 12,817,859			

The following is a description of the Pension Trust Funds' investment risks:

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds formal investment policy limits its fixed income investment choices to a rating of median or better based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2016, 100% of the Pension Trust Funds' investments in money market funds received an AAAM rating from Standard & Poor's as of the latest rating available.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

As of December 31, 2016, the Borough had the following credit quality distribution for fixed income investments with credit exposure:

<u>Rating (1)</u>	<u>Percentage of Total Fixed Income Investments with Credit Exposure</u>
AAA	6.0%
AA1	19.0%
AA2	13.0%
AA3	11.0%
A1	3.0%
A2	2.0%
A3	6.0%
BAA1	9.0%
BAA2	13.0%
BAA3	10.0%
Not rated	8.0%
Subtotal	<u>100.0%</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Pension Trust Funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The Pension Trust Funds do not have a formal deposit or investment policy for custodial credit risk. The Borough's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2016, the Borough's entire pension cash, cash equivalents, and investment balance of \$12,817,859 (bank and book balance) was exposed to custodial credit risk. All of the Borough's Pension Trust Fund investments were uninsured and held by the counterparty. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up to \$250,000 in cash, in the event the counterparty fails, owing the Borough cash and securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the value of investments. The formal pension investment policies establish limits and requirements for diversification that serve to mitigate some of the investment risk involved.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. CAPITAL ASSETS

A summary of capital asset transactions during 2016 is as follows:

	January 1, 2016	Additions	Disposals	December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 8,825,586	\$ -	\$ -	\$ 8,825,586
Construction in progress	86,380	28,527	-	114,907
Total capital assets, not being depreciated	8,911,966	28,527	-	8,940,493
Capital assets, being depreciated:				
Buildings and improvements	2,194,836	-	-	2,194,836
Furniture and equipment	398,458	6,425	1,450	403,433
Machinery and equipment	1,103,003	295,043	137,598	1,260,448
Vehicles	2,815,202	75,000	58,858	2,831,344
Infrastructure	2,691,972	903,420	-	3,595,392
Total capital assets, being depreciated	9,203,471	1,279,888	197,906	10,285,453
Less accumulated depreciation for:				
Buildings and improvements	1,207,509	43,748	-	1,251,257
Furniture and equipment	315,145	20,182	1,450	333,877
Machinery and equipment	715,252	60,006	137,598	637,660
Vehicles	1,340,022	173,403	43,858	1,469,567
Infrastructure	349,015	209,579	-	558,594
Total accumulated depreciation	3,926,943	506,918	182,906	4,250,955
Total capital assets, being depreciated, net	5,276,528	772,970	15,000	6,034,498
Total capital assets, net	\$ 14,188,494	\$ 801,497	\$ 15,000	\$ 14,974,991

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Depreciation expense for capital assets was allocated to the various functions as follows:

Administration	\$ 11,286
Borough building	42,769
Police department	42,114
Fire department	73,875
Code enforcement	262
Rubbish collection	1,686
Public works	326,756
Sewer system	6,143
Parks and recreation	<u>2,027</u>
Total depreciation expense	<u><u>\$ 506,918</u></u>

4. REAL ESTATE TAXES

Real estate taxes attach as an enforceable lien on property as of January 1 and are levied on June 1. These taxes are billed and collected by an elected tax collector, who deputizes a professional tax collection company. Taxes paid through July 31 are reduced by a 2% discount. Amounts paid after September 30 are assessed a 10% penalty.

The Borough is permitted by the Borough Code of Pennsylvania to levy real estate taxes, not exceeding 30 mills for general Borough purposes. For 2016, Borough real estate taxes were levied at the rate of 2.50 mills for general purposes. The millage is applied to assessed market valuation as determined periodically by Allegheny County. Total assessed valuation, which approximates 100% of market value of assessed properties within the Borough, was \$1,181,042,128 for 2016.

