

Borough of Fox Chapel

Financial Statements and Required Supplementary and Supplementary Information

**Year Ended December 31, 2018
with Independent Auditor's Report**

MaherDuessel

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BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
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Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet - Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Highway Aid Fund	8
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Sewer Fund	9
Statement of Plan Net Position – Fiduciary Funds – Pension Trust Funds	10

BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

(Continued)

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Pension Trust Funds	11
Notes to Financial Statements	12

Required Supplementary Information:

Pension Plan Disclosures:

Schedule of Changes in the Borough's Net Pension Liability (Asset) and Related Ratios – General Employees Plan	40
Schedule of Changes in the Borough's Net Pension Liability (Asset) and Related Ratios – Police Plan	41
Schedules of Borough's Contributions and Investment Returns	42
Notes to Schedules of Required Supplementary Information – Pension Plan	43

Supplementary Information:

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Capital Reserve Fund	45
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Land Acquisition Fund	46
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Interceptor Fund	47

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, 2018, 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, 2018, 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 xxii and 40 through 44 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.

Mahe Duessel

Pittsburgh, Pennsylvania
May 20, 2019

BOROUGH OF FOX CHAPEL MANAGEMENT'S DISCUSSION AND ANALYSIS

The Borough of Fox Chapel (Borough) is located in southwestern 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. The Borough is very proud of its natural resource protection. Ten percent of all land in the Borough is park land or open space. Another 10% is made up of private school campuses, golf and tennis clubs.

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, 2018. 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, 2018.

FINANCIAL HIGHLIGHTS

- In 2018, the Borough's total net position increased by \$2.1M to \$26.0M, an increase of 8.8%.
- The Borough was awarded a performance grant of \$651,833 from the Allegheny County Sanitary Authority (ALCOSAN) for projects completed for which a significant, measurable reduction groundwater infiltration was demonstrated. These funds will be used to make further improvements to the sanitary sewer system.
- The Borough was also awarded a \$350,000 performance grant from the PA Department of Environmental Protection for recycling activities completed in prior years.
- The total fund balance of the Borough increased by \$116,079 to \$7.0M, an increase of 1.7%.
- The fund balance of the General Fund on December 31, 2018 was \$2,308,210, of which \$450,600 (20%) was assigned for use in the 2019 budget and \$1,857,610 (80%) remained unassigned and available to fund current and future projects. In 2018, the fund balance in the General Fund decreased by \$162,249, or 6.6%. However, the 2018 General Fund budget was a deficit budget where Council chose to reduce fund balance by \$444,300 so actual results surpassed budget by \$282,051.
- The Borough experienced significant flood damage from a 100-year storm event (1% probability of occurring in any given year) in July 2018 followed by excessive rain throughout the summer. In fact, 2018 was the wettest year on record for the Pittsburgh region. The repairs and continuing rain caused delays in public works installation of catch basins and underdrains in the roads to be paved. The rain also caused the paving contractor to fall behind schedule. Even considering the cost of

storm repairs, General Fund expense was under budget by \$378,738 because the paving contractor was unable to complete all of the budgeted paving due to the aforementioned rain. The Land Fund was also under budget by \$351,663 because the public works schedule coupled with the excessive rain delayed the site preparation work for the new public works facilities until 2019.

- The total assessed valuation of the Borough on December 31, 2018 was \$1,197,172,541, an increase of \$6.7M, or 0.56%, from the valuation on December 31, 2017, bringing in an additional \$10,638 in real estate tax revenue. Earned income tax and real estate tax were the primary sources of income in 2018 at 28% and 26%, respectively, followed by charges for services at 24%. In 2018, the Borough real estate tax millage was unchanged at 2.5 mills for general purposes. The maximum general millage permitted by PA Borough Code is 30 mills for general purposes.
- The earned income tax rate remained at 0.5% with 2018 accrued tax estimated to decrease by \$118,871 when compared to 2017 estimated tax, a decrease of 3.6%. Borough earned income tax collections tend to fluctuate up or down on a yearly basis with little predictability. The proximity to downtown Pittsburgh and rural nature of the Borough attracts residents with a high level of education and median household income. Fluctuations in executive compensation and bonuses, stock option execution, and retired executive deferred compensation have a significant impact on total earned income tax since the population of the Borough is only 5,400.
- In 2018, combined pension plan net position decreased by \$387,462, or 2.76%, over 2017 due to investment losses of \$273,652 and annual benefit payments that exceeded contributions by \$113,810. The defined benefit Police Plan has a net pension asset of \$974,094 and the defined benefit portion of the General Employees Plan has a net pension liability of \$508,780. The pension plan fiduciary net position as a percentage of the total pension liability for the General Employees and Police Plans was 92.55% and 114.49%, respectively. In 2014, Borough Council closed the General Employees Defined Benefit Pension Plan to new members and created a defined contribution plan for new hires. Similar changes cannot be made to the Police Plan due to PA law.
- The Borough has no outstanding debt as of December 31, 2018.
- Major capital purchases in 2018 included replacement of 3 police patrol vehicles, replacement of a pickup truck and leaf machine for public works, and replacement of the main computer server.
- Due to the deteriorating condition of the Borough's public works facilities, plans have been developed to construct new facilities at a projected cost of \$5M 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 \$713,829, changed the lot lines to add a piece of property to the public works site, and listed the home and remaining property for sale. In 2017, the home and property were sold for \$428,740, and a loss of \$312,417 was recorded (including taxes, utilities, and maintenance for 2017). However, 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 that will save construction costs and improve functionality. The purchase also provided land for 8 additional parking spaces at the library adjacent to the municipal building. Bids have been awarded for the site preparation for the new facilities with work expected to begin in spring 2019. In 2019, the Borough will borrow \$5M to construct a new public works building, renovate an existing building and remove an existing building.

- 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 2018 Council increased the scope of the road paving program by over \$700,000 in storm drainage materials (installed by Borough crews) and contracted paving. 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 several hundred thousand dollars per year doing the drainage work in-house rather than paying a contractor.
- Due to the sudden and excessive rainfall in 2018, the Borough has experienced 3 roadway slides. One has been repaired by Borough crews with the cost absorbed into the 2018 budget. Another is awaiting permitting by the PA Department of Environmental Protection (DEP) with \$50,000 of repairs budgeted in 2019 to be completed by Borough crews. The third slide is being evaluated by the Borough Engineer and \$150,000 has been budgeted in 2019. However, cost estimates for the repair are \$800,000. The Borough continues to explore optional, more cost-effective repair methods.
- 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 Department of Environmental Protection (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. The Report determined that construction of the sewer main should commence in late 2024. 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. In November 2017, Borough Council adopted Resolution No. 617 approving the Phase 1 Consent Order and Agreement Source Flow Adoption Study and submitted the same to the regulators.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities on pages 1 and 2 are government-wide financial statements that provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances as well as its component units. Fund financial statements (pages 3-11) include governmental and fiduciary funds. For governmental funds, these statements explain how services were financed in the short term as well as what remains for future spending. The governmental fund financial statements also report the Borough's operations in more detail than the entity-wide statements. 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.

Following the financial statements are the Notes to Financial Statements that provide an explanation for certain information in the financial statements and also provide more details for this information. The Notes to Financial 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 ANNUAL FINANCIAL REPORT

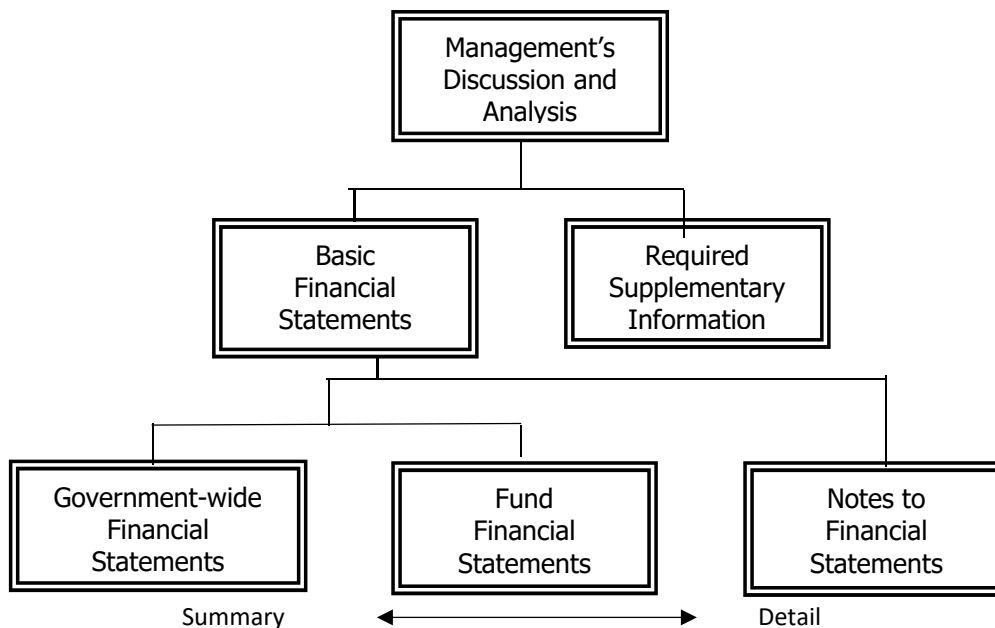


Figure A-2 summarizes the major features of the Borough's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

