

Borough of Fox Chapel

Financial Statements and Required Supplementary and Supplementary Information

**Year Ended December 31, 2019
with Independent Auditor's Report**

MaherDuessel

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BOROUGH OF FOX CHAPEL

YEAR ENDED DECEMBER 31, 2019

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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, 2019, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough as of December 31, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Highway Aid Fund, Sewer Fund, and the Sanitary Authority 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 xxiv and 45 through 49 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.

Maher Duessel

Pittsburgh, Pennsylvania
April 27, 2020

BOROUGH OF FOX CHAPEL

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Borough of Fox Chapel (Borough) is located in southwestern Pennsylvania, approximately six miles northeast of the City of Pittsburgh. The Borough was incorporated as a local government in 1934 and is governed under the Borough Code adopted by the Commonwealth of Pennsylvania in 1966. The Borough has operated under the Council-Manager form of government since 1936. Under this system, Borough Council is the legislative and policy-making body. The Mayor has direct responsibility for the Police Department. The Manager is the administrative officer of the Borough. Council acts as a board of directors to establish policy and gives directives to the Manager. With the exception of the police, the Manager is in charge of all Borough employees. The Borough provides services in many areas to its residents including various general government services, public safety, public works, sanitation, and recreation. The Borough is very proud of its natural resource protection. Ten percent of all land in the Borough is park land or open space. Another 10% is made up of private school campuses, golf and tennis clubs.

This section of the Fox Chapel financial report presents a narrative overview and analysis of the Borough's financial performance for the fiscal year ended December 31, 2019. Please read this management and discussion in conjunction with the accompanying financial statements and notes which follow in order to obtain a thorough understanding of the Borough's financial condition at December 31, 2019.

FINANCIAL HIGHLIGHTS

- In 2019, the Borough's total net position increased by \$4M to \$30M, an increase of 15.5%. The unrestricted portion of total net position decreased by \$0.7M, a decrease of 10.8%.
- Due to the deteriorating condition of the Borough's public works facilities, plans have been underway for several years to construct a new building, refurbish an existing building and demolish an existing building due to aging, inefficient structures that no longer fit the size of trucks and equipment currently in use. In 2019, approximately \$900,000 of sitework was completed including stormwater management controls needed to meet the conditions of the Borough's Municipal Separate Storm Sewer System (MS4) permit, improvements that were needed even if no new facilities were constructed.
- Prior to 2019, the Borough had no debt. In 2019, the Borough issued \$5.4M in General Obligation Bonds for the acquisition and development of land for a public park; construction and renovation of the public works facilities described above; reimbursement of related site improvements, including stormwater management; and paying the costs of issuing the bonds.
- The Borough earned an "AA+" rating from Standard and Poor's.
- The Borough acquired a major piece of park land that was the missing link in the Borough's trailway system for a purchase price of \$885,000. This property has been appraised at \$1,465,000. As of December 31, 2019, \$722,285 has been raised through donations to offset the purchase and development costs of this property.
- The Borough was awarded a \$248,886 GROW grant from the Allegheny County Sanitary Authority (ALCOSAN) for a sewer project completed in 2018 that reduced groundwater infiltration.