5. COMPENSATED ABSENCES

The following is a summary of the change in compensated absences of the Borough for the year ended December 31, 2016:

	<u>Amount Payable</u> <u>as of January 1, 2016</u>	<u>Change in</u> <u>Payable</u>	<u>Amount Payable</u> <u>as of December 31, 2016</u>
Compensated absences	<u>\$ 173,897</u>	<u>\$ 10,288</u>	<u>\$ 184,185</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

6. INTERFUND ADVANCE

During 2010, the Library Authority borrowed money from the Borough's Land Acquisition Fund, which was used to construct a new library adjacent to the Borough Building. Additional funds were provided by CLA. Such funds were raised during a public capital campaign. The total advance to complete the construction was \$2,574,200. In addition, interest on the advance will be paid at the rate of 3.5%. Repayment of the advance began on February 1, 2012. Principal and interest payments made in 2016 were \$430,000 and \$36,823, respectively. Future payments are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u> <u>Payment</u>	<u>Interest</u> <u>Payment</u>	<u>Total</u> <u>Payment</u>
2017	<u>\$ 554,200</u>	<u>\$ 21,924</u>	<u>\$ 576,124</u>

7. PENSION PLANS

Summary of Significant Accounting Policies

Financial information of the defined benefit General Employee and Police pension plans (Plans) and the defined contribution General Employee plan are presented on the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans. Employer contributions to the Plans are recognized when due as required by applicable law. Investments of the Plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

Plan Descriptions

The Plans are single-employer, defined benefit plans established under the provisions of Act 205 of 1984 of the Commonwealth of Pennsylvania (Act). The Plans cover all full-time employees. The Plans are governed by Borough Council, which has delegated the authority to manage certain Plan assets to the Borough Manager. Plan provisions and contribution requirements are established and may be amended by Borough Council. The activity of the Plans is reported as the Pension Trust Funds in the accompanying financial statements. Separate plan financial statements are not available. In 2014, Council added a defined contribution (DC) sub-plan to the General Employees Plan and closed the defined benefit (DB) sub-plan to new participants. All full-time, non-uniform new hires will be directed into the defined contribution plan.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

At December 31, 2016, Plan membership consisted of the following:

	General Employees DB	General Employees DC	Police
Inactive plan members or beneficiaries currently receiving benefits	11	-	9
Inactive plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	13	1	11
Total plan members	24	1	20

Benefits Provided – General Employees Defined Benefit Plan

Participants in the General Employees Defined Benefit Plan are 100% vested after three years of service. The General Employees Defined Benefit Plan provides the following benefits:

Retirement Benefit – A participant is entitled to begin receiving retirement benefits after attaining age 65 and completing 10 years of service. The monthly retirement benefit is 50% of the participant's final average monthly compensation earned during the last 36 months of employment. Each participant who was hired prior to January 1, 1992 and who shall retire after completion of at least 40 years of service may be eligible to receive a monthly service increment equal to 1.25% of the participant's final average monthly compensation for each completed year of service in excess of 40 years.

Disability Benefit – If a participant becomes totally and permanently disabled and has completed five years of service, the participant is entitled to receive a monthly disability benefit. The scheduled benefit is 50% of the participant's salary at the time the disability was incurred.

Death Benefit – If a participant's death occurs before retirement eligibility, the participant's beneficiary receives a refund of contributions made by the participant, plus interest. If a participant shall die as a direct result and in the service of employment, a survivor benefit shall be paid to the surviving spouse in an amount equal to 50% of the participant's salary as of the date of death. If a participant shall die after completing at least three years of service, a survivor benefit shall be paid to the surviving spouse in an amount equal to the survivor portion of the participant's accrued benefit, reduced for early commencement, converted to a joint and fifty percent annuity. This survivor benefit shall be paid monthly until the death of the spouse shall occur. If a participant shall die after the participant is eligible to retire but before the retirement benefits commence, a survivor benefit shall be paid to the beneficiary as if the participant had retired and was receiving a normal retirement benefit. Such benefit

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

shall be paid monthly until the earlier of the payment of 120 monthly payments have been paid or the death of the beneficiary shall occur.