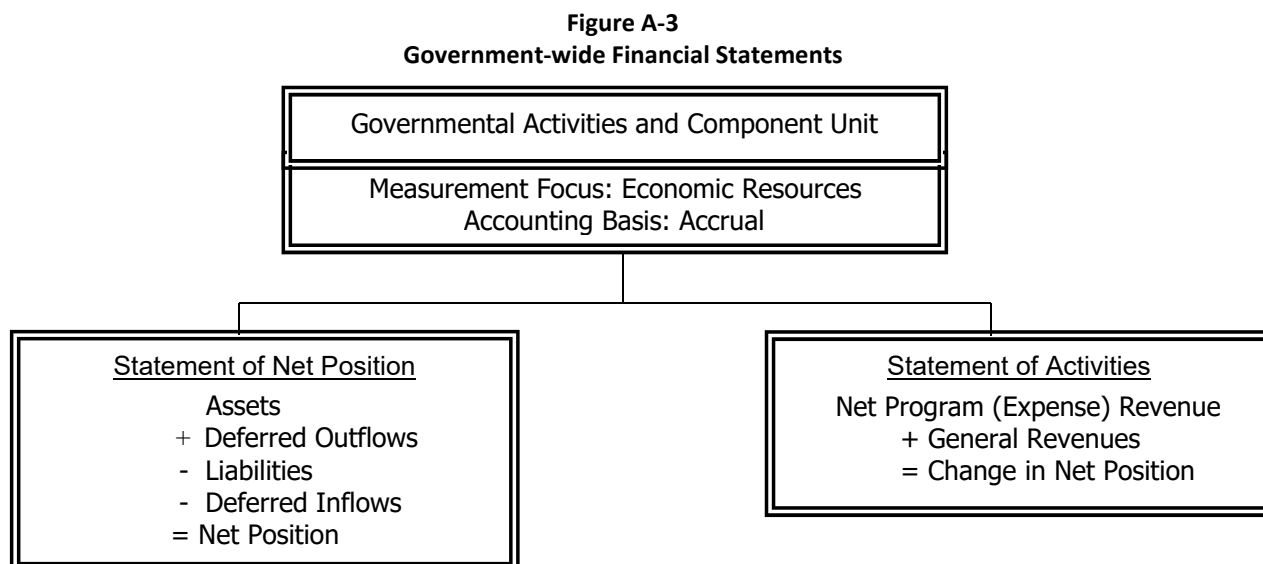
Figure A-2 Major Features of Fox Chapel's Government-wide and Fund Financial Statements			
	<u>Government-wide Statements</u>	<u>Governmental Fund Statements</u>	<u>Fiduciary Funds</u>
Scope	Entire municipal government (except fiduciary funds) and the Borough's component unit	The activities of the Borough 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

REPORTING THE BOROUGH AS A WHOLE

The government-wide statements report information about the Borough as a whole using accrual accounting methods similar to those used by private-sector companies. These statements provide information that will help the reader determine if the Borough is in better or worse financial condition as a result of the year's activities. The Statement of Net Position includes all of the Borough's assets (including major infrastructure placed in service after 2004), deferred outflows of resources, liabilities, and deferred inflows of resources, excluding fiduciary funds. Net position—the difference between the Borough's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources—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.

In the Statement of Activities, all of the current year's revenues and expenses are accounted for regardless of when cash is received or paid. All of the Borough's basic services are reported here, including the police, fire, general administration, public works, storm and sanitary sewers, code enforcement, and parks and recreation. Real estate taxes, earned income taxes, sewer user fees, grants, shared revenue from the State, and charges for services finance most of these activities. 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.



The Borough's government-wide financial statements are divided into two kinds of activities:

- *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 in this report. Prior to 2018, the Fox Chapel Library Authority was also included. 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. Although the Sanitary Authority had no financial transactions in 2018, Fox Chapel Borough amended the Articles of Incorporation of the Fox Chapel Sanitary Authority to extend the existence of the Authority and to grant it the additional power to perform storm water planning, management and implementation and to collect fees to fund this work. These activities are expected to begin in 2019.

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. In 2017, the Library Authority repaid the construction advance from the Borough. On February 19, 2018, the Borough officially terminated the Library Authority.

REPORTING THE BOROUGH'S FUNDS

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 to be established by State law. The Borough establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for money that is designated for a special purpose (e.g., Capital Projects Fund). 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 (reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) 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 fiduciary fund activities from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

DEFINITIONS

Assets are resources that a government controls at present that can be used to provide services; things that a government owns.

Liabilities are a requirement to give up resources that a government generally cannot avoid; amounts a government owes.

Revenues represent resources coming into a government during a fiscal year such as cash or receivables; inflows.

Expenses represent resources leaving a government during a fiscal year such as a cash payment or promise to pay; outflows.

Deferrals are not assets, liabilities, revenues or expenses. Deferrals represent flows of resources into and out of a government during a fiscal year. However, unlike revenues and expenses which are inflows and outflows of resources related to the period in which they occur, deferrals are related to *future periods*, even though they have already occurred. The thing that is being deferred is the recognition of those inflows and outflows as revenue and expense. Recognition of the revenues and expenses is deferred until the future period to which the inflows and outflows are related.

Net Position = Assets + Deferred Outflows - Liabilities - Deferred Inflows

Deferred Inflow Example: The Borough received payment for next year's property tax in the current year. Instead of recognizing property tax revenue for the current fiscal year, the Borough should recognize a deferred inflow of resources. Rather than increasing net position, a deferred inflow offsets the asset (cash) and net position remains unchanged. When the next fiscal year arrives, the payment of tax already received and recorded as deferred inflow would then be recognized as revenue. The deferred inflow is reduced and the revenue is recognized.

Deferred Inflows and Outflows for Pension Reporting

Accounting and reporting for pensions was dramatically changed by GASB Statement No. 68 effective in 2015 for the Borough. GASB 68 changed pension accounting from a funding-based approach to an accounting-based approach, which changed the focus from an actuarially required contribution to a net pension liability. Under GASB 68, the impacts of benefit changes are immediately recognized as pension expense. However, differences between projected earnings and actual earnings on plan investments are recognized as deferred outflows or deferred inflows of resources and amortized into pension expense over a 5-year period. This is somewhat similar to depreciation in that a fixed dollar amount is spread over a fixed period of time, beginning in the current measurement period. Changes in actuarial assumptions are similarly recognized as deferred outflows or deferred inflows and amortized into pension expense over the average remaining service period for all employees.

THE BOROUGH AS A WHOLE

Net Position:

As noted earlier, net position may serve over time as a useful indicator of a government's financial 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.

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.

Our government-wide financial analysis focuses on the net position and changes in net position of the Borough's governmental activities.

The table below shows how each component in the Statement of Net Position changed during 2018.

Summary of Statement of Net Position
December 31, 2018 and December 31, 2017

	Governmental Activities		
	2018	2017	Variance
Current and other assets	\$ 10,602,400	\$ 8,682,394	\$ 1,920,006
Net pension asset - Police plan	974,094	1,659,189	(685,095)
Capital assets	16,265,352	15,214,711	1,050,641
Total Assets	27,841,846	25,556,294	2,285,552
Deferred Outflows of Resources:			
Changes in pension assumptions	447,132	629,531	(182,399)
Net difference between projected and actual earnings on pension investments	1,131,574	360,283	771,291
Total Deferred Outflows of Resources	1,578,706	989,814	588,892
Current and other liabilities	1,706,779	989,026	717,753
Net pension liability - General plan	508,780	18,773	490,007
Total Liabilities	2,215,559	1,007,799	1,207,760
Deferred Inflows of Resources:			
Differences between expected and actual pension experience	509,475	713,298	(203,823)
Difference between projected and actual earnings on pension plan investments	643,115	874,600	(231,485)
Total Deferred Inflows of Resources	1,152,590	1,587,898	(435,308)
Net Position:			
Invested in capital assets,	16,265,352	15,214,711	1,050,641
Restricted for:			
Pensions	891,430	1,042,332	(150,902)
Road Construction/Maintenance	2,664	19,187	(16,523)
Sewage Infrastructure	2,262,806	2,108,840	153,966
Unrestricted	6,630,151	5,565,341	1,064,810
Total Net Position	\$ 26,052,403	\$ 23,950,411	\$ 2,101,992

In 2018, total net position of governmental activities increased by \$2,101,992 to \$26M, an increase of 8.8%. Investment in capital assets, net of related debt as of December 31, 2018, increased by \$1,050,641 or 6.9%, due primarily to the capitalization of the road paving project and other capital purchases that exceeded current year depreciation. The restricted portion of the Borough's net position that is subject to external restrictions on how the funds may be used decreased by \$13,459. The unrestricted net position increased by \$1,064,810, to 6.6M, an increase of 19.1%, and identifies funds available to maintain operations or invest in additional capital assets.

Infrastructure assets:

At December 31, 2018, the Borough's total net position is \$26,052,403. Of this amount, \$16.3M 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. Infrastructure additions first met the capitalization threshold and were first reported in 2012. The following presents the Borough's change in net position for the fiscal years ended December 31, 2018 and December 31, 2017:

Summary of Statement of Net Position
December 31, 2018 and December 31, 2017

	Governmental Activities		
	2018	2017	Variance
Current and other assets	\$ 10,602,400	\$ 8,682,394	\$ 1,920,006
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Capital assets	16,265,352	15,214,711	1,050,641
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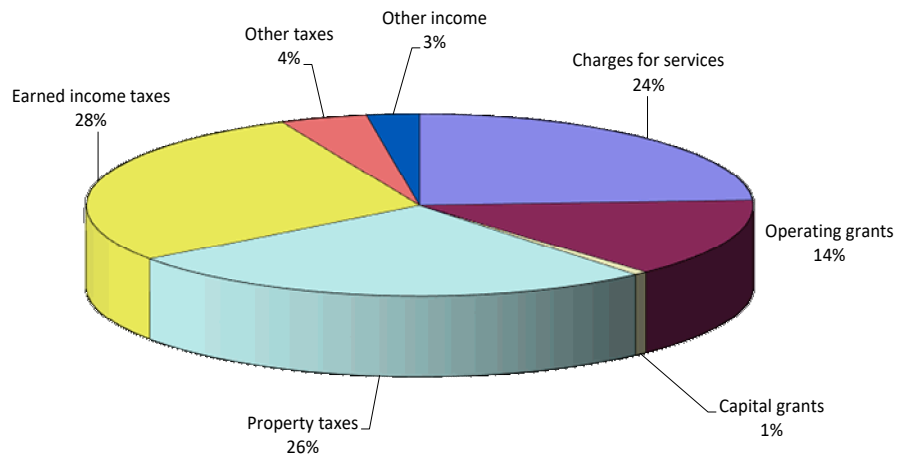
Revenue Sources

Total 2018 government-wide revenue of \$11.2M was \$1,658,235 greater than 2017 revenue, an increase of 17.3%. This increase in government-wide revenue is due to primarily to the following:

- The Borough was awarded an operating grant of \$651,833 from ALCOSAN for projects completed that reduced groundwater infiltration into our sanitary sewer system.
- The Borough was also awarded \$350,000 from the PA Department of Environmental Protection for recycling activities completed in prior years.
- A \$180,000 court-ordered payment was received from a developer and the Borough was required to use this money to pave two roads in The Enclave development that the developer had failed to properly pave.
- An abnormal occurrence in 2017 whereby 2017 government-wide revenue was reduced \$312,417 for a capital loss on the sale of Borough property must also be taken into consideration when evaluating the 2018 gain in revenue.

The following chart graphically depicts the government-wide sources of revenues for the fiscal year ending December 31, 2018.