- The Borough spends over \$1M per year on the MS4 stormwater management program referenced above and mandated by the PA Department of Environmental Protection. In 2019, a stormwater user fee was implemented to fund one-third of the program and brought in \$338,100 in new revenue.
- The total fund balance of the Borough increased by \$7M to \$12.9M due to the inflow of funds from the issuance of \$5.4M in General Obligation Bonds. Bonds will be repaid over 25 years with payments coming from the General Fund.
- The fund balance of the General Fund on December 31, 2019 was \$2,900,566, of which \$1,036,200 (35.7%) was assigned for use in the 2020 budget and \$1,864,366 (64.3%) remained unassigned and available to fund current and future projects.
- Real estate tax and earned income tax were the primary sources of revenue in 2019 at 28% and 26%, respectively, followed by charges for services at 23%.
- The total assessed valuation of the Borough on December 31, 2019 was \$1,208,968,741, an increase of \$11.8M, or 0.98%, from the valuation on December 31, 2018. In 2019, Borough Council raised the real estate tax millage .45 mills, from 2.5 mills to 2.95 for general purposes, bringing in an additional \$561,349. The maximum general millage permitted by PA Borough Code is 30 mills for general purposes. The purpose of the tax increase was to enlarge the scope of the road rebuilding program and prepare for debt repayments in the future.
- The earned income tax rate remained at 0.5% with 2019 accrued tax estimated to increase by \$114,526, or 3.69%, when compared to the 2018 estimated tax. Borough earned income tax collections tend to fluctuate up or down on a yearly basis with little predictability. The proximity to downtown Pittsburgh and rural nature of the Borough attracts residents with a high level of education and median household income. Fluctuations in executive compensation and bonuses, stock option execution, and retired executive deferred compensation have a significant impact on total earned income tax since the population of the Borough is only 5,400.
- Borough expenses reflect a wide range of services with the largest being public works/sanitary sewers/stormwater management at 49% followed by public safety (police, fire, EMS, and code enforcement) at 21%, general government at 12%, rubbish collection at 10%, culture and recreation (parks and library) at 6%, and debt service at 2%.
- During 2019, combined total net position of all pension plans increased by \$2,511,457, or 17.9%, over 2018. Net investment gains of \$2,623,805 and contributions of \$316,612 were offset by benefit payments of \$416,014 and administrative expenses of \$12,946. The defined benefit Police Plan has a net pension asset of \$2,442,095 and the defined benefit portion of the General Employees Plan is no longer a net pension liability but rather a net pension asset of \$452,516. The pension plan fiduciary net position as a percentage of the total pension liability (asset) for the General Employees and Police Plans were 106.49% and 136.85%, respectively. In 2014, Borough Council closed the General Employees Defined Benefit Pension Plan to new members and created a defined contribution sub-plan for new hires. Similar changes cannot be made to the Police Plan due to PA law.
- The Borough has no leased vehicles or equipment. Instead, the Borough accumulates funds in the Capital Reserve Fund for future replacement of existing equipment and/or purchase of new

equipment. In 2019, police, public works, and code enforcement vehicles were replaced along with a pumper truck for the fire department.

- Borough roads are in average to good condition with some requiring extensive drainage work in the future. A long-term road rebuilding and paving program was adopted by Council in 2012 that required an increase of \$500,000, or more, annually to the road paving/drainage budgets. In 2019, the Borough spent \$191,563 in underdrains and catch basins (installed by Borough crews) and \$1,562,053 in contracted paving. The Borough bids contracted road paving jointly with O'Hara Township to attract larger paving companies resulting in lower bids due to volume. The public works crew has been saving the Borough several hundred thousand dollars per year doing the drainage work in-house rather than paying a contractor.
- In June, 2013, Borough Council adopted the Administrative Consent Order (ACO) Feasibility Study Report (Report) which was submitted to the Allegheny County Health Department (ACHD), PA Department of Environmental Protection (DEP), and the Allegheny County Sanitary Authority (ALCOSAN). The report concluded a need for 2.6 miles of repairs of sewer pipe in the upper reaches of the sanitary sewer system and 2.5 miles of sewer main upsizing. The cost of these repairs totals \$10.7M. The Report determined that construction of the sewer main should commence in late 2024. Borough Council concluded repairs to the sewer pipes should begin in 2014 and progress until completed. Borough Council calculated the sewer rates needed to fund these projects and increased the rates accordingly. The ACHD has verified that the Feasibility Study Report meets the criteria required.