Benefits Provided - General Employees Defined Contribution Plan

All participants in the General Employees Defined Contribution Plan shall at all times be fully vested in his/her participant contribution account and rollover amounts. The participant shall be fully vested in the employer contribution account after three years of service. The General Employees Defined Contribution Plan provides the following benefits:

Retirement Benefit – A participant is entitled to begin receiving retirement benefits after attaining age 65. The scheduled benefit shall be equal to 100% of his/her account as of the appropriate valuation date coincident with or following the participant's attainment of age 65. The benefit will be paid as a single-sum distribution.

Death Benefit – Upon the beneficiary's election, benefits payable by reason of the death of the participant shall be paid within one year of the date of the participant's death in a single sum.

The General Employees Defined Contribution Plan had assets of \$6,434 at December 31, 2016.

Benefits Provided – Police Plan

Participants in the Police Plan are 100% vested after 12 years of service. The Police Plan provides the following benefits:

Retirement Benefit – A participant is entitled to begin receiving retirement benefits after completing 25 years of service and attaining age 55. The scheduled monthly retirement benefit is 50% of the participant's final average monthly compensation earned during the last 36 months of employment.

Disability Benefit – If a participant becomes totally and permanently disabled in the line of duty and which qualifies for Social Security disability, the participant is entitled to receive a monthly disability benefit. The scheduled benefit is 50% of the participant's salary at the time the disability was incurred, offset by Social Security disability benefits for the same injury.

Death Benefit – If a participant's death occurs before retirement eligibility, the participant's beneficiary receives a refund of contributions made by the participant, plus interest, reduced by the amount of any disability benefits the participant may have received. If a participant

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

shall die after commencement of benefit payments or after becoming eligible to receive benefit payments, a survivor benefit shall be paid to the surviving spouse or dependent children of the participant equal to 50% of the benefit the participant was receiving or was eligible to receive as of the date of death. The survivor benefit shall be paid to the surviving spouse until the date of death of the surviving spouse. Upon the death of the surviving spouse, the survival benefit shall be paid monthly in equal shares to the surviving dependent children of the deceased participant until attainment of age 18 or if attending college, until attaining the age of 23.

Contributions and Funding Policy

The Plans are funded by the Borough on an annual basis pursuant to the provisions of the Act. The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation, must be funded by the Borough and could include employee contributions.

Under the terms of the Plans, all participating employees are required to contribute up to 5% of total wages reported by the Borough, unless waived by the Borough. Contributions for the Police Plan were 5% in 2016. Contributions for the General Employees Plan were also 5% for 2016 for both the DB and DC plans.

During 2016, the required MMOs for the Police Plan and General Employees Defined Benefit Plan were \$35,992 and \$167,392, respectively. During 2016, the Borough contributed \$2,299 to the General Employees Defined Contribution Plan.

Administrative costs, including investment, custodial, trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Net Pension Liability (Asset)

The components of the net pension liability (asset) of the Plans at December 31, 2016 were as follows:

	General Employees	Police
Total pension liability	\$ 6,167,226	\$ 6,035,874
Plan fiduciary net position	(5,870,082)	(6,994,954)
Net pension liability (asset)	<u>\$ 297,144</u>	<u>\$ (959,080)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	<u>95.18%</u>	<u>115.89%</u>

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the Borough's Plans for the year ended December 31, 2016 were as follows:

General Employees DB Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015	\$ 5,903,112	\$ 5,489,330	\$ 413,782
Changes for the year:			
Service cost	144,762	-	144,762
Interest	413,239	-	413,239
Differences between expected and actual	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	167,392	(167,392)
Contributions - employee	-	54,893	(54,893)
Net investment income	-	488,228	(488,228)
Benefit payments, including refunds	(293,887)	(293,887)	-
Administrative expense	-	(35,874)	35,874
Other changes	-	-	-
Net changes	<u>264,114</u>	<u>380,752</u>	<u>(116,638)</u>
Balances at December 31, 2016	<u>\$ 6,167,226</u>	<u>\$ 5,870,082</u>	<u>\$ 297,144</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Police Pension Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015	\$ 5,668,182	\$ 6,514,423	\$ (846,241)
Changes for the year:			
Service cost	134,755	-	134,755
Interest	400,442	-	400,442
Differences between expected and actual	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	35,992	(35,992)
Contributions - employee	-	55,385	(55,385)
Net investment income	-	598,625	(598,625)
Benefit payments, including refunds	(167,505)	(167,505)	-
Administrative expense	-	(41,966)	41,966
Other changes	-	-	-
Net changes	367,692	480,531	(112,839)
Balances at December 31, 2016	<u>\$ 6,035,874</u>	<u>\$ 6,994,954</u>	<u>\$ (959,080)</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2015, and rolled forward to December 31, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