Sources of Revenue

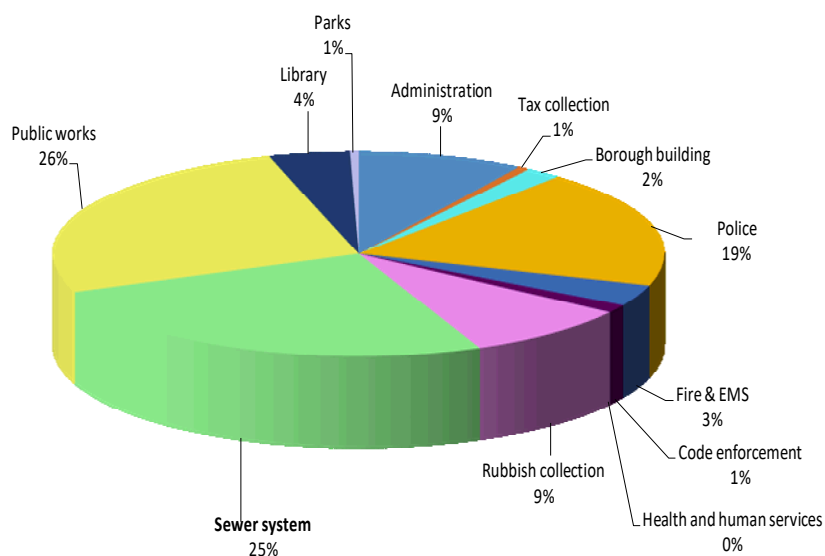


The 2018 revenue as shown on the Statement of Activities is derived primarily from earned income tax at 28% and real estate tax at 26% of the total. Charges for services comprise 24% of revenue followed by operating grants at 14%, other taxes (real estate transfer, sales and local services tax) at 4%, other general revenue at 3%, and capital grants at 1%. The Statement of Activities shows **accrued** 2018 earned income tax revenues of \$3,176,820, a projected decrease of \$118,871 or 3.6% from 2017 **accrued** tax. This **accrued** earned income tax revenue includes taxes collected in 2018 as well as taxes receivable at year-end which is an **estimate** based on prior years' experience.

Program Expenses

Total expense for all programs in 2018 was \$9.1M, up \$451,723, or 5.2%, from 2017. The expenses reflect the delivery of a wide range of services with the largest being public works/sewers at 51% followed by public safety (police, fire/EMS, and code enforcement) at 23%, general government at 12%, rubbish collection at 9%, library at 4% and parks at 1%. Public works expense was up \$636,802 due to an increase in budgeted road paving and expenses incurred for flood damage restoration after a 100-year storm event caused significant flooding along the flood plain of Squaw Run in the Borough and a neighboring municipality. Sewer system expense was up \$146,176 due to higher payments to ALCOSAN because of their 7.5% rate increase. These increases were offset by a decrease of \$508,082 in library expense, as the Borough no longer needs to assist the library in paying off the debt incurred in construction of the facility because the debt was fully repaid in 2017.

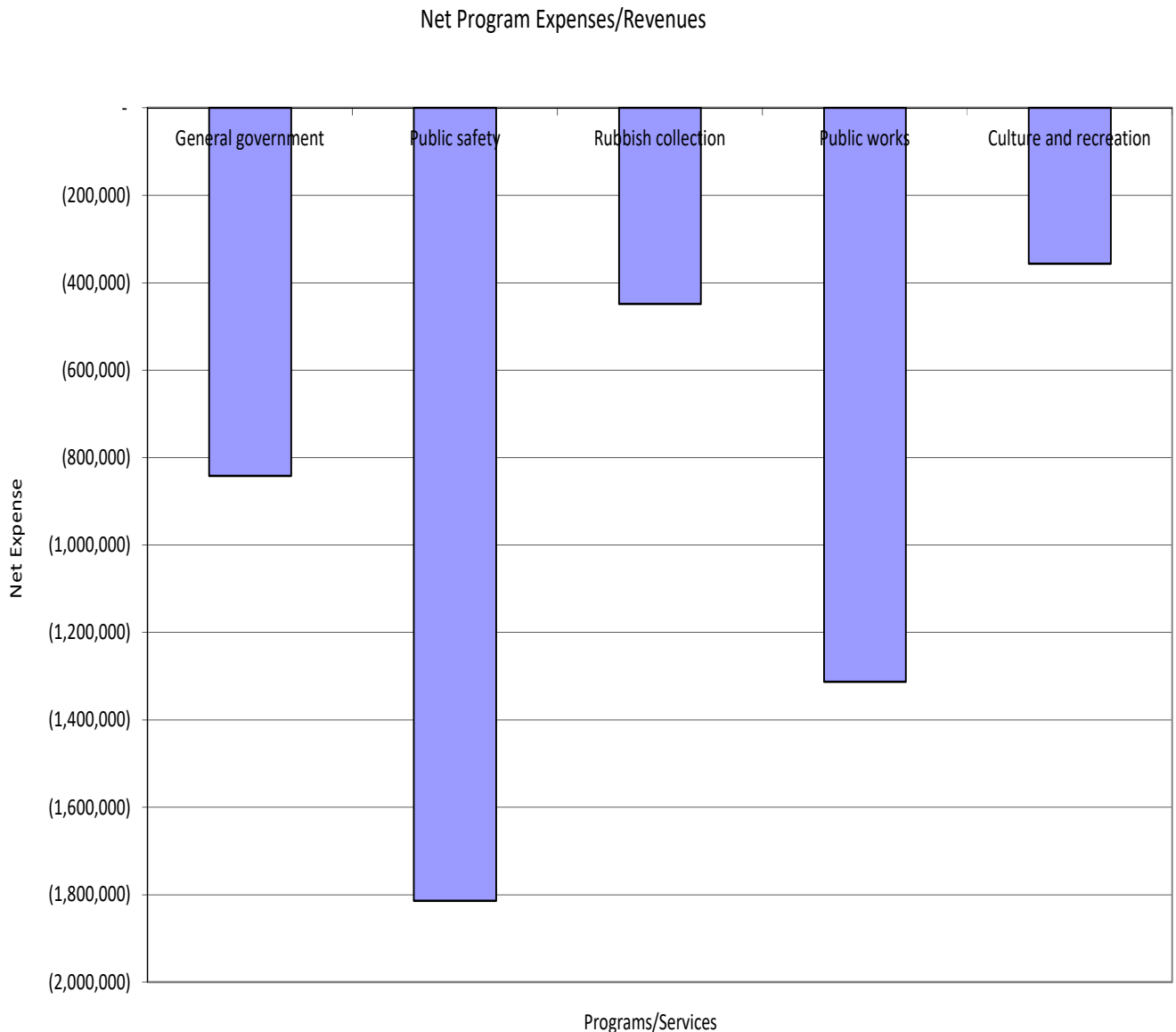
Program Expenses



NET PROGRAM EXPENSES/REVENUES:

Public safety, comprised of police, fire/EMS, health and human services, and code enforcement, required the most general revenue for support at \$1.81M. This is followed by public works that includes roads, storm sewers and sanitary sewers, which required \$1.31M in support. The library and parks system required \$356,628 in support, primarily in the form of support to the library. Rubbish collection (no separate fee is charged to residents for rubbish collection) is \$448,545 and general government (administration, tax collection, and building/grounds) followed at \$842,137.

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, 2018:



FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

The Borough's funds consist of the General Fund, Sewer Fund, Land Fund, Capital Reserve Fund, Highway Aid Fund, Squaw Run Interceptor Fund, Fire Truck Fund, K-9 Fund and Sanitary Authority Fund. The measurement focus of the Borough's funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, unassigned fund balance serves as a useful measure of the Borough's net resources available for spending at the end of the year.

Fund Balance

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

- **Nonspendable** – This category represents funds that are not in spendable form. The Borough has no unspendable fund balance.
- **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 all funds in the Sewer Fund and Interceptor Fund since they are restricted for the purpose of sewage infrastructure as well as all funds in the Highway Aid Fund since they are restricted to the purpose road construction/maintenance.
- **Committed** – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by Borough Council. Such commitment is made via Borough Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Borough resolution. The Borough currently has no committed funds.
- **Assigned** – This category represents intentions of Borough Council to use the funds for specific purposes. Such assignment is jointly made by the Borough Manager and Finance Director. This category includes amounts set aside to balance the 2019 budget. At a minimum, all funds in the Capital Reserve Fund, Land Fund, Fire Truck Fund and K-9 Fund are assigned to the capital purpose of the fund. Also, \$450,600 in the General Fund has been assigned for use in the 2019 General Fund budget.
- **Unassigned** – This category represents all other funds not otherwise defined and all negative fund balances. The portion of the General Fund balance that is not assigned for use in the 2019 budget is unassigned.

Balance Sheet

As the Borough completed the year 2018, its governmental funds reported a combined fund balance of \$7.0M, an increase of \$116,079, or 1.7%, from the combined fund balance at year-end 2017. In particular:

- **General Fund** – The General Fund is the chief operating fund of the Borough and is used to account for all financial transactions except those required to be accounted for in other funds. In the 2018 budget, Council chose to utilize \$444,300 of fund balance to increase the scope of the

road paving program, resulting in a deficit budget of \$444,300. However, the General Fund ended the year with a deficit of only \$162,249, resulting in a gain of \$282,051 over expectations. This gain was due to the fact that the paving contractor was unable to complete all of the budgeted paving because excessive rain in summer and fall put the contractor behind schedule. Of the balance of \$2,308,210, \$450,600 (20%) has been assigned for use in the 2019 budget while \$1,857,610 (80%) is unassigned and available to fund current and future projects of 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 ALCOSAN for treatment services provided. The sewer user fee revenue is based primarily on water consumption and therefore fluctuates with annual water usage and weather patterns. In 2018, Council also chose to reduce fund balance in the Sewer Fund in the form of a deficit budget of \$275,500 because projects budgeted for 2017 were delayed until 2018. The Sewer Fund ended the year with a deficit of \$235,465 but when compared to the deficit budget of \$275,500, it was actually a gain of \$40,035 over expectations. The balance of \$466,801 in the Sewer Fund is restricted by law for sewer infrastructure.
- **Land Fund** - The Land Fund was established for the accumulation of funds for future capital asset acquisition and construction by the Borough. This fund lost \$21,937 due to engineering required for the redesign of the public works project that exceeded interest earned in 2018. The balance of \$853,274 in the Land Fund is assigned for capital purposes and will be used to begin work on the replacement of the public works facilities.
- **Capital Reserve Fund** - The Capital Reserve Fund was established to control funds designated for specific capital expenditures of funds appropriated by Council to provide for additions to and replacements of operating equipment and other capital assets. The Capital Reserve Fund gained \$90,140 because the amount transferred from the General Fund for depreciation exceeded the equipment purchases for the year. The balance of \$1,295,290 is assigned for capital purchases or improvements.
- **Highway Aid Fund** – The Highway Aid Fund receives liquid fuels tax funds from the PA Department of Transportation for building and improving roads and bridges within the Borough. The Borough transferred money from this fund to the General Fund to offset the purchase of road salt and installation of catch basins and underdrains on roads to be paved. The balance of \$2,664 in the Highway Aid Fund is restricted by law for road maintenance.
- **Interceptor Fund** - The Interceptor Fund was established in 2014 to accumulate funds for a future capital improvement to the Squaw Run Sewer Interceptor as will be mandated by the PA Department of Environmental Protection and the Allegheny County Health Department. A special quarterly fee was adopted in 2014 to fund the project. In 2018, the Interceptor Fund gained \$390,331 in the form of sewer fees. The balance of \$1,796,905 is restricted by law for sewer infrastructure.
- **Fire Truck Fund** - The Fire Truck Fund was established in 2015 to accumulate donations for the purchase of fire-fighting vehicles and equipment through an annual appeal to Borough residents and institutions. The Fire Truck Fund gained \$89,499 in 2018 and has a balance of \$292,017 to be used towards the purchase of a new pumper truck scheduled for 2019.

