

# **Borough of Fox Chapel**

## Financial Statements and Required Supplementary and Supplementary Information

Year Ended December 31, 2014  
with Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2014

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## Independent Auditor's Report

Members of Council  
Borough of Fox Chapel

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Fox Chapel (Borough), Pennsylvania, as of and for the year ended December 31, 2014, 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 Borough'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 Borough'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, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Highway Aid Fund, the Sewer

Fund, and the Interceptor 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 xiv and 38 through 45 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 22, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of the Fox Chapel financial report presents a narrative overview and analysis of the Borough's financial performance for the fiscal year ended December 31, 2014. Please read this management's discussion and analysis 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, 2014.

In 2004, the Borough implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.”* The Borough continues to use this accounting standard and provides comparative analysis of the government-wide data presented in the comprehensive annual financial report.

### FINANCIAL HIGHLIGHTS

- The Borough's total net position increased by \$979,359 to \$19.5M in 2014, an increase of 5.3%.
- The total fund balance of the General Fund at December 31, 2014 is \$1,103,460, of which \$456,800 has been assigned for use in the 2015 budget and \$646,660 is unassigned. In 2014, the fund balance in the General Fund decreased by \$41,942.
- Total revenue in all budgeted funds was \$88,936 under budget due to shortfalls in earned income tax collection. Current year (2014) expense exceeded 2013 expense by \$310,443, or 4.2%, but total expense in all budgeted funds was \$1,117,152 under budget due to a fire truck costing \$554,000 not being delivered and invoiced until 2015. The remainder of the positive experience was due to a very favorable road paving bid and projects that had to be postponed until 2015 due to delays in receiving DEP permits. The Library Authority Fund is the only unbudgeted fund.
- The total assessed valuation of the Borough on December 31, 2014 was \$1,169,003,168, a decrease of \$23.9M, or 2%, from the valuation on December 31, 2013 due to individual court appeals to the 2012 county-wide reassessment values. Earned income tax was the primary source of income in 2014 at 32%, followed by real estate tax at 31%, and charges for services at 25% when using the full accrual basis of accounting. In 2014, the Borough real estate tax millage was increased from 2.16 mills to 2.3 mills for general purposes to offset stagnant earned income tax and the decline in the real estate assessment.
- The earned income tax rate remained at 0.5% with 2014 estimated tax (accrual) decreasing by \$358,673 over 2013 estimated tax, a decrease of 11.8%. In 2012, a new State-wide collection system was implemented, requiring employers to withhold earned income tax. By 2016, we will have a five-year history under this new collection system, making estimated tax accruals more predictable in the future.

- Combined pension plan net position increased by \$741,721, or 6.4%, over 2013 due to investment gains. The pension plan fiduciary net position as a percentage of the total pension liability for the General Employees and Police Plans was 102.59% and 120.26%, respectively. The Borough adopted asset smoothing in 2009 as the asset valuation method for both pension plans. This is expected to lessen the impact of volatile market highs and lows on the long-term valuation of the plans.
- In 2014, the Borough closed the General Employees Defined Benefit Pension Plan to new participants and created a defined contribution plan for new hires. A similar change could not be made to the Police Plan due to Pennsylvania law.
- At December 31, 2014, the Borough has no outstanding debt.
- Major capital purchases in 2014 include: two police patrol vehicles, a door access control system for the police department, archive software, and engineering of a conceptual plan for new public works facilities.
- The Fox Chapel Library Authority was created in December 2009 to secure outside financing that would be used along with capital campaign funds to construct a new library. When a favorable construction bid was received in the spring of 2010, it was determined that the Borough's Land Fund had enough funds available to loan funds to the Library Authority to complete the construction. A total of \$2,574,200 was loaned. The first annual principal and interest payment was received by the Borough in 2012 with full repayment due by 2017. At December 31, 2014, the outstanding balance was \$1,404,200.
- Borough roads are in average condition with some requiring extensive drainage work in the future. A long-term road rebuilding and paving program was adopted by Council in 2012, which required an increase of \$500,000 or more annually to the road paving/drainage budgets.
- In June 2013, Borough Council adopted the Administrative Consent Order Feasibility Study Report (Report), which was then submitted to the Allegheny County Health Department, PA DEP, and the Allegheny County Sanitary Authority (ALCOSAN). The report concluded a need for 2.6 miles of repairs of sewer pipe in the upper reaches of the sanitary sewer system and 2.5 miles of sewer main upsizing. The cost of these repairs totals \$10.7M. Borough Council concluded that work on the repairs to the sewer pipes should begin in 2014 and progress until completed. Borough Council has calculated the sewer rates needed to fund these projects and increased the rates accordingly. PA DEP/Allegheny County Health Department has verified that the Report meets the criteria required. The 2004 Administrative Consent Order expires on March 30, 2015. ALCOSAN, after receiving public comment and input from the Federal EPA, will be revising the ALCOSAN Consent Decree. Therefore, the Borough may need to revise its Feasibility Study Report and has asked the Allegheny County Health Department for an extension to the Administrative Consent Order.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements (pages 1-2) are government-wide financial statements that provide long-term and short-term information about the Borough’s overall financial status, as well as the financial status of its component unit.
- The remaining statements (pages 3-12) are fund financial statements that focus on individual parts of Borough government, reporting operations in more detail than the government-wide statements.
  - The governmental funds statements describe how general government services such as public safety and recreation were financed.
  - Fiduciary fund statements provide information about the retirement plans for municipal employees in which the Borough acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support municipal activities.

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

**Figure A-1**  
**REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

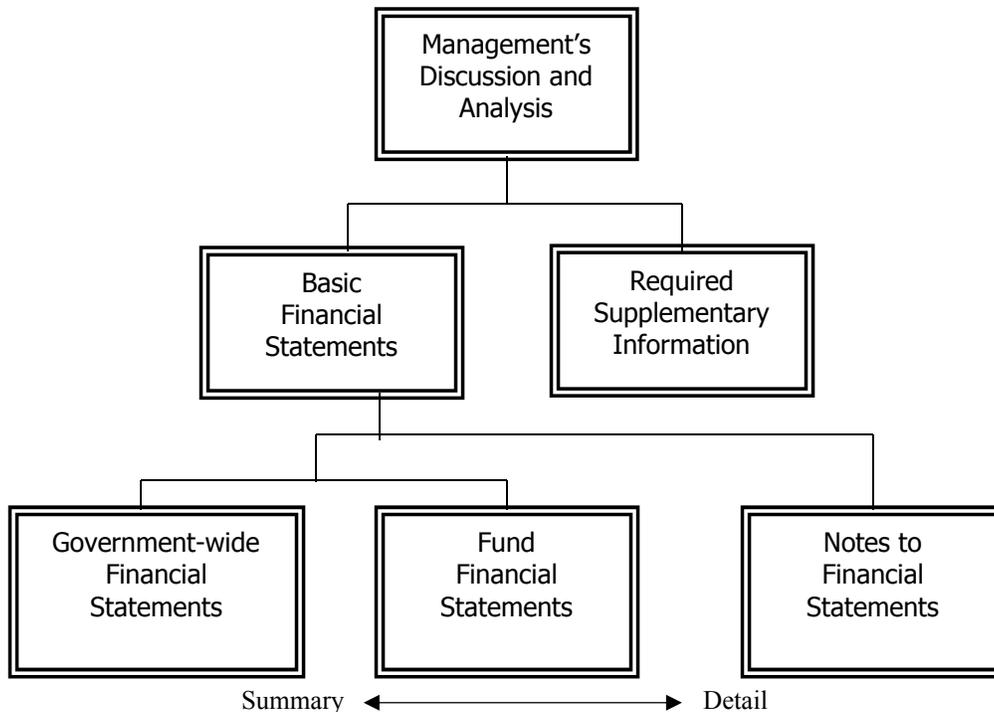


Figure A-2 summarizes the major features of the Borough’s financial statements. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2  
Major Features of Fox Chapel’s Government-wide and Fund Financial Statements**

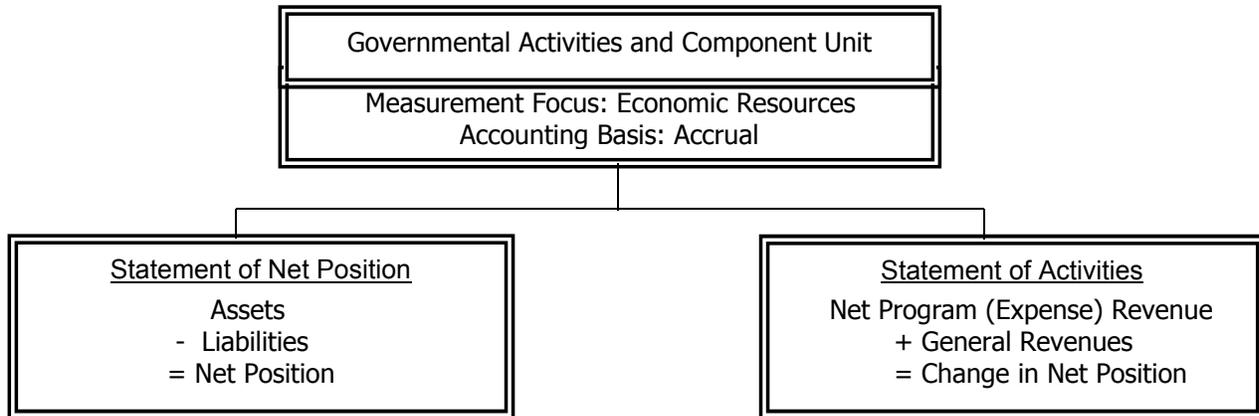
	<b>Fund Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire municipal government (except fiduciary funds) and the Borough’s component unit	The activities of the Borough that are not proprietary or fiduciary, such as police, fire, and recreation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