	<u>General Employees DB</u>	<u>Police</u>
Actuarial assumptions:		
Investment rate of return	7.0%	7.0%
Projected salary increases	4.5%	5.0%
Underlying inflation rate	3.0%	3.0%

Actuarial assumptions are based on an actuarial experience study for the period January 1, 2013 to December 31, 2014 for the Police Plan and January 1, 2014 to December 31, 2014 for the General Employees DB Plan, with a roll-forward to December 31, 2016 for both Plans.

Mortality assumptions for the General Employees DB Plan are based on the RP 2000 Combined Healthy Mortality Table, with rates set forward five years for disabled lives. Mortality assumptions for the Police Plan are based on the RP 2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward five years for disabled members. Mortality improvement for both Plans is projected with 75% of scale AA.

Changes in Actuarial Assumptions – Based upon an actuarial valuation performed as of January 1, 2015 for the Police Plan and the General Employees DB Plan, the assumed interest rate was changed from 7.5% to 7.0% in compliance with Borough Council's expectation of future investment return. This assumption change decreased the net pension liability (asset) by \$286,185 in the Police Plan and increased the net pension liability (asset) by \$259,303 in the General Employees DB Plan.

Investment Policy – The Plans' policies in regard to the allocation of invested assets is established and may be amended by Borough Council by a majority vote of its members. It is the policy of Borough Council to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Long-Term Expected Rate of Return – The long-term expected rate of return on 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plans' target asset allocation as of December 31, 2016:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return	
	General Employees	Police	General Employees	Police
Domestic equity	65.0%	65.0%	5-7%	5-7%
Fixed income	30.0%	30.0%	2-4%	2-4%
Cash and equivalents	5.0%	5.0%	0-1%	0-1%
	<u>100.0%</u>	<u>100.0%</u>		

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2016, the annual money-weighted rate of return on the General Employees and Police Pension Plan investments, net of investment expense, was 9.03% and 9.25%, respectively.

Concentrations – There were no individual investments that constituted more than 5% of plan net position as of December 31, 2016.

Discount Rate – The discount rate used to measure the total pension liability for both Plans was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Borough's contributions will be made based on the yearly MMO calculation. Based on those assumptions, the Plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plans calculated using the discount rates described above, as well as what the Plans' net pension liabilities (assets) would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
General Employees Plan	\$ 897,092	\$ 297,144	\$ (225,838)
Police Plan	\$ (258,829)	\$ (959,080)	\$ (1,551,580)

Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the Borough recognized pension expense of \$359,651. At December 31, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	General Employees	Police
<u>Deferred Outflow of Resources:</u>		
Differences between expected and actual experience	\$ -	\$ -
Changes in assumption	172,869	190,789
Net difference between projected and actual earnings on pension plan investments	246,238	294,186
Total deferred outflows of resources	<u>\$ 419,107</u>	<u>\$ 484,975</u>
	General Employees	Police
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 31,754	\$ 330,967
Changes in assumption	-	-
Net difference between projected and actual earnings on pension plan investments	87,691	117,677
Total deferred inflows of resources	<u>\$ 119,445</u>	<u>\$ 448,644</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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

<u>Year Ending December 31:</u>		
2017	\$	129,034
2018		129,034
2019		129,035
2020		<u>(51,110)</u>
Total	\$	<u><u>335,993</u></u>

8. CONTINGENT LIABILITIES

Various claims and lawsuits are pending against the Borough. The ultimate outcome of these claims and lawsuits cannot presently be determined and, accordingly, no provision for amounts arising from settlements has been made in these financial statements. In the opinion of management and legal counsel, the effect on the financial statements of potential losses on any claim and/or lawsuit should not be material.