- **K-9 Fund** - The K-9 fund was established in 2016 to accumulate donations for the future replacement of the K-9 and/or K-9 vehicle. The Fund has a balance of \$6,217 after \$19,012 was used in 2018 towards the equipment needed to outfit a new K-9 car. The \$6,217 balance has been assigned for use in the K-9 program.
- **Sanitary Authority Fund** – The Sanitary Authority Special Revenue Fund reports the operations of the Sanitary Authority's General Fund. In 2018, there was neither activity nor a balance in the Sanitary Authority. It has been reactivated in 2019.

Library Authority

In 2010, the Borough created the Fox Chapel Library Authority, a component unit of the Borough, 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 received yearly lease payments from the Library Authority and was fully repaid in 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 could make annual debt payments to the Borough of Fox Chapel. The Borough assisted the Community Library Association with their annual lease payments to the Fox Chapel Library Authority a total of \$1,447,782 of a pledged maximum \$1,450,000 such that \$1.57M was permanently returned to the Land Fund and available for future use. Borough assistance to the Community Library Association dropped from \$518,082 in 2017 to zero in 2018. However, the Borough contribution to library operations increased by \$10,000 in 2018 at the request of the library. The change in Library funding can best be seen on the Statement of Change in Net Position comparing 2018 to 2017. There being no further need for the Library Authority, it was officially terminated in 2018.

General Fund - Actual Results Compared to Budget

Total 2018 revenue of \$7,456,064 was an increase of \$217,867, or 3.0%, from 2017 primarily due to the following:

- \$66,643 more in real estate transfer tax collected due to heavier real estate sales
- \$46,297 in higher interest earnings due to a larger fund balance and better interest rates
- \$27,507 more in additional State grant money for a pedestrian bridge and trail way
- \$179,682 in charges for services because a developer was court ordered to contribute \$180,000 for the paving of two roads that were included in the Borough's 2018 paving project

These increases were offset by a decrease of \$107,669 in earned income tax when compared to 2017. However, 2017 earned income tax collections were abnormally high.

Total 2018 expenses of \$7,626,762 were \$1,362,436 or 21.7% greater than 2017 due to significant increases as detailed:

- \$540,200 Additional road paving due to expansion of the paving program
- \$266,366 Guiderail – 2017 and 2018 programs were completed in 2018
- \$151,700 Stormwater materials for expanded road program
- \$140,700 Bridge repair project
- \$ 61,500 More road salt purchased due to depletion of reserves
- \$ 38,500 Increases in police overtime and vehicle maintenance
- \$ 21,700 Refuse collection contract increase and disposal of storm debris

Expenses were under budget \$378,738, or 4.7%, due to savings of \$320,000 in the weather-delayed road paving program, savings of \$22,000 in police vehicle maintenance because management chose to up-fit the new K-9 car with money from the K-9 Fund, and savings of \$24,000 in parks due to projects delayed by the wet weather and summer flooding.

General Fund expenses exceeded revenues by \$170,698 in a year in which the budget projected a deficit of \$424,300 resulting in a net gain of \$253,602. The fund balance on December 31, 2018 was \$2,308,210, of which \$450,600 was assigned for use in the 2019 budget, and \$1,857,610 was unassigned.

Sewer Fund – Actual Results Compared to Budget

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 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 2018. However, the ALCOSAN component increased 7.5%. In 2018, the fund balance decreased \$235,465, but because the budget was a \$275,500 deficit budget, there was actually a net gain of \$40,035 because the actual deficit was less than the budgeted deficit.

Total Sewer Fund revenue exceeded 2017 revenue by \$60,247, or 2.7%, due to the following factors:

- ALCOSAN increased sewer user rates by 7.5%.
- Interest earnings increased due to a higher fund balance and higher interest rates.

- The volume of sewer lateral inspections increased along with real estate sales resulting in higher inspection fees.

Total Sewer Fund expense was \$11,725 greater than 2017 expense due to the following:

- \$55,500 Increase rental to ALCOSAN (offset by ALCOSAN fee revenue).
- \$46,500 Engineering increase due to an unbudgeted contracted emergency sewer lining installation that required design and inspections.
- \$10,000 Engineering to provide supporting data for an ALCOSAN GROW Grant that was awarded to the Borough in the amount of \$651,833 for past performance in reducing infiltration into Borough sewer lines via sewer lining that produced measurable results.

This increase was offset by a decrease of \$79,900 in sewer materials because the budgeted funds were re-appropriated to emergency sewer line installation.

The fund balance of the Sewer Fund was \$466,801 on December 31, 2018, all of which was restricted for sewer infrastructure. The ALCOSAN Grow Grant shown in the government-wide financial statements (Statement of Net Position and Statement of Activity) is not shown in the fund financial statements as the funds will not be received and available to fund future expenditures until 2019.

Capital Reserve Fund – Actual Results Compared to Budget

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. Historically, the major revenue and other financing sources for the Capital Reserve Fund usually are transfers from the General Fund and Sewer Fund for depreciation, interest earnings, and sale of fixed assets. In December 2018, \$250,000 was transferred from the General Fund and \$18,500 from the Sewer Fund to offset a portion of the current depreciation of the above-mentioned items, as budgeted. Revenues were consistent with budget while expenses fell short of budget by \$24,000 due to planned purchases that were cancelled. The 2018 capital purchases included the following:

- \$26,519 for the purchase of a large document, multifunction printer, a replacement server and laptop.
- \$63,488 for a replacement leaf machine and two ditch tampers and a replacement pickup truck.
- \$137,165 for three replacement police vehicles.

The fund balance of the Capital Reserve Fund as of December 31, 2018 was \$1,295,290, all of which was assigned for capital purchases and improvements.

Land Fund – Actual Results Compared to Budget

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 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 were repaid in annual installments with final payment made in 2017.

Due to the deteriorating condition of the Borough's public works facilities, plans have been developed to construct new facilities at a projected cost of \$5M 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 \$713,829, changed the lot lines to add a piece of property to the public works site, and listed the home and remaining property for sale. In 2017, the home and property were sold for \$428,740, and a loss of \$312,417 was recorded (including taxes, utilities, and maintenance for 2017). Since the loss was recognized in 2017, it appears as a gain on the 2018 Statement of Change in Net Position which compares 2017 with 2018. The Borough saved 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 that will save construction costs and improve functionality. The purchase provided land for eight much-needed, additional parking spaces at the library adjacent to the municipal building.

In 2018, \$350,000 was budgeted for site preparation for the new public works facilities mentioned above with labor to be performed by Borough public works staff. Due to exceptionally wet weather and serious flooding in July, the project was unable to be started. Therefore, Land Fund expenses were \$343,550 (91%) under budget. The fund balance of the Land Fund as of December 31, 2018 was \$853,274, all of which is available to begin construction of the new public works facilities in 2019. Due to the ambitious public works roadway drainage schedule in preparation for road paving, the site renovation was bid to an outside contractor and is expected to begin in spring 2019.

Highway Aid Fund – Actual Results Compared to Budget

The Highway Aid Fund is used to account for the receipt of State aid revenue 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 2018, the Borough received \$239,941 in State aid (which was approximately \$10,000 over budget) and later transferred \$258,449 to the General Fund to offset the cost of road salt and installation of catch basins and underdrains on the roads that were being paved. The fund balance of the Highway Aid Fund on December 31, 2018 was \$2,664, all of which was restricted to road maintenance and other permitted uses of PA Liquid Fuels funds.

Interceptor Fund – Actual Results Compared to Budget

Billing for sewer user fees is contracted to Fox Chapel Authority for efficiency by piggy-backing with water billing. When fees are received from Fox Chapel Authority, they are deposited in full into the Sewer Fund. At the end of each month, the fees collected from the special interceptor charge are transferred to the Interceptor Fund. In 2018, revenue exceeded budget by \$14,587 due to greater investment earnings than

expected. The balance in the Interceptor Fund was \$1,796,905 on December 31, 2018.

Fire Truck Fund - Unbudgeted

Starting in 2015 and continuing through 2018, the Borough solicited funds directly from residents to build a fund to finance future fire truck purchases, the next of which is scheduled for 2019. This fund drive raised \$85,959 in 2018. The balance of the Fire Truck Fund on December 31, 2018 was \$292,017.

K-9 Fund – Unbudgeted

In 2016, the Borough established a K-9 Fund to hold funds for the operations of our K-9 program. It is funded solely by donations from residents and civic groups. In 2018, \$19,012 was used to purchase and install the equipment needed in the new, replacement K-9 vehicle. As of December 31, 2018, the fund contained \$6,217.

Sanitary Authority Fund - Unbudgeted

In 2018, Borough Council amended the Articles of Incorporation of the Fox Chapel Sanitary Authority to extend the existence of the Authority and to grant it the additional power to perform stormwater planning, management, and implementation and to collect fees to pay for these activities. Although there was no financial activity in 2018, this fund has been budgeted in 2019 to receive newly-implemented stormwater fees and pay for mandated stormwater compliance activities. The fund will also pay the cost of the stormwater utility user fee study conducted to determine the appropriate annual fee to be assessed to each property in the Borough, including tax-exempt properties.

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, 2018, there were 13 vested and 2 non-vested participants in the General Employees Plan and 9 vested and 2 non-vested participants in the Police Plan. Employee contribution rates were set at 5% for employees in both plans.