### **Government-wide Statements**

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

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

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



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

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

### Fund Financial Statements

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

The Borough has two kinds of funds:

- *Governmental funds* - Most of the Borough's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.
- *Fiduciary funds* - The Borough is the trustee, or *fiduciary*, for two single-employer pension plans covering general employees and police employees. These plans cover essentially all full-time employees. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Borough's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE BOROUGH AS A WHOLE

The Borough's net position at December 31, 2014 and 2013 is presented below:

### Summary of Statements of Net Position December 31, 2014 and 2013

	Governmental Activities		
	2014	2013	Variance
Current and other assets	\$ 7,224,957	\$ 6,664,358	\$ 560,599
Capital assets	12,894,554	12,629,261	265,293
<b>Total Assets</b>	<b>\$ 20,119,511</b>	<b>\$ 19,293,619</b>	<b>\$ 825,892</b>
Current and other liabilities	\$ 643,561	\$ 797,028	\$ (153,467)
<b>Total Liabilities</b>	<b>\$ 643,561</b>	<b>\$ 797,028</b>	<b>\$ (153,467)</b>
Net Position:			
Net investment in capital assets	\$ 12,894,554	\$ 12,629,261	\$ 265,293
Restricted	909,688	354,659	555,029
Unrestricted	5,671,708	5,512,671	159,037
<b>Total Net Position</b>	<b>\$ 19,475,950</b>	<b>\$ 18,496,591</b>	<b>\$ 979,359</b>

#### **Net position:**

In 2014, total net position of governmental activities increased by \$979,359 to \$19.5M, an increase of 5.3%. Investment in capital assets, net of related debt as of December 31, 2014 increased by \$265,293, or 2.1%, with the addition of \$527,384 of infrastructure assets and other capital purchases that exceeded current year depreciation. The unrestricted net position of \$5,671,708 identifies funds available to maintain operations or invest in additional capital assets.

#### **Infrastructure assets:**

At December 31, 2014, the Borough's total net position is \$19.5M. Of this amount, \$12.9M is accounted for by capital assets. Historically, infrastructure (roads, sewers, etc.) has not been reported or depreciated in governmental financial statements. GASB Statement No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, at least prospectively, from the time of adoption of GASB Statement No. 34. The Borough has chosen to report all infrastructure additions in excess of \$500,000 per system, per year, prospectively, beginning in 2004, the first such additions being reported in 2012.

The following presents the Borough's change in net position for the fiscal years ended December 31, 2014 and 2013:

Change in Net Position  
Years Ended December 31, 2014 and 2013

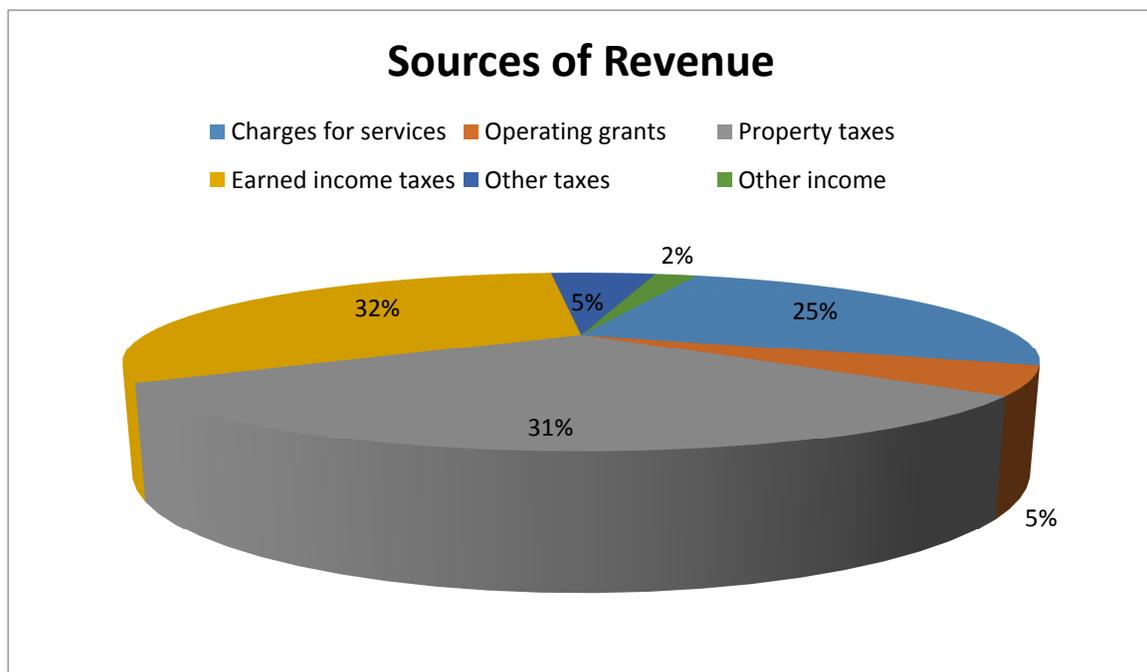
	Governmental Activities		
	2014	2013	Variance
<b>Revenues:</b>			
Program Revenues:			
Charges for services	\$ 2,105,096	\$ 1,448,334	\$ 656,762
Operating grants	395,788	391,527	4,261
Capital grants	-	-	-
General Revenues:			
Property taxes	2,639,388	2,483,509	155,879
Earned income taxes	2,690,244	3,048,916	(358,672)
Other taxes	386,116	409,144	(23,028)
Interest income	137,690	151,314	(13,624)
Other	65,080	93,367	(28,287)
<b>Total Revenues</b>	<b>8,419,402</b>	<b>8,026,111</b>	<b>393,291</b>
<b>Program Expenses:</b>			
Administration	808,563	892,640	(84,077)
Tax collection	52,209	57,858	(5,649)
Borough building	277,422	137,348	140,074
Police	1,514,937	1,471,249	43,688
Fire	277,247	214,291	62,956
Code enforcement	110,167	139,858	(29,691)
Rubbish collection	794,995	780,937	14,058
Sewer system	1,558,273	1,328,199	230,074
Public works	1,568,292	1,415,319	152,973
Library	390,200	380,000	10,200
Parks and recreation	87,738	33,810	53,928
Debt service	-	-	-
<b>Total Expenses</b>	<b>7,440,043</b>	<b>6,851,509</b>	<b>588,534</b>
<b>Change in Net Position</b>	<b>979,359</b>	<b>1,174,602</b>	<b>(195,243)</b>
Net position - beginning of year	18,496,591	17,321,989	1,174,602
Net position - end of year	<b>\$ 19,475,950</b>	<b>\$ 18,496,591</b>	<b>\$ 979,359</b>

## Governmental Activities

### REVENUE SOURCES

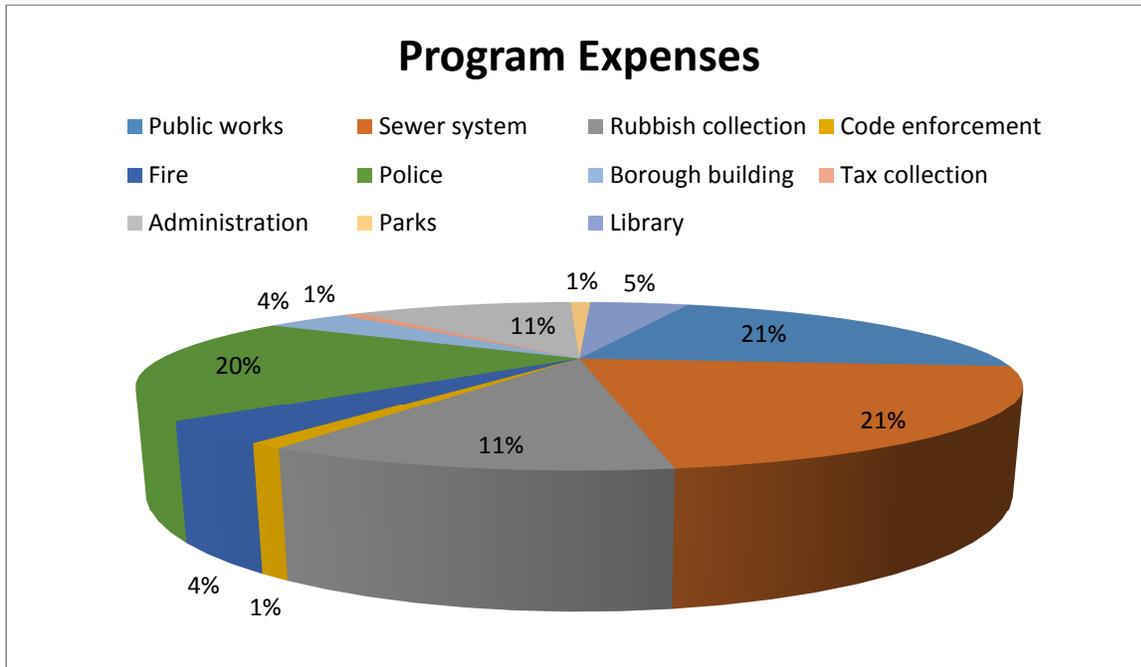
Total government-wide revenue of \$8.4M was \$393,291 greater than 2013 revenue, an increase of 4.9%. The 2014 revenue is derived primarily from earned income tax at 32% and real estate tax at 31% of the total. Charges for services total 25% of revenue followed by operating grants at 5%, other taxes at 5%, and other general revenue at 2%. The Statement of Activities shows *accrued* 2014 earned income tax revenues of \$2,690,244, a decrease of \$358,672 or 11.8% from 2013 *accrued* earned income. This *accrued* earned income tax revenue includes taxes collected in 2014 as well as taxes receivable at year-end, which is an *estimate* based on prior years' experience. In 2012, a new system of earned income tax collection was implemented, making it very difficult to project total tax for accrual until we have at least five years of experience under the new collections system.