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

In June 2013, Borough Council adopted the Administrative Consent Order (ACO) Feasibility Study Report (Report) which was then submitted to the Allegheny County Health Department (ACHD), PA DEP, and the Allegheny County Sanitary Authority (ALCOSAN). The report concluded a need for 2.6 miles of repairs of sewer pipe in the upper reaches of the sanitary sewer system and 2.5 miles of sewer main upsizing. The cost of these repairs totals \$10.7 million. Borough Council concluded that work on the repairs to the sewer pipes should begin in 2014 and progress until completed. Borough Council has calculated the sewer rates needed to fund these projects and increased the rates accordingly. ACHD has verified that the Feasibility Study Report meets the criteria required. The 2004 Administrative Consent Order expired on March 30, 2015.

A part of the ALCOSAN Consent Decree negotiations relates to “Regionalization” in which ALCOSAN proposes to assume ownership, operation, maintenance and potential future wet weather capacity augmentation responsibilities for “multi-municipal conveyance sewers

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

greater than 10” in diameter.” The current “Regionalization” scope of work includes a significant amount of trunk sewers in Fox Chapel including those referenced in the June 2013 Report. Therefore, the Borough may need to revise its Feasibility Study Report. In December 2014, Fox Chapel asked the Allegheny County Health Department for an extension to the ACO. In response, the several requests from municipalities for an ACO extension, ACHD/PADEP concluded that the ACO has lapsed and required the municipalities to sign a Phase I Consent Order and Agreement (Phase I COA) with the ACHD. Fox Chapel signed the Phase I COA in December 2015. The Phase I COA, following specific provisions outlined therein, requires a “Source Flow Reduction Study” be conducted in the municipal collection/conveyance system in fiscal years 2016/2017 with submittal to the ACHD by December 2017. On November 30, 2016, the Borough submitted a progress report describing actions taken toward achieving compliance with Phase 1 COA. The AHCD, by letter dated January 13, 2017, determined that the progress report met the minimum requirements of the COA.

9. COOPER-SIEGEL COMMUNITY LIBRARY

During 2010, the Borough loaned \$1,250,000 from the Land Fund to the Library Authority to assist with the costs of construction. In 2011, the Borough loaned an additional \$1,324,200 for a total loan of \$2,574,200.

Also in 2010, the Library Authority entered into a lease rental agreement with CLA for use of the library. Annual payments to the Library Authority are scheduled through 2017. CLA will have the option to purchase the library after the final payment for \$1. The Borough will assist CLA with the payments to the Library Authority up to \$1,450,000. As of December, 31, 2016, cumulative assistance payments have been made in the amount of \$929,700. The lease receivable from CLA of \$554,200 is included on the statement of net position.

As part of an agreement dated April 15, 2010, the Borough agreed to contribute to CLA the sum of not less than \$350,000 per year for the operation of the library. In the year 2017, this minimum amount shall increase to \$380,000. The Borough’s commitment may be reduced in the event contributions by other municipalities result in the Borough’s appointees to the Board of CLA having less than a majority vote on the Board of CLA.

Per the lease agreements dated April 15, 2010 between CLA, the Library Authority, and the Borough, CLA will pay the Library Authority, who will pay the Borough, \$30,000 per year in site rental payments for the term of the lease.