During 2018, combined total net position decreased by \$387,462, or 2.76%, due to net investment losses of \$273,652 and annual benefit payments that exceeded contributions by \$113,810. On the Statement of Net Position, the Police Plan shows a net pension asset of \$974,094 and the General Employees Plan a net pension liability of \$508,780. 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 2018, the General Employees Plan had a required minimum municipal contribution (MMO) of \$178,298 to the defined benefit plan and a required contribution of \$9,496 to the defined contribution

plan to match the employee's contributions. The Police Plan had a required MMO of \$4,161. State aid accounted for \$168,638 of the Borough's total required contribution of \$191,955 to all plans resulting in a net pension outlay of \$23,317 from Borough funds. In addition, the employees contributed \$122,191. The pension plan fiduciary net position as a percentage of the total pension liability for the defined benefit General Employees and Police Plans was 92.55% and 114.49%, respectively, which represented a decrease of 7.16% in the General Plan and 12.14% in the Police Plan compared to 2017 due primarily to investment losses. As of February 28, 2019, the 2019 investment gains have more than offset the 2018 losses which were due to a volatile stock market at the end of 2018.

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. Capital assets are recorded and depreciated using the straight-line method over the useful lives of the assets. Maintenance and repairs are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. The following is a summary of capital assets at December 31, 2018 and 2017:

Summary of Capital Assets

	Balance at December 31, 2018	Balance at December 31, 2017	Variance
Land	\$ 8,825,586	\$ 8,825,586	\$ -
Construction in Progress	153,763	122,313	31,450
Infrastructure	5,702,327	4,336,127	1,366,200
Buildings and improvements	2,194,836	2,194,836	-
Furniture and equipment	400,576	407,955	(7,379)
Machinery and equipment	1,307,396	1,256,908	50,488
Vehicles	2,885,491	2,831,344	54,147
Total capital assets	<u>21,469,975</u>	<u>19,975,069</u>	<u>1,494,906</u>
Less accumulated depreciation for:			
Infrastructure	1,111,527	822,978	288,549
Building and improvements	1,337,418	1,295,005	42,413
Furniture and equipment	329,743	348,929	(19,186)
Machinery and equipment	711,215	655,330	55,885
Vehicles	1,714,720	1,638,116	76,604
Total accumulated depreciation	<u>5,204,623</u>	<u>4,760,358</u>	<u>444,265</u>
Total assets less accumulated depreciation	<u>\$ 16,265,352</u>	<u>\$ 15,214,711</u>	<u>\$ 1,050,641</u>

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 2018 with no debt. In 2019, the Borough will need to secure approximately \$5M in financing for the construction of the new public works facilities.

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, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,111,094
Receivables:	
Recycling Development and Implementation Grant	350,000
ALCOSAN GROW Grant	651,833
Taxes	1,088,459
Other	401,014
Net pension asset - Police Plan	974,094
Capital assets, not depreciated	8,979,349
Capital assets net of accumulated depreciation	7,286,003
Total Assets	27,841,846
Deferred Outflows of Resources	
Related to pensions	1,578,706
Liabilities	
Accounts payable	1,230,377
Escrow deposits	277,992
Noncurrent liabilities:	
Net pension liability - General Employees Plan	508,780
Accumulated compensated absences	198,410
Total Liabilities	2,215,559
Deferred Inflows of Resources	
Related to pensions	1,152,590
Net Position	
Net investment in capital assets	16,265,352
Restricted for:	
Pensions	891,430
Road construction/maintenance	2,664
Sewage infrastructure	2,263,706
Unrestricted	6,629,251
Total Net Position	\$ 26,052,403

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

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	\$ 798,686	\$ 152,821	\$ 34,283	\$ -	\$ (611,582)
Tax collection	57,471	-	-	-	(57,471)
Borough building	173,084	-	-	-	(173,084)
Police department	1,714,160	6,146	105,282	-	(1,602,732)
Fire department	307,749	-	143,995	-	(163,754)
Code enforcement	115,530	64,935	4,684	-	(45,911)
Health and human services	1,680	-	-	-	(1,680)
Rubbish collection	808,771	-	360,226	-	(448,545)
Sewer system	2,320,490	2,282,737	660,462	-	622,709
Public works	2,408,906	203,359	269,769	-	(1,935,778)
Library	390,000	-	-	-	(390,000)
Parks and recreation	41,452	-	-	74,824	33,372
Total governmental activities	\$ 9,137,979	\$ 2,709,998	\$ 1,578,701	\$ 74,824	(4,774,456)
General revenues:					
Taxes:					
Real estate					2,939,783
Earned income					3,176,820
Other					472,973
Interest income					147,108
Miscellaneous income					139,764
Total general revenues					6,876,448
Change in Net Position					2,101,992
Net Position:					
Beginning of year					23,950,411
End of year					\$ 26,052,403

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Highway Aid Fund	Sewer Fund	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	K-9 Fund	Total Governmental Funds
Assets									
Cash and cash equivalents	\$ 3,445,849	\$ 2,664	\$ 471,702	\$ 1,295,290	\$ 853,274	\$ 1,744,081	\$ 292,017	\$ 6,217	\$ 8,111,094
Receivables:									
Taxes	1,088,459	-	-	-	-	-	-	-	1,088,459
Other	68,358	-	332,656	-	-	-	-	-	401,014
Due from other funds	-	-	-	-	-	52,824	-	-	52,824
Total Assets	\$ 4,602,666	\$ 2,664	\$ 804,358	\$ 1,295,290	\$ 853,274	\$ 1,796,905	\$ 292,017	\$ 6,217	\$ 9,653,391
Liabilities									
Accounts payable	\$ 945,644	\$ -	\$ 284,733	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,230,377
Due to other funds	-	-	52,824	-	-	-	-	-	52,824
Escrow liability	277,992	-	-	-	-	-	-	-	277,992
Total Liabilities	1,223,636	-	337,557	-	-	-	-	-	1,561,193
Deferred Inflows of Resources									
Unavailable revenue - taxes paid in advance	169	-	-	-	-	-	-	-	169
Unavailable revenue - earned income taxes	969,781	-	-	-	-	-	-	-	969,781
Unavailable revenue - real estate taxes	100,870	-	-	-	-	-	-	-	100,870
Total Deferred Inflows of Resources	1,070,820	-	-	-	-	-	-	-	1,070,820
Fund Balance									
Restricted:									
Road construction/maintenance	-	2,664	-	-	-	-	-	-	2,664
Sewage infrastructure	-	-	466,801	-	-	1,796,905	-	-	2,263,706
Assigned:									
Use in 2019 budget	450,600	-	-	416,789	-	-	-	-	867,389
Capital purchases/construction	-	-	-	878,501	853,274	-	292,017	-	2,023,792
K-9 program	-	-	-	-	-	-	-	6,217	6,217
Unassigned	1,857,610	-	-	-	-	-	-	-	1,857,610
Total Fund Balance	2,308,210	2,664	466,801	1,295,290	853,274	1,796,905	292,017	6,217	7,021,378
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 4,602,666	\$ 2,664	\$ 804,358	\$ 1,295,290	\$ 853,274	\$ 1,796,905	\$ 292,017	\$ 6,217	\$ 9,653,391

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, 2018

Total Fund Balance - Governmental Funds	\$ 7,021,378
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	16,265,352
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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.

Taxes paid in advance	\$ 169	
Earned income tax	969,781	
Real estate tax	<u>100,870</u>	1,070,820

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.	891,430
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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	(198,410)
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Grants receivable that are not available to pay for current period expenditures are not recorded in the funds.	<u>1,001,833</u>
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Total Net Position - Governmental Activities	<u>\$ 26,052,403</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, 2018

	General Fund	Highway Aid Fund	Sewer Fund	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	K-9 Fund	Total Governmental Funds
Revenues:									
Taxes:									
Real estate	\$ 2,931,676	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,676
Earned income	3,090,056	-	-	-	-	-	-	-	3,090,056
Other	472,973	-	-	-	-	-	-	-	472,973
Licenses and permits	157,027	-	-	-	-	-	-	-	157,027
Fines and related costs	5,811	-	-	-	-	-	-	-	5,811
Interest, rents, and royalties	88,917	1,985	10,976	11,500	9,513	20,587	3,540	90	147,108
Intergovernmental revenues	323,717	239,941	-	-	-	-	-	-	563,658
Charges for services	264,423	-	-	-	-	-	-	-	264,423
Sewer fees	-	-	2,282,737	-	-	-	-	-	2,282,737
Contributions	-	-	-	-	-	-	85,959	2,075	88,034
Miscellaneous	121,464	-	-	18,300	-	-	-	-	139,764
Total revenues	7,456,064	241,926	2,293,713	29,800	9,513	20,587	89,499	2,165	10,143,267
Expenditures:									
Current:									
Administration	658,903	-	30,813	-	-	-	-	-	689,716
Tax collection	57,471	-	-	-	-	-	-	-	57,471
Borough building	103,306	-	-	-	-	-	-	-	103,306
Police department	1,600,823	-	-	-	-	-	-	870	1,601,693
Fire & EMS department	158,434	-	-	-	-	-	-	-	158,434
Code enforcement	105,144	-	-	-	-	-	-	-	105,144
Health and human services	1,680	-	-	-	-	-	-	-	1,680
Rubbish collection	808,657	-	-	-	-	-	-	-	808,657
Sewer system	-	-	2,110,121	-	-	-	-	-	2,110,121
Public works	2,042,006	-	-	-	-	-	-	-	2,042,006
Library	390,000	-	-	-	-	-	-	-	390,000
Parks and recreation	39,510	-	-	-	-	-	-	-	39,510
Employee benefits	191,955	-	-	-	-	-	-	-	191,955
Insurance	98,380	-	-	-	-	-	-	-	98,380
Miscellaneous (refunds and judgments)	4,293	-	-	-	-	-	-	-	4,293
Capital outlay	1,366,200	-	-	208,160	31,450	-	-	19,012	1,624,822
Total expenditures	7,626,762	-	2,140,934	208,160	31,450	-	-	19,882	10,027,188
Excess (Deficiency) of Revenues Over Expenditures	(170,698)	241,926	152,779	(178,360)	(21,937)	20,587	89,499	(17,717)	116,079
Other Financing Sources (Uses):									
Operating transfers in	258,449	-	-	268,500	-	369,744	-	-	896,693
Operating transfers out	(250,000)	(258,449)	(388,244)	-	-	-	-	-	(896,693)
Total other financing sources (uses)	8,449	(258,449)	(388,244)	268,500	-	369,744	-	-	-
Net Change in Fund Balance	(162,249)	(16,523)	(235,465)	90,140	(21,937)	390,331	89,499	(17,717)	116,079
Fund Balance:									
Beginning of year	2,470,459	19,187	702,266	1,205,150	875,211	1,406,574	202,518	23,934	6,905,299
End of year	\$ 2,308,210	\$ 2,664	\$ 466,801	\$ 1,295,290	\$ 853,274	\$ 1,796,905	\$ 292,017	\$ 6,217	\$ 7,021,378