The following chart graphically depicts the government-wide sources of revenues for the fiscal year ended December 31, 2014:



## PROGRAM EXPENSES

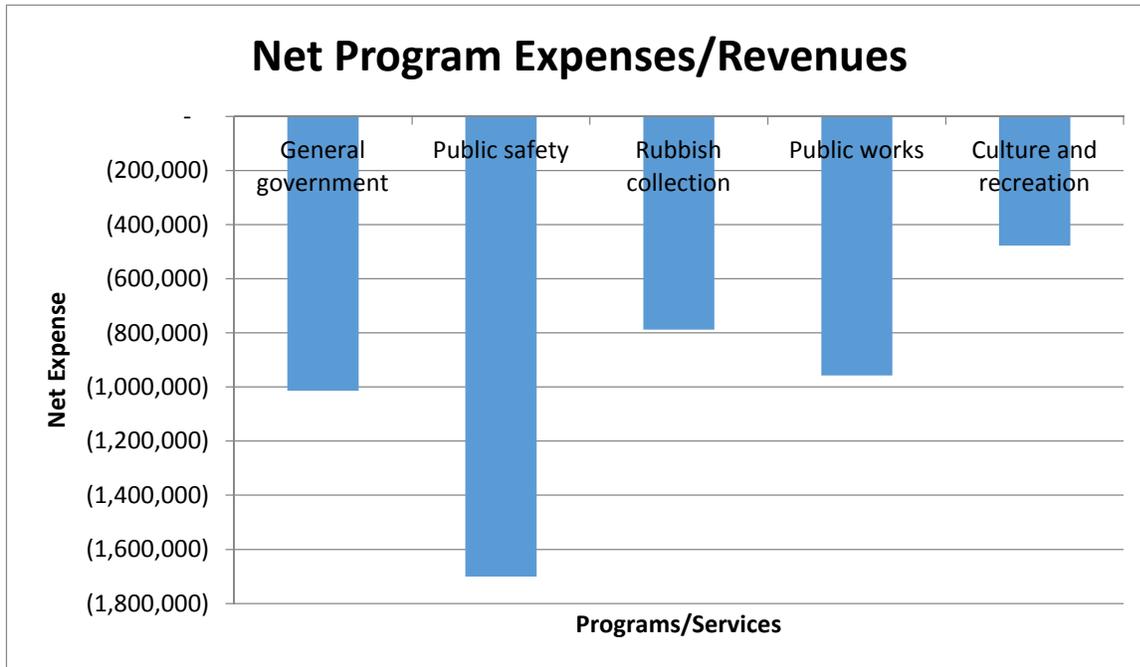
Total expense for all programs in 2014 is \$7.4M, up \$588,534, or 8.6%, from 2013. The increase was due to mandatory sewer system repairs, road and storm water repairs related to the road rebuilding plan, and a project to remove below-ground fuel tanks, install a new, above-ground tank, and remove contaminated soil associated with the old tanks. The expenses reflect the delivery of a wide range of services with the largest being public works/sewers at 42% followed by public safety at 25%, general government at 16%, rubbish collection at 11%, library at 5%, and parks at 1%. Administrative expense decreased by \$84,077 as high legal expense in 2013 incurred over litigation with a land developer decreased in 2014. The cost to maintain the Borough building and grounds increased \$140,074 in 2014 due primarily to the project to replace the fuel tanks and remove the contaminated soil. Sewer system costs increased \$230,074, because more Consent Order work was accomplished.



## NET PROGRAM EXPENSES/REVENUES:

Public safety, comprised of police, fire, and code enforcement, required the most revenue for support at \$1.7M. This is followed by general government, which required \$1M and is higher than normal due to the fuel tank project. Public Works, which includes roads, storm sewers, and sanitary sewers, required \$0.96M in revenue for support, followed by rubbish collection at \$0.78M (no separate fee is charged for rubbish collection), and culture and recreation at \$0.48M.

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, 2014:



## FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As the Borough completed the year, its governmental funds reported a combined fund balance of \$4.17M, an increase of \$1,179,621 from the combined fund balance at year-end 2013. The Sewer Fund was responsible for 50% of this increase in the form of increased sewer user fees. The Library Authority Fund accounted for 34% of the increase as the advance from the Borough's Land Acquisition Fund was reduced by a \$400,000 Community Library Association rental payment. In the General Fund, \$456,800 of the fund balance has been assigned for use in 2015 operations and \$646,660 is unassigned and available to meet the Borough's current and future needs. The balances of \$597,035 in the Sewer Fund and \$310,856 in the Interceptor Fund are restricted by law for sewer infrastructure. The balance of \$1,739 in the Highway Aid Fund is restricted by law for road maintenance. In the Capital Reserve Fund, the balance of \$1,042,787 is assigned to the purpose of the fund, which includes capital purchases or improvements. In the Land Acquisition Fund, \$1,404,200 is considered non-spendable because it has been advanced to the Library Authority. The remaining \$1,094,268 is assigned to capital purchases and improvements. By definition, the negative fund balance of (\$1,384,325) in the Library Authority must be considered unassigned.

In 2010, the Borough created the Fox Chapel Library Authority to borrow the remaining funds needed to commence construction of a new library facility adjacent to the Borough building. Cash and future pledge payments were committed to the project by the Community Center and Library Association which

had been engaged in a multi-year fundraising campaign. When the construction bid was awarded, it was determined that the Fox Chapel Library Authority would be able to borrow sufficient funds from the Fox Chapel Borough Land Acquisition 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 Acquisition Fund. The Borough will receive lease payments from the Library Authority that will fully repay the loan by 2017. In 2010, the non-profit Community Library Association was created to run the new facility and make annual lease rental payments to the Fox Chapel Library Authority such that the Library Authority can make annual debt payments to the Borough of Fox Chapel. The Borough will assist the Community Library Association with their annual lease payments to the Fox Chapel Library Authority to a maximum of \$1,450,000 such that only \$1.57M will permanently be returned to the Land Acquisition Fund and available for future use.

### **General Fund Budgetary Highlights**

Total revenue of \$6,319,012 was an increase of \$89,565, or 1.4%, from 2013 due to a real estate tax millage increase offset by a \$23.9M assessment reduction. Total expenses of \$6,266,707 were \$367,183 greater than 2013, an increase of 6.2%. Expenses were under budget by \$220,893 due to a favorable road paving bid and projects that had to be postponed until 2015 due to delays in receiving DEP permits. General Fund revenues exceeded expenses by \$52,305 on the year when the budget projected a deficit of \$279,700, a net gain of \$332,005. These funds were assigned to be used in 2015 to complete the projects postponed from 2014 due to DEP permit delays. The fund balance on December 31, 2014 was \$1,103,460, of which \$456,800 was assigned for use in the 2015 budget and \$646,660 was unassigned.

Cumulatively, General Fund expenditures were \$220,893, or 3.4%, under budget. Public Works expense was \$296,416 under budget due to savings in contracted road paving and bridge and guide rail projects that were delayed until 2015. Police expense was \$81,093 under budget due to savings in overtime and fuel. Additional police savings were realized when an officer whose wages had been budgeted for the entire year terminated in March and his replacement was paid a much lower rate. Maintenance to the Borough building exceeded budget by \$121,607 due to the removal of underground fuel tanks, replacement with an above-ground tank, and removal of contaminated soil related to the old tanks. There were also unexpected HVAC repairs. Administration expense exceeded budget by \$44,515 due to legal costs incurred in litigation with a developer and the use of unbudgeted consultants.

The 2014 General Fund budget allocated \$750,000 for the paving of Old Mill Road and Berkshire Drive along with a slide repair on Old Mill Road. The paving contract was bid jointly with the Township of O'Hara and the Borough of Sharpsburg, resulting in significant savings for all three municipalities. The Borough saved \$210,000 on the paving and slide repair. Additional savings were realized as Borough crews were able to complete major drainage work instead of using contracting the work out.