**Required Supplementary
Information – Pension Plan
Disclosures**

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

GENERAL EMPLOYEES PLAN

YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:			
Service cost	\$ 144,762	\$ 138,528	\$ 120,711
Interest	413,239	396,681	392,362
Differences between expected and actual experience	-	(47,630)	-
Changes of assumptions	-	259,303	-
Benefit payments, including refunds of member contributions	(293,887)	(315,537)	(298,768)
Net Changes in Total Pension Liability	264,114	431,345	214,305
Total Pension Liability - Beginning	5,903,112	5,471,767	5,257,462
Total Pension Liability - Ending (a)	<u>\$ 6,167,226</u>	<u>\$ 5,903,112</u>	<u>\$ 5,471,767</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 167,392	\$ 198,297	\$ 154,546
Contributions - member	54,893	55,140	54,816
Net investment income	488,228	(55,569)	405,315
Benefit payments, including refunds of member contributions	(293,887)	(315,537)	(298,768)
Administrative expense	(35,874)	(6,522)	(2,652)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	380,752	(124,191)	313,257
Plan Fiduciary Net Position - Beginning	5,489,330	5,613,521	5,300,264
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,870,082</u>	<u>\$ 5,489,330</u>	<u>\$ 5,613,521</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ 297,144</u>	<u>\$ 413,782</u>	<u>\$ (141,754)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>95.18%</u>	<u>92.99%</u>	<u>102.59%</u>
Covered Employee Payroll	<u>\$ 1,077,766</u>	<u>\$ 1,096,317</u>	<u>\$ 1,060,144</u>
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	27.57%	37.74%	-13.37%

See accompanying notes to schedules of
required supplementary information - pension plan.

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

POLICE PLAN

YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:			
Service cost	\$ 134,755	\$ 143,036	\$ 145,430
Interest	400,442	376,262	390,672
Differences between expected and actual experience	-	(496,451)	-
Changes of assumptions	-	286,185	-
Benefit payments, including refunds of member contributions	(167,505)	(163,733)	(150,753)
Net Changes in Total Pension Liability	367,692	145,299	385,349
Total Pension Liability - Beginning	5,668,182	5,522,883	5,137,534
Total Pension Liability - Ending (a)	<u>\$ 6,035,874</u>	<u>\$ 5,668,182</u>	<u>\$ 5,522,883</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 35,992	\$ 56,643	\$ 50,760
Contributions - member	55,385	53,762	51,767
Net investment income	598,625	(67,563)	479,168
Benefit payments, including refunds of member contributions	(167,505)	(163,733)	(150,753)
Administrative expense	(41,966)	(6,495)	(2,478)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	480,531	(127,386)	428,464
Plan Fiduciary Net Position - Beginning	6,514,423	6,641,809	6,213,345
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,994,954</u>	<u>\$ 6,514,423</u>	<u>\$ 6,641,809</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ (959,080)</u>	<u>\$ (846,241)</u>	<u>\$ (1,118,926)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>115.89%</u>	<u>114.93%</u>	<u>120.26%</u>
Covered Employee Payroll	<u>\$ 1,075,239</u>	<u>\$ 1,052,638</u>	<u>\$ 1,019,032</u>
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-89.20%	-80.39%	-109.80%

See accompanying notes to schedules of
required supplementary information - pension plan.

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULES OF BOROUGH'S CONTRIBUTIONS AND INVESTMENT RETURNS

LAST TEN YEARS

GENERAL EMPLOYEES PLAN:

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>Schedule of Borough's Contributions</u>										
Actuarially determined contribution	\$ 167,392	\$ 158,297	\$ 154,546	\$ 142,096	\$ 140,641	\$ 112,908	\$ 107,744	\$ 28,444	\$ 21,839	\$ 21,490
Contributions in relation to the actuarially determined contribution	167,392	198,297	154,546	142,096	140,641	179,643	107,744	28,444	21,839	21,490
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,735)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,077,766</u>	<u>\$ 1,096,317</u>	<u>\$ 1,060,144</u>	<u>\$ 1,016,534</u>	<u>\$ 1,006,620</u>	<u>\$ 1,034,125</u>	<u>\$ 991,006</u>	<u>\$ 971,438</u>	<u>\$ 943,826</u>	<u>\$ 925,262</u>
Contributions as a percentage of covered employee payroll	15.53%	18.09%	14.58%	13.98%	13.97%	17.37%	10.87%	2.93%	2.31%	2.32%
<u>Investment Returns</u>										
Annual money-weighted rate of return, net of investment expense	9.03%	-0.42%	8.38%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

POLICE PLAN:

<u>Schedule of Borough's Contributions</u>										
Actuarially determined contribution	\$ 35,992	\$ 56,643	\$ 50,760	\$ 42,196	\$ 42,815	\$ 44,214	\$ 40,342	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	35,992	56,643	50,760	42,196	42,815	44,214	40,342	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,075,239</u>	<u>\$ 1,052,638</u>	<u>\$ 1,019,032</u>	<u>\$ 1,120,451</u>	<u>\$ 1,062,076</u>	<u>\$ 999,493</u>	<u>\$ 968,911</u>	<u>\$ 932,544</u>	<u>\$ 889,004</u>	<u>\$ 828,501</u>
Contributions as a percentage of covered employee payroll	3.35%	5.38%	4.98%	3.77%	4.03%	4.42%	4.16%	0.00%	0.00%	0.00%
<u>Investment Returns</u>										
Annual money-weighted rate of return, net of investment expense	9.25%	-0.45%	8.37%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a - Information not available prior to implementation of the GASB

See accompanying notes to schedules of
required supplementary information - pension plan.

BOROUGH OF FOX CHAPEL

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2016

The information presented in the “Required Supplementary Information – Pension Plan” was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates are as follows:

	<u>General Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2015	1/1/2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Open
Asset valuation method	4 year Smoothing	4 year Smoothing
Amortization period	12 years	N/A
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	3.00%	3.00%

Benefit Changes

General Employees Plan

No benefit changes were recognized for the January 1, 2015 actuarial valuation.

Police Plan

No benefit changes were recognized for the January 1, 2015 actuarial valuation.

BOROUGH OF FOX CHAPEL

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2016

Change in Actuarial Assumptions

General Employees Plan

As of the January 1, 2015 valuation, the assumed investment rate of return was reduced from 7.5% to 7.0% to reflect Borough Council's expectation of future investment rate of return. This assumption change increased the total pension liability by \$259,303.

Police Plan

As of the January 1, 2015 valuation, the assumed investment rate of return was reduced from 7.5% to 7.0% to reflect Borough Council's expectation of future investment rate of return. This assumption change increased the total pension liability by \$286,185.

Supplementary Information

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CAPITAL RESERVE FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 1,000	\$ 1,000	\$ 1,219	\$ 219
Miscellaneous	41,000	41,000	12,900	(28,100)
Total revenues	42,000	42,000	14,119	(27,881)
Expenditures:				
Capital outlay:				
Administration	6,900	6,900	6,425	475
Borough building	63,000	63,000	27,678	35,322
Police department	26,000	26,000	-	26,000
Public works	342,400	342,400	276,082	66,318
Total expenditures	438,300	438,300	310,185	128,115
Excess (Deficiency) of Revenues Over Expenditures	(396,300)	(396,300)	(296,066)	100,234
Other Financing Sources (Uses):				
Operating transfers in	463,100	463,100	466,100	3,000
Net Change in Fund Balance	\$ 66,800	\$ 66,800	\$ 170,034	\$ 103,234

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

LAND ACQUISITION FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 68,400	\$ 68,400	\$ 68,437	\$ 37
Expenditures:				
Capital outlay	526,000	526,000	742,356	(216,356)
Library	470,500	470,500	465,400	5,100
Total expenditures	996,500	996,500	1,207,756	(211,256)
Excess (Deficiency) of Revenues Over Expenditures	(928,100)	(928,100)	(1,139,319)	(211,219)
Net Change in Fund Balance	<u>\$ (928,100)</u>	<u>\$ (928,100)</u>	<u>\$ (1,139,319)</u>	<u>\$ (211,219)</u>

BOROUGH OF FOX CHAPEL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

INTERCEPTOR FUND

YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 1,100	\$ 1,100	\$ 2,380	\$ 1,280
Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	1,100	1,100	2,380	1,280
Other Financing Sources (Uses):				
Operating transfers in	368,300	368,300	365,160	(3,140)
Net Change in Fund Balance	<u>\$ 369,400</u>	<u>\$ 369,400</u>	<u>\$ 367,540</u>	<u>\$ (1,860)</u>