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, 2018

	General Fund	Highway Aid Fund	Sewer Fund	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	K-9 Fund	Total Governmental Funds
Revenues:									
Taxes:									
Real estate	\$ 2,931,676	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,676
Earned income	3,090,056	-	-	-	-	-	-	-	3,090,056
Other	472,973	-	-	-	-	-	-	-	472,973
Licenses and permits	157,027	-	-	-	-	-	-	-	157,027
Fines and related costs	5,811	-	-	-	-	-	-	-	5,811
Interest, rents, and royalties	88,917	1,985	10,976	11,500	9,513	20,587	3,540	90	147,108
Intergovernmental revenues	323,717	239,941	-	-	-	-	-	-	563,658
Charges for services	264,423	-	-	-	-	-	-	-	264,423
Sewer fees	-	-	2,282,737	-	-	-	-	-	2,282,737
Contributions	-	-	-	-	-	-	85,959	2,075	88,034
Miscellaneous	121,464	-	-	18,300	-	-	-	-	139,764
Total revenues	7,456,064	241,926	2,293,713	29,800	9,513	20,587	89,499	2,165	10,143,267
Expenditures:									
Current:									
Administration	658,903	-	30,813	-	-	-	-	-	689,716
Tax collection	57,471	-	-	-	-	-	-	-	57,471
Borough building	103,306	-	-	-	-	-	-	-	103,306
Police department	1,600,823	-	-	-	-	-	-	870	1,601,693
Fire & EMS department	158,434	-	-	-	-	-	-	-	158,434
Code enforcement	105,144	-	-	-	-	-	-	-	105,144
Health and human services	1,680	-	-	-	-	-	-	-	1,680
Rubbish collection	808,657	-	-	-	-	-	-	-	808,657
Sewer system	-	-	2,110,121	-	-	-	-	-	2,110,121
Public works	2,042,006	-	-	-	-	-	-	-	2,042,006
Library	390,000	-	-	-	-	-	-	-	390,000
Parks and recreation	39,510	-	-	-	-	-	-	-	39,510
Employee benefits	191,955	-	-	-	-	-	-	-	191,955
Insurance	98,380	-	-	-	-	-	-	-	98,380
Miscellaneous (refunds and judgments)	4,293	-	-	-	-	-	-	-	4,293
Capital outlay	1,366,200	-	-	208,160	31,450	-	-	19,012	1,624,822
Total expenditures	7,626,762	-	2,140,934	208,160	31,450	-	-	19,882	10,027,188
Excess (Deficiency) of Revenues Over Expenditures	(170,698)	241,926	152,779	(178,360)	(21,937)	20,587	89,499	(17,717)	116,079
Other Financing Sources (Uses):									
Operating transfers in	258,449	-	-	268,500	-	369,744	-	-	896,693
Operating transfers out	(250,000)	(258,449)	(388,244)	-	-	-	-	-	(896,693)
Total other financing sources (uses)	8,449	(258,449)	(388,244)	268,500	-	369,744	-	-	-
Net Change in Fund Balance	(162,249)	(16,523)	(235,465)	90,140	(21,937)	390,331	89,499	(17,717)	116,079
Fund Balance:									
Beginning of year	2,470,459	19,187	702,266	1,205,150	875,211	1,406,574	202,518	23,934	6,905,299
End of year	\$ 2,308,210	\$ 2,664	\$ 466,801	\$ 1,295,290	\$ 853,274	\$ 1,796,905	\$ 292,017	\$ 6,217	\$ 7,021,378

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, 2018

Net Change in Fund Balance - Governmental Funds	\$	116,079
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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	\$	1,624,822	
Less: Depreciation expense		<u>(574,181)</u>	1,050,641

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	\$	86,595	
Real estate tax		12,400	
Prepaid tax		<u>169</u>	99,164

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.

Compensated absences	\$	(14,823)	
Pension expense		<u>(150,902)</u>	(165,725)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>1,001,833</u>
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Change in Net Position of Governmental Activities	\$	<u>2,101,992</u>
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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, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes:				
Real estate	\$ 2,922,100	\$ 2,922,100	\$ 2,931,676	\$ 9,576
Earned income	3,360,000	3,360,000	3,090,056	(269,944)
Other	384,200	384,200	472,973	88,773
Licenses and permits	163,600	163,600	157,027	(6,573)
Fines and related costs	186,000	186,000	5,811	(180,189)
Interest, rents, and royalties	43,000	43,000	88,917	45,917
Intergovernmental revenues	379,900	379,900	323,717	(56,183)
Charges for services	62,400	62,400	264,423	202,023
Miscellaneous	80,000	80,000	121,464	41,464
Total revenues	<u>7,581,200</u>	<u>7,581,200</u>	<u>7,456,064</u>	<u>(125,136)</u>
Expenditures:				
Current:				
Administration	628,600	628,600	658,903	(30,303)
Tax collection	60,400	60,400	57,471	2,929
Borough building	125,400	125,400	103,306	22,094
Police department	1,622,900	1,622,900	1,600,823	22,077
Fire & EMS department	166,100	166,100	158,434	7,666
Code enforcement	116,500	116,500	105,144	11,356
Health and human services	1,900	1,900	1,680	220
Rubbish collection	807,400	807,400	808,657	(1,257)
Public works	3,728,200	3,728,200	3,408,206	319,994
Library	390,000	390,000	390,000	-
Parks and recreation	63,600	63,600	39,510	24,090
Employee benefits	192,000	192,000	191,955	45
Insurance	100,000	100,000	98,380	1,620
Miscellaneous	2,500	2,500	4,293	(1,793)
Total expenditures	<u>8,005,500</u>	<u>8,005,500</u>	<u>7,626,762</u>	<u>378,738</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(424,300)</u>	<u>(424,300)</u>	<u>(170,698)</u>	<u>253,602</u>
Other Financing Sources (Uses):				
Operating transfers in	230,000	230,000	258,449	28,449
Operating transfers out	(250,000)	(250,000)	(250,000)	-
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>8,449</u>	<u>28,449</u>
Net Change in Fund Balance	<u>\$ (444,300)</u>	<u>\$ (444,300)</u>	<u>\$ (162,249)</u>	<u>\$ 282,051</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, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents and royalties	\$ 100	\$ 100	\$ 1,985	\$ 1,885
Intergovernmental revenues	<u>230,000</u>	<u>230,000</u>	<u>239,941</u>	<u>9,941</u>
Total revenues	230,100	230,100	241,926	11,826
Expenditures:				
Public works	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	230,100	230,100	241,926	11,826
Other Financing Sources (Uses):				
Operating transfers out	<u>(230,000)</u>	<u>(230,000)</u>	<u>(258,449)</u>	<u>(28,449)</u>
Net Change in Fund Balance	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ (16,523)</u>	<u>\$ (16,623)</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, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 4,600	\$ 4,600	\$ 10,976	\$ 6,376
Sewer fees	2,248,100	2,248,100	2,282,737	34,637
Total revenues	2,252,700	2,252,700	2,293,713	41,013
Expenditures:				
Administration	33,000	33,000	30,813	2,187
Sewer system	2,111,700	2,111,700	2,110,121	1,579
Total expenditures	2,144,700	2,144,700	2,140,934	3,766
Excess (Deficiency) of Revenues Over Expenditures	108,000	108,000	152,779	44,779
Other Financing Sources (Uses):				
Operating transfers out	(383,500)	(383,500)	(388,244)	(4,744)
Total other financing sources (uses)	(383,500)	(383,500)	(388,244)	(4,744)
Net Change in Fund Balance	<u>\$ (275,500)</u>	<u>\$ (275,500)</u>	<u>\$ (235,465)</u>	<u>\$ 40,035</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF PLAN NET POSITION FIDUCIARY FUNDS - PENSION TRUST FUNDS

DECEMBER 31, 2018

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Assets				
Cash and cash equivalents	\$ 587,671	\$ 468,661	\$ -	\$ 1,056,332
Investments:				
Corporate bonds	1,183,460	976,880	-	2,160,340
Municipal bonds	1,505,910	1,221,933	-	2,727,843
Registered investment companies	-	-	36,530	36,530
Equities	4,383,765	3,626,841	-	8,010,606
Other:				
Accrued income receivable	35,148	28,835	-	63,983
Total Assets	7,695,954	6,323,150	36,530	14,055,634
Liabilities				
Pension benefits payable	-	-	-	-
Net Position Restricted For Pension Benefits	\$ 7,695,954	\$ 6,323,150	\$ 36,530	\$ 14,055,634

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, 2018

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Additions:				
Contributions:				
Employer (including state aid)	\$ 4,161	\$ 178,298	\$ 9,496	\$ 191,955
Employee	57,892	54,803	9,496	122,191
Total contributions	62,053	233,101	18,992	314,146
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	(321,233)	(275,293)	(2,865)	(599,391)
Interest and dividends	214,054	178,315	-	392,369
Asset exchange	8,336	6,625	-	14,961
Total investment income	(98,843)	(90,353)	(2,865)	(192,061)
Less investment expense	44,543	36,986	62	81,591
Net investment income (loss)	(143,386)	(127,339)	(2,927)	(273,652)
Total additions	(81,333)	105,762	16,065	40,494
Deductions:				
Benefits	105,285	313,532	-	418,817
Administrative expense	6,038	3,101	-	9,139
Total deductions	111,323	316,633	-	427,956
Change in Net Position	(192,656)	(210,871)	16,065	(387,462)
Net position - beginning	7,888,610	6,534,021	20,465	14,443,096
Net position - ending	\$ 7,695,954	\$ 6,323,150	\$ 36,530	\$ 14,055,634

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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. In 2017, the Borough transferred the \$59 balance in the Sanitary Authority bank account to the Sewer Fund and inactivated the Sanitary Authority until such time as the Borough may need to borrow funds for sewer infrastructure improvements. The Sanitary Authority will be active for 2019 as the Borough adopts a stormwater maintenance fee.

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.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a particular function or segment. Program revenues include

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018

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.

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.

Land Acquisition Fund

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

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Interceptor Fund

The Interceptor Fund was established in 2014 to accumulate funds for a future 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.

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. The Fire Truck Capital Project Fund, and K-9 Fund had no legally adopted budget for 2018.