### **Other Major Funds**

#### **Sewer Fund**

The Sewer Fund was established to account for the operations of the Borough's sanitary sewer facilities. Such operations include the collection of sewer user fees and expenditures for the operation and maintenance of the system as well as payments to the Allegheny County Sanitary Authority (ALCOSAN) for treatment services provided. Billing service for sanitary sewage is contracted to Fox Chapel Authority, which also provides and bills for water. In 2014, sewer consumption rates were doubled to pay for repairs mandated by the ALCOSAN Consent Order. In addition, a \$45 per account/per quarter/per equivalent dwelling unit fee was implemented to raise funds in advance for a major upsizing of the sewer interceptor currently mandated by the by the ALCOSAN Consent Order (which is subject to change). As a result of these sewer rate changes, sewer revenue increased \$656,313, or 52%, over 2013 revenue. Sewer expenditures increased 11.7% as more repairs were done to comply with the Consent Order. The fund balance of the Sewer Fund was \$597,035 on December 31, 2014, all of which was

restricted for sewer infrastructure.

### **Capital Reserve Fund**

The Capital Reserve Fund is used to accumulate funds for future replacement of capital assets, including vehicles, furniture, and equipment. This fund may also be used to accumulate funds for the construction or renovation of buildings. In December, \$270,000 was transferred from the General Fund to offset a portion of the current depreciation of the above-mentioned items. The most significant capital expenditures in 2014 included two police patrol vehicles (\$51,838), camera and door access control systems for the police office (\$18,094), engineering of the conceptual plan for new public works facilities (\$29,562), and an email archive system (\$4,250). A fire truck was budgeted at \$554,000 but will not be delivered until 2015, and was therefore re-budgeted in 2015. The capital funding plan was reviewed by the Borough Manager and Finance Director in 2014 and updated to reflect current and future equipment needs and costs. The fund balance of the Capital Reserve Fund as of December 31, 2014 was \$1,042,787, all of which was assigned for capital purchases and improvements.

### **Land Acquisition Fund**

The Land Acquisition Fund was established for the accumulation of funds for future park and land acquisitions by the Borough. At times, the Land Acquisition Fund has also been used to loan money to the Fox Chapel Sanitary Authority for the retirement of outstanding bonds and for the construction of sewers. In 2010 and 2011, a total of \$2,574,200 was loaned to the Fox Chapel Library Authority to complete the construction of a new library adjacent to the municipal building. These funds will be repaid in annual installments with final payment scheduled for 2017. The fund balance of the Land Fund as of December 31, 2014 was \$2,498,468 but only \$1,094,268 is available for current projects, as the remainder has been advanced to the Library Authority.

### **Highway Aid Fund**

The Highway Aid Fund is used to account for the receipt of State aid revenues from Liquid Fuels Tax with disbursements restricted for use in building and maintaining roads and bridges in the Borough. Twenty percent of each year's allotment may be accumulated for the purchase of equipment. In 2014, an additional \$17,800 was received above what was budgeted due to a legislation change that enabled the transfer of additional funds to the General Fund to offset the purchase of road salt. The fund balance of the Highway Aid Fund on December 31, 2014 was \$1,739, all of which was restricted to road maintenance and other permitted uses of PA Liquid Fuels funds.

### **Sanitary Authority Fund**

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

### **Library Authority Fund**

The Fox Chapel Library Authority was created in December 2009 to borrow funds to construct a new library adjacent to the municipal building. Revenue of \$1,878,193 in 2010 consisted mainly of the transfer of funds raised by the Community Center and Library Association capital campaign that were designated for the construction of a new library. Additional funding included an advance of \$2,574,200 from the Fox Chapel Land Acquisition Fund. The library opened in April, 2011. The Library Authority began making annual loan payments to the Borough in 2012 with full repayment due by 2017. Funds will be obtained by the Library Authority through annual lease rental payments from the Community Library Association over the same period. The fund balance of the Library Authority as of December 31, 2014 was negative \$1,384,325 due to the advance of \$1,404,200, all of which was unassigned.

## **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. At December 31, 2014, there were 14 vested and 0 non-vested participants in the General Employees Plan and 11 vested and 1 non-vested participants in the Police Plan. Employee contribution rates were set at 5% for employees in both plans. During 2014, combined plan net assets increased by \$741,721 due to investment gains. 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. This smoothing also decreased the amount the Borough was required to contribute to the plans in 2010, 2011, 2012, and 2013.

During 2014, the General Employees Plan had a required municipal contribution of \$154,546 and the Police Plan \$50,760. State aid accounted for \$139,416 of the Borough’s total required contribution of \$205,306 for a net pension outlay of \$65,890 from the Borough. In addition, the employees contributed \$106,583. The pension plan fiduciary net position as a percentage of the total pension liability for the General Employees and Police Plans was 102.59% and 120.26%, respectively.

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. There are currently no participants in the defined contribution plan. By Pennsylvania law, all police pension plans must be defined benefit plans, so no similar changes can be made to the Police Plan. The required supplementary information located at the conclusion of the Notes to Financial Statements provides more details on the plans’ funding progress.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

Capital assets consist primarily of land, buildings and improvements, machinery, equipment, infrastructure, and vehicles. The following is a summary of capital assets at December 31, 2014 and 2013:

	Balance at December 31, 2014	Balance at December 31, 2013	Variance
Land	\$ 8,825,586	\$ 8,825,586	\$ -
Construction in Progress	76,340	46,778	29,562
Infrastructure	1,845,731	1,318,347	527,384
Buildings and improvements	2,194,836	2,194,836	-
Furniture and equipment	399,535	402,276	(2,741)
Machinery and equipment	1,074,281	1,052,735	21,546
Vehicles	2,432,093	2,425,541	6,552
	<u>16,848,402</u>	<u>16,266,099</u>	<u>582,303</u>
Less accumulated depreciation for:			
Infrastructure	197,758	92,289	105,469
Building and improvements	1,163,761	1,119,944	43,817
Furniture and equipment	294,432	283,702	10,730
Machinery and equipment	695,062	646,874	48,188
Vehicles	1,602,835	1,494,029	108,806
	<u>3,953,848</u>	<u>3,636,838</u>	<u>317,010</u>
Total assets less accumulated depreciation	<u>\$ 12,894,554</u>	<u>\$ 12,629,261</u>	<u>\$ 265,293</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 2014 with no debt.

### **CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT**

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

Borough of Fox Chapel Finance Department  
401 Fox Chapel Road  
Pittsburgh, PA 15238  
412-963-1100 x 111

# BOROUGH OF FOX CHAPEL

## STATEMENT OF NET POSITION

DECEMBER 31, 2014

<b>Assets</b>	<b>Governmental Activities</b>
Cash and cash equivalents	\$ 4,461,278
Receivables:	
Lease	1,404,200
Taxes	1,131,336
Other	148,221
Net pension asset	79,922
Capital assets, not depreciated	8,901,926
Capital assets net of accumulated depreciation	3,992,628
<b>Total Assets</b>	<b>20,119,511</b>
<hr/>	
<b>Liabilities</b>	
Accounts payable	261,730
Escrow deposits	214,770
Accumulated compensated absences	167,061
<b>Total Liabilities</b>	<b>643,561</b>
<hr/>	
<b>Net Position</b>	
Net investment in capital assets	12,894,554
Restricted for:	
Road construction/maintenance	1,739
Sewage infrastructure	907,949
Unrestricted	5,671,708
<b>Total Net Position</b>	<b>\$ 19,475,950</b>

See accompanying notes to financial statements.

# BOROUGH OF FOX CHAPEL

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

<b>Functions/Programs</b>	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
Administration	\$ 808,563	\$ 86,621	\$ 37,861	\$ (684,081)
Tax collection	52,209	-	-	(52,209)
Borough building	277,422	-	-	(277,422)
Police department	1,514,937	8,660	50,910	(1,455,367)
Fire department	277,247	-	70,369	(206,878)
Code enforcement	110,167	65,665	5,874	(38,628)
Rubbish collection	794,995	-	6,392	(788,603)
Sewer system	1,558,273	1,908,805	12,235	362,767
Public works	1,568,292	35,345	212,147	(1,320,800)
Library	390,200	-	-	(390,200)
Parks and recreation	87,738	-	-	(87,738)
Total governmental activities	\$ 7,440,043	\$ 2,105,096	\$ 395,788	\$ -
General revenues:				
Taxes:				
Real estate				2,639,388
Earned income				2,690,244
Other				386,116
Interest income				137,690
Miscellaneous income				65,080
Total general revenues				5,918,518
<b>Change in Net Position</b>				979,359
<b>Net Position:</b>				
Beginning of year				18,496,591
End of year				\$ 19,475,950

See accompanying notes to financial statements.

## BOROUGH OF FOX CHAPEL

### BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Library Authority	Total Governmental Funds
<b>Assets</b>									
Cash and cash equivalents	\$ 1,310,549	\$ 1,739	\$ 702,882	\$ 58	\$ 1,042,787	\$ 1,094,268	\$ 289,120	\$ 19,875	\$ 4,461,278
Receivables:									
Taxes	1,131,336	-	-	-	-	-	-	-	1,131,336
Other	24,270	-	123,951	-	-	-	-	-	148,221
Due from other funds	-	-	-	-	-	-	21,736	-	21,736
Interfund advance	-	-	-	-	-	1,404,200	-	-	1,404,200
<b>Total Assets</b>	<b>\$ 2,466,155</b>	<b>\$ 1,739</b>	<b>\$ 826,833</b>	<b>\$ 58</b>	<b>\$ 1,042,787</b>	<b>\$ 2,498,468</b>	<b>\$ 310,856</b>	<b>\$ 19,875</b>	<b>\$ 7,166,771</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 53,668	\$ -	\$ 208,062	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,730
Interfund advance	-	-	-	-	-	-	-	1,404,200	1,404,200
Due to other funds	-	-	21,736	-	-	-	-	-	21,736
Escrow liability	214,770	-	-	-	-	-	-	-	214,770
<b>Total Liabilities</b>	<b>268,438</b>	<b>-</b>	<b>229,798</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,404,200</b>	<b>1,902,436</b>
<b>Deferred Inflows of Resources:</b>									
Unavailable revenue - earned income taxes	977,990	-	-	-	-	-	-	-	977,990
Unavailable revenue - real estate taxes	116,267	-	-	-	-	-	-	-	116,267
<b>Total Deferred Inflows of Resources</b>	<b>1,094,257</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,094,257</b>
<b>Fund Balance (Deficit):</b>									
Nonspendable:									
Interfund advance	-	-	-	-	-	1,404,200	-	-	1,404,200
Restricted:									
Road construction/maintenance	-	1,739	-	-	-	-	-	-	1,739
Sewage infrastructure	-	-	597,035	58	-	-	310,856	-	907,949
Assigned:									
Use in 2015 budget	456,800	-	-	-	-	-	-	-	456,800
Capital purchases/construction	-	-	-	-	1,042,787	1,094,268	-	-	2,137,055
Unassigned	646,660	-	-	-	-	-	-	(1,384,325)	(737,665)
<b>Total Fund Balance (Deficit)</b>	<b>1,103,460</b>	<b>1,739</b>	<b>597,035</b>	<b>58</b>	<b>1,042,787</b>	<b>2,498,468</b>	<b>310,856</b>	<b>(1,384,325)</b>	<b>4,170,078</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)</b>	<b>\$ 2,466,155</b>	<b>\$ 1,739</b>	<b>\$ 826,833</b>	<b>\$ 58</b>	<b>\$ 1,042,787</b>	<b>\$ 2,498,468</b>	<b>\$ 310,856</b>	<b>\$ 19,875</b>	<b>\$ 7,166,771</b>

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, 2014

**Total Fund Balance - Governmental Funds** \$ 4,170,078

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. The cost of the assets is \$16,848,402 and the accumulated depreciation is \$3,953,848. 12,894,554

Lease revenue to be collected in the future. 1,404,200

Property taxes and earned income taxes receivable will be collected next year but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the fund financial statements.

Earned income tax	\$ 977,990	
Real estate tax	<u>116,267</u>	1,094,257

Amounts contributed in excess of the annual pension costs are not current financial resources and, therefore, are not reported in the funds. 79,922

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund. Long-term liabilities at year-end consist of:

Accumulated compensated absences	<u>(167,061)</u>
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**Total Net Position - Governmental Activities** \$ 19,475,950

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, 2014

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Library Authority	Total Governmental Funds
<b>Revenues:</b>									
Taxes:									
Real estate	\$ 2,641,284	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,641,284
Earned income	2,799,475	-	-	-	-	-	-	-	2,799,475
Other	386,116	-	-	-	-	-	-	-	386,116
Licenses and permits	88,350	-	-	-	-	-	-	-	88,350
Fines and related costs	8,168	-	-	-	-	-	-	-	8,168
Interest, rents, and royalties	3,310	65	366	-	1,719	97,430	95	500,030	603,015
Intergovernmental revenues	225,931	169,857	-	-	-	-	-	-	395,788
Charges for services	99,773	-	-	-	-	-	-	-	99,773
Sewer fees	-	-	1,908,805	-	-	-	-	-	1,908,805
Miscellaneous	66,605	-	-	-	8,615	-	-	-	75,220
<b>Total revenues</b>	<b>6,319,012</b>	<b>169,922</b>	<b>1,909,171</b>	<b>-</b>	<b>10,334</b>	<b>97,430</b>	<b>95</b>	<b>500,030</b>	<b>9,005,994</b>
<b>Expenditures:</b>									
Current:									
Administration	685,515	-	33,356	-	-	-	-	-	718,871
Tax collection	51,985	-	-	-	-	-	-	-	51,985
Borough building	211,207	-	-	-	-	-	-	-	211,207
Police department	1,420,307	-	-	-	-	-	-	-	1,420,307
Fire department	129,060	-	-	-	-	-	-	-	129,060
Code enforcement	99,847	-	-	-	-	-	-	-	99,847
Rubbish collection	793,309	-	-	-	-	-	-	-	793,309
Sewer system	-	-	1,305,625	-	-	-	-	-	1,305,625
Public works	1,569,000	-	-	-	-	-	-	-	1,569,000
Library	350,000	-	-	-	-	10,200	-	30,000	390,200
Parks and recreation	85,711	-	-	-	-	-	-	-	85,711
Employee benefits	209,936	-	-	-	-	-	-	-	209,936
Insurance	88,818	-	-	-	-	-	-	-	88,818
Miscellaneous (refunds and judgments)	44,628	-	-	-	-	-	-	-	44,628
Debt service:									
Interest	-	-	-	-	-	-	-	65,325	65,325
Capital outlay	527,384	-	-	-	115,160	-	-	-	642,544
<b>Total expenditures</b>	<b>6,266,707</b>	<b>-</b>	<b>1,338,981</b>	<b>-</b>	<b>115,160</b>	<b>10,200</b>	<b>-</b>	<b>95,325</b>	<b>7,826,373</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>52,305</b>	<b>169,922</b>	<b>570,190</b>	<b>-</b>	<b>(104,826)</b>	<b>87,230</b>	<b>95</b>	<b>404,705</b>	<b>1,179,621</b>
<b>Other Financing Sources (Uses):</b>									
Operating transfers in	175,753	-	-	-	281,500	-	310,761	-	768,014
Operating transfers out	(270,000)	(173,678)	(322,261)	-	-	(2,075)	-	-	(768,014)
<b>Total other financing sources (uses)</b>	<b>(94,247)</b>	<b>(173,678)</b>	<b>(322,261)</b>	<b>-</b>	<b>281,500</b>	<b>(2,075)</b>	<b>310,761</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(41,942)</b>	<b>(3,756)</b>	<b>247,929</b>	<b>-</b>	<b>176,674</b>	<b>85,155</b>	<b>310,856</b>	<b>404,705</b>	<b>1,179,621</b>
<b>Fund Balance (Deficit):</b>									
Beginning of year	1,145,402	5,495	349,106	58	866,113	2,413,313	-	(1,789,030)	2,990,457
End of year	<u>\$ 1,103,460</u>	<u>\$ 1,739</u>	<u>\$ 597,035</u>	<u>\$ 58</u>	<u>\$ 1,042,787</u>	<u>\$ 2,498,468</u>	<u>\$ 310,856</u>	<u>\$ (1,384,325)</u>	<u>\$ 4,170,078</u>

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, 2014

**Net Change in Fund Balance - Governmental Funds** \$ 1,179,621

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	\$ 642,544	
	Less: Depreciation expense	<u>(367,111)</u>	275,433

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position. (10,140)

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	(83,291)	
	Real Estate Tax	<u>16,792</u>	(66,499)

Lease receivable results in current financial capital outlays in the governmental funds, while the repayment of the principal of the lease provides current financial resources to the governmental funds. This amount is the net effect of these differences in the treatment of lease receivable. (400,000)

Some revenues (expenditures) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues (expenditures) in governmental funds. (3,487)

In the statement of activities, accumulated employee benefits (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. 4,431

**Change in Net Position of Governmental Activities** \$ 979,359

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, 2014

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Taxes:				
Real estate	\$ 2,623,600	\$ 2,623,600	\$ 2,641,284	\$ 17,684
Earned income	2,708,400	2,708,400	2,799,475	91,075
Other	419,000	419,000	386,116	(32,884)
Licenses and permits	86,000	86,000	88,350	2,350
Fines and related costs	12,500	12,500	8,168	(4,332)
Interest, rents, and royalties	3,000	3,000	3,310	310
Intergovernmental revenues	233,700	233,700	225,931	(7,769)
Charges for services	56,700	56,700	99,773	43,073
Miscellaneous	65,000	65,000	66,605	1,605
Total revenues	6,207,900	6,207,900	6,319,012	111,112
<b>Expenditures:</b>				
Current:				
Administration	641,000	641,000	685,515	(44,515)
Tax collection	59,700	59,700	51,985	7,715
Borough building	89,600	89,600	211,207	(121,607)
Police department	1,501,400	1,501,400	1,420,307	81,093
Fire department	129,200	129,200	129,060	140
Code enforcement	101,600	101,600	99,847	1,753
Rubbish collection	799,200	799,200	793,309	5,891
Public works	2,392,800	2,392,800	2,096,384	296,416
Library	350,000	350,000	350,000	-
Parks and recreation	100,700	100,700	85,711	14,989
Employee benefits	209,400	209,400	209,936	(536)
Insurance	84,000	84,000	88,818	(4,818)
Miscellaneous	29,000	29,000	44,628	(15,628)
Total expenditures	6,487,600	6,487,600	6,266,707	220,893
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(279,700)	(279,700)	52,305	332,005
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	153,000	153,000	175,753	22,753
Operating transfers out	(270,000)	(270,000)	(270,000)	-
Total other financing sources (uses)	(117,000)	(117,000)	(94,247)	22,753
<b>Net Change in Fund Balance</b>	\$ (396,700)	\$ (396,700)	\$ (41,942)	\$ 354,758