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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 2018 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 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, 2018 was not material.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Interfund Receivables, Payables and Transfers

Interfunds receivable are considered to be available, expendable resources, and are reported as assets in the "due from other funds" account. Interfunds 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, 2018 are as follows:

	Due To	Due From
Sewer Fund	\$ -	\$ 52,824
Interceptor Fund	52,824	-
	<u>\$ 52,824</u>	<u>\$ 52,824</u>
	Transfer In	Transfer Out
General Fund	\$ 258,449	\$ 250,000
Sewer Fund	-	388,244
Interceptor Fund	369,744	-
Capital Reserve Fund	268,500	-
Highway Aid	-	258,449
	<u>\$ 896,693</u>	<u>\$ 896,693</u>

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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

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

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 2019 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.

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 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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

The following Governmental Accounting Standards Board (GASB) statements were adopted for the year ended December 31, 2018: Statement Nos. 75 (OPEBs), 85 (Omnibus), 86 (Certain Debt Extinguishment issues). These statements had no significant impact on the Borough's financial statements for the year ended December 31, 2018.

Pending Pronouncements

GASB has issued several statements that will become effective in future years, including Statement Nos. 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61). 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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, \$500,000 of the Borough's \$1,332,623 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$832,623 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 institution's name. These deposits have carrying amounts of \$1,277,077 as of December 31, 2018.

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. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. The net asset value per share for the purpose of calculating the price at which shares are issued and redeemed is determined by the Administrator each banking day. Such determination is made by subtracting the liabilities from the value of the assets and dividing the remainder by the number of shares outstanding. 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 PLGIT – Class accounts without limitation or fees upon adequate notice. The Borough withdrawals from PLGIT – Prime account are limited to two per calendar month.

As of December 31, 2018, the PLGIT bank and book balances totaled \$6,834,316, which are considered to be a cash equivalent for presentation on the statement of net position and governmental funds balance sheet.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, 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 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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

As of December 31, 2018, the Borough had the following investments in its Pension Trust Funds:

Cash or Investment Type	Fair Value	Investment Maturities from December 31, 2018			
		Less Than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Corporate bonds	\$ 2,160,340	\$ -	\$ 1,146,311	\$ 1,014,029	\$ -
Municipal bonds	2,727,843	270,661	956,209	1,264,002	236,971
Total fixed income investments	4,888,183	\$ 270,661	\$ 2,102,520	\$ 2,278,031	\$ 236,971
Money market funds	1,056,332				
Corporate common stocks:					
Health Care	1,627,115				
Industrials	1,050,699				
Information technology	1,340,011				
Consumer staples	1,091,531				
Financial	530,304				
Energy	285,574				
Materials	505,130				
Telecommunication services	894,005				
Consumer discretionary	686,237				
Total corporate common stocks	8,010,606				
Registered investment companies	36,530				
Total cash and other investments	9,103,468				
Total cash and investments reported on the statement of plan net position	\$ 13,991,651				

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 Borough's investments are all valued using quoted market prices (Level 1).

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, 2018, 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.

As of December 31, 2018, the Borough had the following credit quality distribution for fixed income investments with credit exposure:

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

<u>Rating (1)</u>	<u>Percentage of Total Fixed Income Investments with Credit Exposure</u>
AAA	6.0%
AA1	12.0%
AA2	9.0%
AA3	8.0%
A1	3.0%
A2	2.0%
A3	3.0%
BAA1	16.0%
BAA2	14.0%
BAA3	7.0%
BA1	1.0%
Not rated	19.0%
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, 2018, the Borough's entire pension cash, cash equivalents, and investment balance of \$13,991,651 (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, 2018

3. Capital Assets

A summary of capital asset transactions during 2018 is as follows:

	January 1, 2018	Reclass	Additions	Disposals	December 31, 2018
Capital assets, not being depreciated:					
Land	\$ 8,825,586	\$ -	\$ -	\$ -	\$ 8,825,586
Construction in progress	122,313	-	31,450	-	153,763
Total capital assets, not being depreciated	8,947,899	-	31,450	-	8,979,349
Capital assets, being depreciated:					
Buildings and improvements	2,194,836	-	-	-	2,194,836
Furniture and equipment	407,955	(7,975)	26,519	25,923	400,576
Machinery and equipment	1,256,908	7,975	63,488	20,975	1,307,396
Vehicles	2,831,344	-	137,165	83,018	2,885,491
Infrastructure	4,336,127	-	1,366,200	-	5,702,327
Total capital assets, being depreciated	11,027,170	-	1,593,372	129,916	12,490,626
Less accumulated depreciation for:					
Buildings and improvements	1,295,005	-	42,413	-	1,337,418
Furniture and equipment	348,929	(7,975)	14,712	25,923	329,743
Machinery and equipment	655,330	7,975	68,885	20,975	711,215
Vehicles	1,638,116	-	159,622	83,018	1,714,720
Infrastructure	822,978	-	288,549	-	1,111,527
Total accumulated depreciation	4,760,358	-	574,181	129,916	5,204,623
Total capital assets, being depreciated, net	6,266,812	-	1,019,191	-	7,286,003
Total capital assets, net	\$ 15,214,711	\$ -	\$ 1,050,641	\$ -	\$ 16,265,352

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Administration	\$ 8,346
Borough building	43,919
Police department	40,417
Fire department	54,627
Rubbish collection	114
Public works	419,159
Sewer system	5,657
Parks and recreation	1,942
Total depreciation expense	<u>\$ 574,181</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 2018, 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 \$1,197,172,541 for 2018.

5. Compensated Absences

The following is a summary of the change in compensated absences of the Borough for the year ended December 31, 2018:

	Amount Payable as of January 1, 2018	Change in Payable	Amount Payable as of December 31, 2018
Compensated absences	<u>\$ 183,587</u>	<u>\$ 14,823</u>	<u>\$ 198,410</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

6. 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.

At December 31, 2018, Plan membership consisted of the following:

	General Employees DB	General Employees DC	Police
Inactive plan members or beneficiaries currently receiving benefit	11	-	8
Inactive plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	12	3	10
Total plan members	23	3	18

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 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:

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 \$36,530 at December 31, 2018.

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 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.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

On December 18, 2017, the Borough adopted Resolution 618 which amended the Police Pension Plan to add a Deferred Retirement Option Plan (DROP) for all full-time police officers of the Borough. The DROP provides an optional form of benefit to members of the Police Pension Plan who have met the age and service eligibility requirements for normal retirement. Any eligible member may elect to participate in the DROP by retiring for pension purposes and specifying a future termination date not more than three years from the effective date of the DROP election. The monthly pension benefit is calculated at the date of election and credited to a separate ledger account for the period of DROP participation along with interest at the rate earned by the money market account within the Plan compounded and credited monthly. The rate of interest shall not be less than 0% nor more than 4.5% per year until participation ends. A member may change the DROP termination date to an earlier date without penalty.

During 2018, one eligible plan member participated in the DROP program and, under the terms of the Resolution, were considered retired for pension purposes. The monthly pension benefit was calculated and is being created to a separate ledger account, with interest. Included in the cash and cash equivalents on the Statement of Net Position Pension Trust Funds is \$22,413 in a DROP account.

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 2018. Contributions for the General Employees Plan were also 5% for 2018 for both the DB and DC plans.

During 2018, the required MMOs for the Police Plan and General Employees Defined Benefit Plan were \$4,161 and \$178,298, respectively. The Borough contributed the funds necessary to meet the required MMOs. During 2018, the Borough contributed \$9,496 to the General Employees Defined Contribution Plan.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Net Pension Liability (Asset)

The components of the net pension liability (asset) of the Plans at December 31, 2018 were as follows:

	<u>General Employees</u>	<u>Police</u>
Total pension liability	\$ 6,831,930	\$ 6,721,860
Plan fiduciary net position	<u>(6,323,150)</u>	<u>(7,695,954)</u>
Net pension liability (asset)	<u>\$ 508,780</u>	<u>\$ (974,094)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	<u>92.55%</u>	<u>114.49%</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018 were as follows:

General Employees DB Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ 6,552,794	\$ 6,534,021	\$ 18,773
Changes for the year:			
Service cost	135,290	-	135,290
Interest	457,378	-	457,378
Differences between expected and actual	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	178,298	(178,298)
Contributions - employee	-	54,803	(54,803)
Net investment income	-	(90,353)	90,353
Benefit payments, including refunds	(313,532)	(313,532)	-
Administrative expense	-	(40,087)	40,087
Other changes	-	-	-
Net changes	279,136	(210,871)	490,007
Balances at December 31, 2018	\$ 6,831,930	\$ 6,323,150	\$ 508,780

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Police Pension Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ 6,229,421	\$ 7,888,610	\$ (1,659,189)
Changes for the year:			
Service cost	154,474	-	154,474
Interest	443,250	-	443,250
Differences between expected and actual	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	4,161	(4,161)
Contributions - employee	-	57,892	(57,892)
Net investment income	-	(98,843)	98,843
Benefit payments, including refunds	(105,285)	(105,285)	-
Administrative expense	-	(50,581)	50,581
Other changes	-	-	-
Net changes	492,439	(192,656)	685,095
Balances at December 31, 2018	<u>\$ 6,721,860</u>	<u>\$ 7,695,954</u>	<u>\$ (974,094)</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2017, and rolled forward to December 31, 2018, 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 for both plans are based on an actuarial experience study for the period January 1, 2015 to December 31, 2016, with a roll-forward to December 31, 2018.

Mortality assumptions for the General Employees Plan are based on the RP-2014 Mortality Table, with rates set forward 5 years for disabled lives. Mortality assumptions for the Police Plan are based on the RP-2014 Mortality Table with 50% of Blue Collar Adjustment, with rates set forward 5 years for disabled members. Mortality improvement for both Plans is derived from the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.

Changes in Actuarial Assumptions – Based upon an actuarial valuation performed as of January 1, 2017 for the Police Plan, the mortality table was changed from the RP-2000 Combined Healthy mortality table with Blue Collar adjustment and rates projected using 75% of scale AA to the RP-2014 mortality table with 50% of the Blue-Collar adjustment and projected mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report. Also, the disability assumption was updated from 60% of the rates of disablement from Advanced Pension Tables to rates based on the Social Security Administration's 2010 projection of disability incidence. These changes increased the Actuarial Accrued Liability by \$286,185.

Based upon an actuarial valuation performed as of January 1, 2017 for the General Employees Plan, the mortality table was changed from the RP-2000 Combined Healthy mortality table with rates projected using 75% of scale AA to the RP-2014 mortality table with projected mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report. Also, the disability assumption was updated from 60% of the rates of disablement from Advanced Pension Tables to rates based on the Social Security Administration's 2010 projection of disability incidence. These changes increased the Unfunded Actuarial Accrued Liability by \$259,303.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 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, 2018:

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, 2018, the annual money-weighted rate of return on the General Employees and Police Pension Plan investments, net of investment expense, was -1.40% and -1.26%, respectively.