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, 2014

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Interest, royalties, and rentals	\$ 100	\$ 100	\$ 65	\$ (35)
Intergovernmental revenues	152,000	152,000	169,857	17,857
Total revenues	152,100	152,100	169,922	17,822
<b>Expenditures:</b>				
Public works	-	-	-	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	152,100	152,100	169,922	17,822
<b>Other Financing Sources (Uses):</b>				
Operating transfers out	(152,000)	(152,000)	(173,678)	(21,678)
<b>Net Change in Fund Balance</b>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ (3,756)</u>	<u>\$ (3,856)</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, 2014

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Interest, rents, and royalties	\$ 300	\$ 300	\$ 366	\$ 66
Sewer fees	2,081,400	2,081,400	1,908,805	(172,595)
Total revenues	2,081,700	2,081,700	1,909,171	(172,529)
<b>Expenditures:</b>				
Administration	29,600	29,600	33,356	(3,756)
Sewer system	1,525,600	1,525,600	1,305,625	219,975
Total expenditures	1,555,200	1,555,200	1,338,981	216,219
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	526,500	526,500	570,190	43,690
<b>Other Financing Sources (Uses):</b>				
Operating transfers out	(526,500)	(526,500)	(322,261)	204,239
<b>Net Change in Fund Balance</b>	\$ -	\$ -	\$ 247,929	\$ 247,929

See accompanying notes to financial statements.

# BOROUGH OF FOX CHAPEL

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

### INTERCEPTOR FUND

YEAR ENDED DECEMBER 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Interest, rents, and royalties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ 95</u>
Total revenues	<u>-</u>	<u>-</u>	<u>95</u>	<u>95</u>
<b>Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>-</u>	<u>-</u>	<u>95</u>	<u>95</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	<u>515,000</u>	<u>515,000</u>	<u>310,761</u>	<u>(204,239)</u>
<b>Net Change in Fund Balance</b>	<u><u>\$ 515,000</u></u>	<u><u>\$ 515,000</u></u>	<u><u>\$ 310,856</u></u>	<u><u>\$ (204,144)</u></u>

See accompanying notes to financial statements.

# BOROUGH OF FOX CHAPEL

## STATEMENT OF PLAN NET POSITION FIDUCIARY FUNDS - PENSION TRUST FUNDS

DECEMBER 31, 2014

	Police Pension Fund	General Employees Pension Fund	Total Pension Funds
<hr/> <b>Assets</b> <hr/>			
Cash and cash equivalents	\$ 355,752	\$ 304,277	\$ 660,029
Investments:			
Corporate bonds	847,133	659,219	1,506,352
Municipal bonds	1,220,597	981,314	2,201,911
Equities	4,191,692	3,647,252	7,838,944
Other:			
Accrued income receivable	26,635	21,459	48,094
<b>Total Assets</b>	<b>6,641,809</b>	<b>5,613,521</b>	<b>12,255,330</b>
<hr/> <b>Liabilities</b> <hr/>			
	-	-	-
<b>Net Position Restricted For Pension Benefits</b>	<b>\$ 6,641,809</b>	<b>\$ 5,613,521</b>	<b>\$ 12,255,330</b>

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, 2014

	Police Pension Fund	General Employees Pension Fund	Total Pension Funds
<b>Additions:</b>			
Contributions:			
Employer (including state aid)	\$ 50,760	\$ 154,546	\$ 205,306
Employee	51,767	54,816	106,583
Total contributions	102,527	209,362	311,889
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments	304,259	258,745	563,004
Interest and dividends	172,187	143,697	315,884
Asset exchange	39,545	34,329	73,874
	515,991	436,771	952,762
Less investment expense	36,823	31,456	68,279
Net investment income (loss)	479,168	405,315	884,483
Total additions	581,695	614,677	1,196,372
<b>Deductions:</b>			
Benefits	150,753	298,768	449,521
Administrative expense	2,478	2,652	5,130
Total deductions	153,231	301,420	454,651
<b>Change in Net Position</b>	428,464	313,257	741,721
Net position - beginning	6,213,345	5,300,264	11,513,609
Net position - ending	\$ 6,641,809	\$ 5,613,521	\$ 12,255,330

See accompanying notes to financial statements.

# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

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

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

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

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

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements.

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# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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

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

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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

### **Governmental Funds:**

The Borough presents the following major governmental funds:

#### General Fund

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

#### Highway Aid Fund

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

#### Sewer Fund

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

#### Sanitary Authority Fund

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

#### Capital Reserve Fund

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

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# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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### Land Acquisition Fund

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

### Interceptor Fund

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

### Library Authority Fund

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

## **Fiduciary Funds:**

### Pension Trust Funds

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

### Budgets and Budgetary Accounting

An appropriated budget is adopted annually for the following funds on a basis consistent with accounting principles generally accepted in the United States of America: General, Highway Aid, Sewer, Interceptor, Capital Reserve, and Land Acquisition. Budgetary control for various funds of the Library Authority is maintained through the lease agreement with the Borough. The Sanitary Authority Special Revenue Fund and Library Authority Special Revenue Fund have no legally adopted budget.

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

1. The fiscal year shall coincide with the calendar year.

# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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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 2014 budget.

All annual appropriations lapse at year-end. The level of control (level at which expenditures can not 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.

### Inventory

Inventory, mainly road department materials, is recorded as an expenditure when purchased. The inventory balance at December 31, 2014 was not material.

### Interfund Advances and Transfers

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

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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The balances at December 31, 2014 are as follows:

	<u>Due To</u>	<u>Due From</u>
Sewer Fund	\$ 21,736	\$ -
Interceptor Fund	-	21,736
	<u>\$ 21,736</u>	<u>\$ 21,736</u>
	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 175,753	\$ 270,000
Highway Aid Fund	-	173,678
Sewer Fund	-	322,261
Capital Reserve Fund	281,500	-
Land Acquisition Fund	-	2,075
Interceptor Fund	310,761	-
	<u>\$ 768,014</u>	<u>\$ 768,014</u>

Additionally, as described in Note 6, the interfund advance in the amount of \$1,404,200 and interest income of \$65,325 has been eliminated from the government-wide financial statements.

### Compensated Absences

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

### Net Position

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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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 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.
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# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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- 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 2015 budget and for capital purchases and construction.
- Unassigned – This category represents all other funds not otherwise defined.

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

### Deficit Fund Balance

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

### Capital Assets

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

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

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

### Estimates

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

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# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### Adoption of Pronouncements

The requirements of the Governmental Accounting Standards Board (GASB) Statement No. 67, *“Financial Reporting for Pension Plans”* was adopted for the Borough’s 2014 financial statements. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

### Pending Pronouncements

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Borough’s financial statements:

GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* and Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* effective for fiscal years beginning after June 15, 2014 (the Borough’s financial statements for the year ending December 31, 2015). These statements establish new financial reporting requirements for most governments that provide their employees with pension benefits.

GASB Statement No. 72, *“Fair Value Measurement and Application,”* effective for fiscal years beginning after June 15, 2015 (the Borough’s financial statements for the year ending December 31, 2016). This statement addresses accounting and financial reporting issues related to fair value measurements.

## **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. and Pennsylvania government obligations, 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, 2014

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### 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, 2014, \$500,000 of the Borough's \$4,536,737 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$4,036,737 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 \$4,461,278 as of December 31, 2014.

### 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, 2014

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As of December 31, 2014, the Borough had the following investments in its Pension Trust Funds:

<u>Investment Type</u>	<u>Fair Market Value</u>
Cash and cash equivalents:	
Money market funds	\$ 310,056
U.S. Treasury bills	349,973
Total cash and cash equivalents	<u>660,029</u>
Fixed income:	
Corporate bonds, municipal bonds, and mutual funds	3,708,263
Equities:	
Corporate common stocks	<u>7,838,944</u>
Total Investments	<u>11,547,207</u>
Total Cash, Cash Equivalents, and Investments Reported in Combined Statement of Net Position	<u>\$ 12,207,236</u>

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, 2014, 100% of the Pension Trust Funds' investments in money market funds received an AAA rating from Standard & Poor's as of the latest rating available. Also, approximately 7%, 15%, 12%, 18%, 5%, 4%, 13%, 13%, 9% and 4% of the Pension Trust Funds' investments in bond funds received an Aaa, Aa1, Aa2, Aa3, A2, A3, Baa1, Baa2, Baa3 and N/A rating, respectively, from Moody's.

*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

# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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physical or book entry form. As of December 31, 2014, the Borough's entire pension cash, cash equivalents, and investment balance of \$12,207,236 (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, but not in the Borough's name. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up to \$250,000 in cash, in the event the counterparty fails, owing the 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. As of December 31, 2014, the Pension Trust Fund had fixed income funds with maturities of less than one year valued at \$76,921, one to five years valued at \$1,430,508, six to ten years valued at \$2,094,888, and eleven to fifteen years valued at \$105,946.

### **3. CAPITAL ASSETS**

A summary of capital asset transactions during 2014 is as follows:

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	January 1, 2014	Additions	Disposals	December 31, 2014
Capital assets, not being depreciated:				
Land	\$ 8,825,586	\$ -	\$ -	\$ 8,825,586
Construction in progress	46,778	29,562	-	76,340
Total capital assets, not being depreciated	8,872,364	29,562	-	8,901,926
Capital assets, being depreciated:				
Buildings and improvements	2,194,836	-	-	2,194,836
Furniture and equipment	402,276	12,214	14,955	399,535
Machinery and equipment	1,052,735	21,546	-	1,074,281
Vehicles	2,425,541	51,838	45,286	2,432,093
Infrastructure	1,318,347	527,384	-	1,845,731
Total capital assets, being depreciated	7,393,735	612,982	60,241	7,946,476
Less accumulated depreciation for:				
Buildings and improvements	1,119,944	43,817	-	1,163,761
Furniture and equipment	283,702	25,545	14,815	294,432
Machinery and equipment	646,874	48,188	-	695,062
Vehicles	1,494,029	144,092	35,286	1,602,835
Infrastructure	92,289	105,469	-	197,758
Total accumulated depreciation	3,636,838	367,111	50,101	3,953,848
Total capital assets, being depreciated, net	3,756,897	245,871	10,140	3,992,628
Total capital assets, net	\$ 12,629,261	\$ 275,433	\$ 10,140	\$ 12,894,554

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

Administration	\$ 13,710
Tax collection	224
Borough building	41,697
Police department	38,696
Fire department	55,151
Code enforcement	621
Rubbish collection	1,686
Public works	204,403
Sewer system	8,896
Parks and recreation	2,027
Total depreciation expense	\$ 367,111

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### 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 2014, Borough real estate taxes were levied at the rate of 2.30 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 approximately \$1,169,003,168 for 2014.

### 5. COMPENSATED ABSENCES

The following is a summary of the change in compensated absences of the Borough for the year ended December 31, 2014:

	<u>Amount Payable as of January 1, 2014</u>	<u>Change in Payable</u>	<u>Amounts Payable as of December 31, 2014</u>
Compensated absences	\$ 171,492	\$ (4,431)	\$ 167,061

### 6. INTERFUND ADVANCE

During 2010, the Library Authority borrowed money from the Borough's Land Acquisition Fund, which was used to construct a new library adjacent to the Borough Building. Additional funds were provided by CLA. Such funds were raised during a public capital campaign. The total advance to complete the construction was \$2,574,200. In addition, interest on the advance will be paid at the rate of 3.5%. Repayment of the advance began on February 1, 2012. Principal and interest payments made in 2014 were \$400,000 and \$65,325, respectively. Future payments are as follows:

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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<u>Year ended December 31,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2015	\$ 420,000	\$ 51,410	\$ 471,410
2016	430,000	36,823	466,823
2017	<u>554,200</u>	<u>21,924</u>	<u>576,124</u>
Total	<u>\$ 1,404,200</u>	<u>\$ 110,157</u>	<u>\$ 1,514,357</u>

### 7. PENSION PLANS

#### Summary of Significant Accounting Policies

Financial information of the General Employee and Police pension plans (Plans) is 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 original 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 Fund in the accompanying financial statements. Separate plan financial statements are not available. In 2014, Council added a defined contribution sub-plan to the General Employees Plan and closed the defined benefit sub-plan to new participants. All full-time, non-uniform new hires will be directed into the defined contribution plan.

At December 31, 2014, Plan membership consisted of the following:

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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	General employees	Police
Inactive plan members or beneficiaries currently receiving benefits	12	7
Inactive plan members entitled to but not yet receiving benefits	-	1
Active plan members	14	11
Total plan members	<u>26</u>	<u>19</u>

As of December 31, 2014, there were no participants in the General Employees defined contribution plan.

### 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 3 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

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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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:

*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 no assets and no total pension liability.

### 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

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# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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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.

### 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 2014. Contributions for the General Employees Plan were also 5% for 2014.

During 2014, the required MMOs for the Police Plan and General Employees Defined Benefit Plan were \$50,760 and \$154,546, respectively.

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, 2014 were as follows:

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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	<u>General Employees</u>	<u>Police</u>
Total pension liability	\$ 5,471,767	\$ 5,522,883
Plan fiduciary net position	<u>(5,613,521)</u>	<u>(6,641,809)</u>
Net pension liability (asset)	<u>\$ (141,754)</u>	<u>\$ (1,118,926)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>102.59%</u>	<u>120.26%</u>

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

	<u>General Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2014	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	5.0%
Underlying inflation rate	3.0%	3.0%

Actuarial assumptions are based on an actuarial experience study for the period January 1, 2013 to December 31, 2013 for the General Employees Plan and January 1, 2011 to December 31, 2012 for the Police Plan, with a roll-forward to December 31, 2014 for both Plans.

Mortality assumptions for the General Employees Plan are based on the RP 2000 Combined Healthy Mortality Table, with rates set forward 5 years for disabled lives. Mortality assumptions for the Police Plan are based on the RP 2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled members. Mortality improvement for both Plans is projected with 75% of scale AA.

*Changes in Actuarial Assumptions* – Based upon an actuarial valuation performed as of January 1, 2013 for the Police Plan, the mortality table was updated from the RP-2000 Combined Healthy Mortality Table with rates set forward five years for disabled members with mortality improvement rates projected to 2005 with scale AA to mortality improvement rates projected with 75% of scale AA. In addition, an adjustment was made to the mortality table to reflect blue collar mortality rates. This assumption change increased the actuarial

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

accrued liability by \$41,692 in the Police Plan. No changes in actuarial assumptions were recognized for the General Employees Plan actuarial valuation performed as of January 1, 2014.

*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, 2014:

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%
	100.0%	100.0%		

*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, 2014, the annual money-weighted rate of return on the General Employees and Police Pension Plan investments, net of investment expense, was 8.38% and 8.37%, respectively.

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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*Concentrations* – There were no individual investments that constituted more than 5% of plan net position as of December 31, 2014.

*Discount Rate* – The discount rate used to measure the total pension liability for both Plans was 7.5%. 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 to changes in the discount rate* – The following presents the net pension liability of the Plans calculated using the discount rates described above, as well as what the Plans' net pension liabilities 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
General Employees Plan	\$ 394,024	\$ (141,754)	\$ (608,364)
Police Plan	\$ (474,070)	\$ (1,118,926)	\$ (1,665,683)

### Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013 for the General Employees and Police Plans as required by the Act. The General Employees Plan also had a valuation done as of January 1, 2014 as the plan was closed and defined contribution was started for new hires.

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	General Employees	Police
Actuarial valuation date	1/1/2014	1/1/2013
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	13 years	17 years
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	3.00%	3.00%

The Borough's annual pension cost, percentage of the annual pension costs contributed, and net pension obligation (asset) for the past three years is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
General Employees:	12/31/2012	\$ 143,270	98%	\$ (81,104)
	12/31/2013	144,922	98%	(70,978)
	12/31/2014	157,584	98%	(67,940)
Police:	12/31/2012	\$ 43,246	99%	\$ (12,800)
	12/31/2013	42,613	99%	(12,431)
	12/31/2014	51,209	99%	(11,982)

The Borough's net pension asset (a negative net pension obligation (NPO)) as of December 31, 2014 is calculated as follows:

# BOROUGH OF FOX CHAPEL

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	General Employees	Police
Annual required contribution	\$ 154,546	\$ 50,760
Interest on NPO	(5,323)	(932)
Adjustment to the ARC	8,361	1,381
Annual pension cost	157,584	51,209
Contributions made	154,546	50,760
Change in NPO (asset)	3,038	449
NPO (asset), 12/31/2013	(70,978)	(12,431)
NPO (asset), 12/31/2014	\$ (67,940)	\$ (11,982)

The net pension asset has been recorded on the statement of net position with the current year changes being reflected in administration and police expenses on the statement of activities.

The Borough's funded status and related information for the Plans as of the latest actuarial valuation date, January 1, 2014 for the General Employees Plan and January 1, 2013 for the Police Plan, under the Act, is as follows:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
General Employees:	\$ 4,898,878	\$ 5,257,462	\$ (358,584)	93.18%	\$ 1,060,144	-33.82%
Police:	\$ 5,232,053	\$ 4,756,583	\$ 475,470	110.00%	\$ 1,120,451	42.44%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the AAL for benefits.

As noted above, for the Police Plan, certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2013. The January 1, 2013 valuation recognized a change in the mortality assumption. The mortality rates were previously projected to the year 2005 using scale AA, and will now be projected dynamically into the

# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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future using 75% of scale AA. In addition, the valuation recognized an adjustment to the mortality table to reflect blue collar mortality rates. Such assumption changes increased the actuarial accrued liability in the Police Plan by \$41,692. No changes in actuarial assumptions were recognized for the General Employees Plan actuarial valuation performed as of January 1, 2014.

### **8. CONTINGENT LIABILITIES**

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

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

In 2002, the Allegheny County Health Department (ACHD) ordered 51 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN) whose sanitary sewers had been identified as being subject to possible wet weather overflows to implement a comprehensive assessment, flow monitoring and planning program. In January 2004, the Borough signed the Administrative Consent Order.