Concentrations – There were no individual investments that constituted more than 5% of plan net position as of December 31, 2018.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

Sensitivity of the Net Pension Liability (Asset) 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	\$ 1,168,700	\$ 508,780	\$ (63,581)
Police Plan	\$ (195,694)	\$ (974,094)	\$ (1,628,037)

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

For the year ended December 31, 2018, the Borough recognized pension expense of \$333,361. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>General Employees</u>	<u>Police</u>
<u>Deferred Outflow of Resources:</u>		
Changes in assumption	\$ 264,917	\$ 182,215
Net difference between projected and actual earnings on pension plan investments	515,296	616,278
Total deferred outflows of resources	<u>\$ 780,213</u>	<u>\$ 798,493</u>
	<u>General Employees</u>	<u>Police</u>
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 119,863	\$ 389,612
Changes in assumption	-	-
Net difference between projected and actual earnings on pension plan investments	288,268	354,847
Total deferred inflows of resources	<u>\$ 408,131</u>	<u>\$ 744,459</u>

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>	
2019	\$ 165,091
2020	(15,054)
2021	38,221
2022	237,858
Total	<u>\$ 426,116</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

7. 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. The report determined that construction of the sewer main should commence in late 2024. 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.

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 “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 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 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 1 Consent Order and Agreement (Phase 1 COA) with the ACHD. Fox Chapel signed the Phase 1 COA in December 2015. The Phase 1 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

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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. In November 2017, Borough Council adopted Resolution No. 617 approving Phase 1 Consent Order and Agreement Source Flow Adoption Study and the Borough submitted the same to the regulators.

8. Cooper-Siegel Community Library

In 2010, the Library Authority entered into a lease rental agreement with CLA for use of the library. Annual payments to the Library Authority were scheduled through 2017. CLA has the option to purchase the library after the final payment for \$1. This purchase option has not yet occurred.

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, the minimum amount increased 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.

CLA will pay the Borough, \$30,000 per year in site rental payments for the term of the lease. The payments commence on February 1, 2012 and continue for 99 years. The parties reserve the right to renegotiate financial terms every 10 years. As a result of the termination of the Library Authority, the Borough assumed the lease during 2018.

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, 2018, 2017, 2016, 2015, AND 2014

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 135,290	\$ 147,234	\$ 144,762	\$ 138,528	\$ 120,711
Interest	457,378	439,568	413,239	396,681	392,362
Differences between expected and actual experience	-	(175,699)	-	(47,630)	-
Changes of assumptions	-	259,303	-	259,303	-
Benefit payments, including refunds of member contributions	(313,532)	(327,107)	(293,887)	(315,537)	(298,768)
Net Changes in Total Pension Liability	279,136	343,299	264,114	431,345	214,305
Total Pension Liability - Beginning	6,552,794	6,167,226	5,903,112	5,471,767	5,257,462
Total Pension Liability - Ending (a)	\$ 6,831,930	\$ 6,510,525	\$ 6,167,226	\$ 5,903,112	\$ 5,471,767
Plan Fiduciary Net Position:					
Contributions - employer	\$ 178,298	\$ 168,878	\$ 167,392	\$ 198,297	\$ 154,546
Contributions - member	54,803	52,444	54,893	55,140	54,816
Net investment income	(90,353)	811,249	488,228	(55,569)	405,315
Benefit payments, including refunds of member contributions	(313,532)	(327,107)	(293,887)	(315,537)	(298,768)
Administrative expense	(40,087)	(41,525)	(35,874)	(6,522)	(2,652)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(210,871)	663,939	380,752	(124,191)	313,257
Plan Fiduciary Net Position - Beginning	6,534,021	5,870,082	5,489,330	5,613,521	5,300,264
Plan Fiduciary Net Position - Ending (b)	\$ 6,323,150	\$ 6,534,021	\$ 5,870,082	\$ 5,489,330	\$ 5,613,521
Net Pension Liability (Asset) - Ending (a-b)	\$ 508,780	\$ (23,496)	\$ 297,144	\$ 413,782	\$ (141,754)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.55%	100.36%	95.18%	92.99%	102.59%
Covered Payroll	\$ 1,159,521	\$ 1,023,960	\$ 1,077,766	\$ 1,096,317	\$ 1,060,144
Net Pension Liability (Asset) as a Percentage of Covered Payroll	43.88%	-2.29%	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, 2018, 2017, 2016, 2015, AND 2014

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 154,474	\$ 147,118	\$ 134,755	\$ 143,036	\$ 145,430
Interest	443,250	411,974	400,442	376,262	390,672
Differences between expected and actual experience	-	(378,701)	-	(496,451)	-
Changes of assumptions	-	286,185	-	286,185	-
Benefit payments, including refunds of member contributions	(105,285)	(133,544)	(167,505)	(163,733)	(150,753)
Net Changes in Total Pension Liability	492,439	333,032	367,692	145,299	385,349
Total Pension Liability - Beginning	6,229,421	6,035,874	5,668,182	5,522,883	5,137,534
Total Pension Liability - Ending (a)	\$ 6,721,860	\$ 6,368,906	\$ 6,035,874	\$ 5,668,182	\$ 5,522,883
Plan Fiduciary Net Position:					
Contributions - employer	\$ 4,161	\$ 39,632	\$ 35,992	\$ 56,643	\$ 50,760
Contributions - member	57,892	56,826	55,385	53,762	51,767
Net investment income	(98,843)	979,577	598,625	(67,563)	479,168
Benefit payments, including refunds of member contributions	(105,285)	(133,544)	(167,505)	(163,733)	(150,753)
Administrative expense	(50,581)	(48,835)	(41,966)	(6,495)	(2,478)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(192,656)	893,656	480,531	(127,386)	428,464
Plan Fiduciary Net Position - Beginning	7,888,610	6,994,954	6,514,423	6,641,809	6,213,345
Plan Fiduciary Net Position - Ending (b)	\$ 7,695,954	\$ 7,888,610	\$ 6,994,954	\$ 6,514,423	\$ 6,641,809
Net Pension Liability (Asset) - Ending (a-b)	\$ (974,094)	\$ (1,519,704)	\$ (959,080)	\$ (846,241)	\$ (1,118,926)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.49%	123.86%	115.89%	114.93%	120.26%
Covered Payroll	\$ 1,136,519	\$ 1,107,694	\$ 1,075,239	\$ 1,052,638	\$ 1,019,032
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-85.71%	-137.20%	-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:

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Schedule of Borough's Contributions										
Actuarially determined contribution	\$ 178,298	\$ 168,878	\$ 167,392	\$ 158,297	\$ 154,546	\$ 142,096	\$ 140,641	\$ 112,908	\$ 107,744	\$ 28,444
Contributions in relation to the actuarially determined contribution	178,298	168,878	167,392	198,297	154,546	142,096	140,641	179,643	107,744	28,444
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (40,000)	\$ -	\$ -	\$ -	\$ (66,735)	\$ -	\$ -
Covered payroll	\$ 1,159,521	\$ 1,023,960	\$ 1,077,766	\$ 1,096,317	\$ 1,060,144	\$ 1,016,534	\$ 1,006,620	\$ 1,034,125	\$ 991,006	\$ 971,438
Contributions as a percentage of covered payroll	15.38%	16.49%	15.53%	18.09%	14.58%	13.98%	13.97%	17.37%	10.87%	2.93%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	-1.40%	14.07%	9.03%	-0.42%	8.38%	n/a	n/a	n/a	n/a	n/a

POLICE PLAN:

Schedule of Borough's Contributions										
Actuarially determined contribution	\$ 4,161	\$ 39,632	\$ 35,992	\$ 56,643	\$ 50,760	\$ 42,196	\$ 42,815	\$ 44,214	\$ 40,342	\$ -
Contributions in relation to the actuarially determined contribution	4,161	39,632	35,992	56,643	50,760	42,196	42,815	44,214	40,342	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,136,519	\$ 1,107,694	\$ 1,075,239	\$ 1,052,638	\$ 1,019,032	\$ 1,120,451	\$ 1,062,076	\$ 999,493	\$ 968,911	\$ 932,544
Contributions as a percentage of covered payroll	0.37%	3.58%	3.35%	5.38%	4.98%	3.77%	4.03%	4.42%	4.16%	0.00%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	-1.26%	14.11%	9.25%	-0.45%	8.37%	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, 2018

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	1/1/2017	1/1/2017
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	2.75%	2.75%

Benefit Changes

General Employees Plan

No benefit changes were recognized for the January 1, 2017 actuarial valuation.

Police Plan

No benefit changes were recognized for the January 1, 2017 actuarial valuation.

BOROUGH OF FOX CHAPEL

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2018

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, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 2,000	\$ 2,000	\$ 11,500	\$ 9,500
Miscellaneous	26,500	26,500	18,300	(8,200)
Total revenues	28,500	28,500	29,800	1,300
Expenditures:				
Capital outlay:				
Administration	15,000	15,000	26,519	(11,519)
Police department	90,000	90,000	86,290	3,710
Public works	127,200	127,200	95,351	31,849
Total expenditures	232,200	232,200	208,160	24,040
Excess (Deficiency) of Revenues Over Expenditures	(203,700)	(203,700)	(178,360)	25,340
Other Financing Sources (Uses):				
Operating transfers in	268,500	268,500	268,500	-
Net Change in Fund Balance	\$ 64,800	\$ 64,800	\$ 90,140	\$ 25,340

BOROUGH OF FOX CHAPEL

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

LAND ACQUISITION FUND

YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 1,400	\$ 1,400	\$ 9,513	\$ 8,113
Total revenues	1,400	1,400	9,513	8,113
Expenditures:				
Capital outlay	375,000	375,000	31,450	343,550
Total expenditures	375,000	375,000	31,450	343,550
Excess (Deficiency) of Revenues Over Expenditures	(373,600)	(373,600)	(21,937)	351,663
Net Change in Fund Balance	<u>\$ (373,600)</u>	<u>\$ (373,600)</u>	<u>\$ (21,937)</u>	<u>\$ 351,663</u>

BOROUGH OF FOX CHAPEL

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

INTERCEPTOR FUND

YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 6,000	\$ 6,000	\$ 20,587	\$ 14,587
Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	6,000	6,000	20,587	14,587
Other Financing Sources (Uses):				
Operating transfers in	365,000	365,000	369,744	4,744
Net Change in Fund Balance	<u>\$ 371,000</u>	<u>\$ 371,000</u>	<u>\$ 390,331</u>	<u>\$ 19,331</u>