In June 2013, Borough Council passed a resolution adopting the Administrative Consent Order Feasibility Study Report (Report). In July 2013, this Report was submitted to the Allegheny County Health Department, PA DEP and ALCOSAN. The Report concludes 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 will be \$10.7 million. The Report determined that construction of the sewer main should commence in late 2018. 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. PA DEP/Allegheny County Health Department has verified that the Report meets the criteria required. The 2004 Administrative Consent Order expires on March 30, 2015. ALCOSAN, after receiving public comment and input from the Federal EPA, will be revising the ALCOSAN Consent Decree. Therefore, the Borough may need to revise its Report and has asked the Allegheny County Health Department for an extension to the Administrative Consent Order.

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# **BOROUGH OF FOX CHAPEL**

## **NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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### **9. COOPER-SIEGEL COMMUNITY LIBRARY**

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

Also in 2010, the Library Authority entered into a lease rental agreement with CLA for use of the library. Annual payments to the Library Authority are scheduled through 2017. CLA will have the option to purchase the library after the final payment for \$1. The Borough will assist CLA with the payments to the Library Authority up to \$1,450,000. As of December, 31, 2014, assistance payments have been made in the amount of \$10,200. The lease receivable from CLA of \$1,404,200 is included on the statement of net position.

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

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

**Required Supplementary  
Information – Pension Plan  
Disclosures**

# BOROUGH OF FOX CHAPEL

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

#### GENERAL EMPLOYEES PLAN

YEAR ENDED DECEMBER 31, 2014

<b>Total Pension Liability:</b>	
Service cost	\$ 120,711
Interest	392,362
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(298,768)
	214,305
<b>Net Changes in Total Pension Liability</b>	<b>214,305</b>
<b>Total Pension Liability - Beginning</b>	<b>5,257,462</b>
	<b>5,257,462</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 5,471,767</b>
	<b>5,471,767</b>
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 154,546
Contributions - member	54,816
Net investment income	405,315
Benefit payments, including refunds of members contributions	(298,768)
Administrative expense	(2,652)
Other	-
	313,257
<b>Net Change in Plan Fiduciary Net Position</b>	<b>313,257</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>5,300,264</b>
	<b>5,300,264</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 5,613,521</b>
	<b>5,613,521</b>
<b>Net Pension Liability (Asset) - Ending (a-b)</b>	<b>\$ (141,754)</b>
	<b>(141,754)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>102.59%</b>
	<b>102.59%</b>
<b>Covered Employee Payroll</b>	<b>\$ 1,060,144</b>
	<b>1,060,144</b>
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	<b>-13.37%</b>

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

YEAR ENDED DECEMBER 31, 2014

<b>Total Pension Liability:</b>	
Service cost	\$ 145,430
Interest	390,672
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(150,753)
	385,349
<b>Net Changes in Total Pension Liability</b>	<b>385,349</b>
<b>Total Pension Liability - Beginning</b>	<b>5,137,534</b>
	<b>5,137,534</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 5,522,883</b>
	<b>5,522,883</b>
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 50,760
Contributions - member	51,767
Net investment income	479,168
Benefit payments, including refunds of members contributions	(150,753)
Administrative expense	(2,478)
Other	-
	428,464
<b>Net Change in Plan Fiduciary Net Position</b>	<b>428,464</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>6,213,345</b>
	<b>6,213,345</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 6,641,809</b>
	<b>6,641,809</b>
<b>Net Pension Liability (Asset) - Ending (a-b)</b>	<b>\$ (1,118,926)</b>
	<b>(1,118,926)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>120.26%</b>
	<b>120.26%</b>
<b>Covered Employee Payroll</b>	<b>\$ 1,035,330</b>
	<b>1,035,330</b>
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	<b>-108.07%</b>

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

YEAR ENDED DECEMBER 31, 2014

#### GENERAL EMPLOYEES PLAN:

##### Schedule of Borough's Contributions

Actuarially determined contribution	\$ 154,546
Contributions in relation to the actuarially determined contribution	154,546
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,096,317</u>
Contributions as a percentage of covered employee payroll	14.10%

##### Investment Returns

Annual money-weighted rate of return, net of investment expense	8.38%
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#### POLICE PLAN:

##### Schedule of Borough's Contributions

Actuarially determined contribution	\$ 50,760
Contributions in relation to the actuarially determined contribution	50,760
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,035,330</u>
Contributions as a percentage of covered employee payroll	4.90%

##### Investment Returns

Annual money-weighted rate of return, net of investment expense	8.37%
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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, 2014

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### Actuarial Methods and Assumptions under GASB Statement No. 67

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	1/1/2014	1/1/2013
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	13 years	17 years
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	3.00%	3.00%

### Benefit Changes

#### General Employees Plan

No benefit changes were recognized for the January 1, 2014 actuarial valuation.

#### Police Plan

No benefit changes were recognized for the January 1, 2013 actuarial valuation.

# **BOROUGH OF FOX CHAPEL**

## **NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN**

**YEAR ENDED DECEMBER 31, 2014**

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### Change in Actuarial Assumptions

#### General Employees Plan

No changes in actuarial assumptions were recognized for the January 1, 2014 actuarial valuation.

#### Police Plan

The January 1, 2013 valuation recognized a change in the mortality assumption. The mortality rates were previously projected to the year 2005 using scale AA, and will now be projected dynamically into the future using 75% of scale AA. In addition, the valuation recognized an adjustment to the mortality table to reflect blue collar mortality rates.

**Required Supplementary  
Information – Employer Pension  
Plan Disclosures**

# BOROUGH OF FOX CHAPEL

## SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

YEAR ENDED DECEMBER 31, 2014

Calendar Year	General Employees		Police	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2009	\$ 28,444	100%	\$ -	N/A
2010	107,744	100%	40,342	100%
2011	112,908	159%	44,214	100%
2012	140,641	100%	42,815	100%
2013	142,096	100%	42,196	100%
2014	154,546	100%	50,760	100%

Note: Contributions include state pension aid.

See accompanying note to schedules of required supplementary information - employer.

# BOROUGH OF FOX CHAPEL

## SCHEDULES OF FUNDING PROGRESS

YEAR ENDED DECEMBER 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets over (under) AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<b>General Employees:</b>						
1/1/2011	\$ 4,226,086	\$ 4,684,331	\$ (458,245)	90.22%	\$ 1,034,125	(44.31%)
1/1/2013	4,550,657	5,065,948	(515,291)	89.83%	1,016,534	(50.69%)
1/1/2014	4,898,878	5,257,462	(358,584)	93.18%	1,060,144	(33.82%)
<b>Police:</b>						
1/1/2009	\$ 4,352,250	\$ 3,797,770	\$ 554,480	114.60%	\$ 932,544	59.46%
1/1/2011	4,723,702	4,154,475	569,227	113.70%	999,493	56.95%
1/1/2013	5,232,053	4,756,583	475,470	110.00%	1,120,451	42.44%

Note: State law requires biennial valuations on the odd-numbered years.

See accompanying note to schedules of required supplementary information - employer.

# BOROUGH OF FOX CHAPEL

## NOTE TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYER

YEAR ENDED DECEMBER 31, 2014

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### Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>General Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2014	1/1/2013
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	13 years	17 years
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	3.00%	3.00%

### Benefit Change

There were no benefit changes in 2013 for either plan.

### Change in Actuarial Assumptions

Based upon an actuarial valuation performed as of January 1, 2013 for the Police Plan, the mortality table was updated from the RP-2000 Combined Healthy Mortality Table with rates set forward five years for disabled members with mortality improvement rates projected to 2005 with scale AA to mortality improvement rates projected with 75% of scale AA. An adjustment was also made to the mortality table to reflect blue collar mortality rates. No changes in actuarial assumptions were recognized for the General Employees Plan actuarial valuation performed as of January 1, 2014.

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## **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, 2014

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Interest, rents, and royalties	\$ 1,100	\$ 1,100	\$ 1,719	\$ 619
Miscellaneous	54,800	54,800	8,615	(46,185)
Total revenues	55,900	55,900	10,334	(45,566)
<b>Expenditures:</b>				
Capital outlay:				
Administration	4,300	4,300	9,738	(5,438)
Borough building	-	-	29,562	(29,562)
Police department	64,900	64,900	75,860	(10,960)
Fire department	713,000	713,000	-	713,000
Total expenditures	782,200	782,200	115,160	667,040
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(726,300)	(726,300)	(104,826)	621,474
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	281,500	281,500	281,500	-
<b>Net Change in Fund Balance</b>	\$ (444,800)	\$ (444,800)	\$ 176,674	\$ 621,474

# BOROUGH OF FOX CHAPEL

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

### LAND ACQUISITION FUND

YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Interest, rents, and royalties	\$ 97,300	\$ 97,300	\$ 97,430	\$ 130
<b>Expenditures:</b>				
Capital outlay:				
Library	23,200	23,200	10,200	13,000
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	74,100	74,100	87,230	13,130
<b>Other Financing Sources (Uses):</b>				
Operating transfers out	(2,000)	(2,000)	(2,075)	(75)
<b>Net Change in Fund Balance</b>	<u>\$ 72,100</u>	<u>\$ 72,100</u>	<u>\$ 85,155</u>	<u>\$ 13,055</u>