A part of the ALCOSAN Consent Decree negotiations relates to "Regionalization" in which ALCOSAN proposes to assume ownership, operation, maintenance and potential future wet weather augmentation responsibilities for "multi-municipal conveyance sewers greater than 10" in diameter." The current "Regionalization" scope of work includes a significant amount of trunk sewers in Fox Chapel Borough including those referenced in the June 2013 Report. Therefore, the Borough may need to revise its Feasibility Study Report. In December 2014, Fox Chapel Borough asked the ACHD for an extension to the ACO. In response to several requests from municipalities for an ACO extension, ACHD/PADEP concluded that the ACO had lapsed and required the municipalities to sign a Phase I Consent Order and Agreement (Phase I COA) with the ACHD. Fox Chapel signed the Phase I COA in December 2015. The Phase I COA, following specific provisions outlined therein, requires a "Source Flow Reduction Study" be conducted in the municipal collection/conveyance system in FY2016/FY2017 with submittal to the ACHD by December 2017. On November 30, 2016, the Borough submitted a progress report describing actions taken toward achieving compliance with the Phase 1 COA. The ACHD, by letter dated January 13, 2017, determined that the progress report met the minimum requirements of the COA. In November 2017, Borough Council adopted Resolution No. 617 approving the Phase I Consent Order and Agreement Source Flow Adoption Study and submitted the same to the regulators.

DEP has issued a series of approvals of the Borough's Corrective Action Plan since 2018. The most recent extension, dated January 7, 2020, expires in June 2020. Because the Borough is following the mandates of the COA, we expect extensions to be provided by DEP until a Phase II COA is developed.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities on pages 1 and 2 are government-wide financial statements that provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances as well as its component units. Fund financial statements (pages 3-14) include governmental and fiduciary funds. For governmental funds, these statements explain how services were financed in the short term as well as what remains for future spending. The governmental fund financial statements also report the Borough's operations in more detail than the entity-wide statements. Fiduciary fund statements provide information about the retirement plans for municipal employees in which the Borough acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support municipal activities.

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

Figure A-1: REQUIRED COMPONENTS OF THE ANNUAL FINANCIAL REPORT

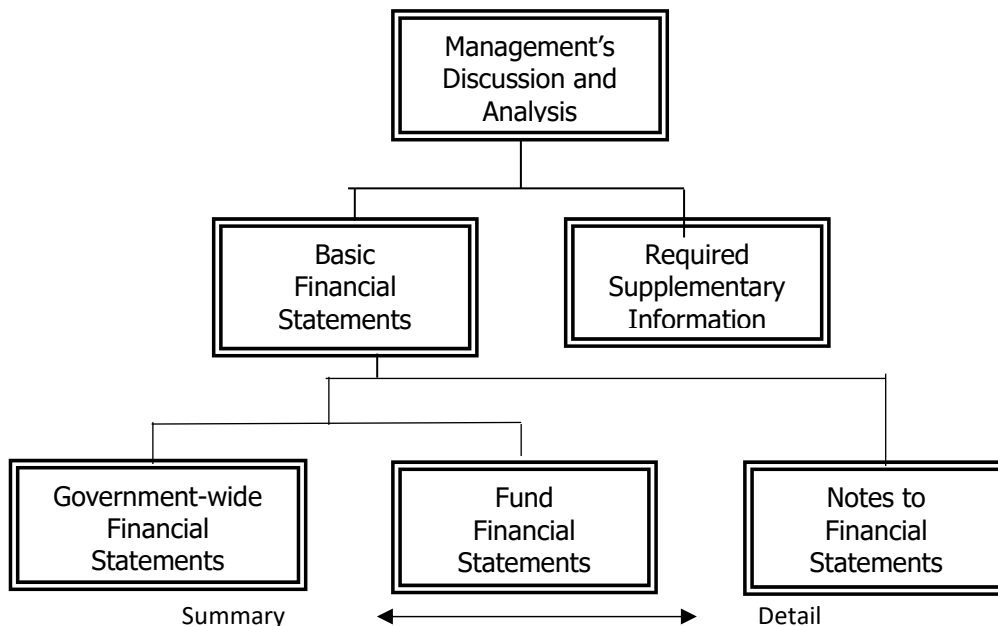


Figure A-2 summarizes the major features of the Borough’s financial statements. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

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

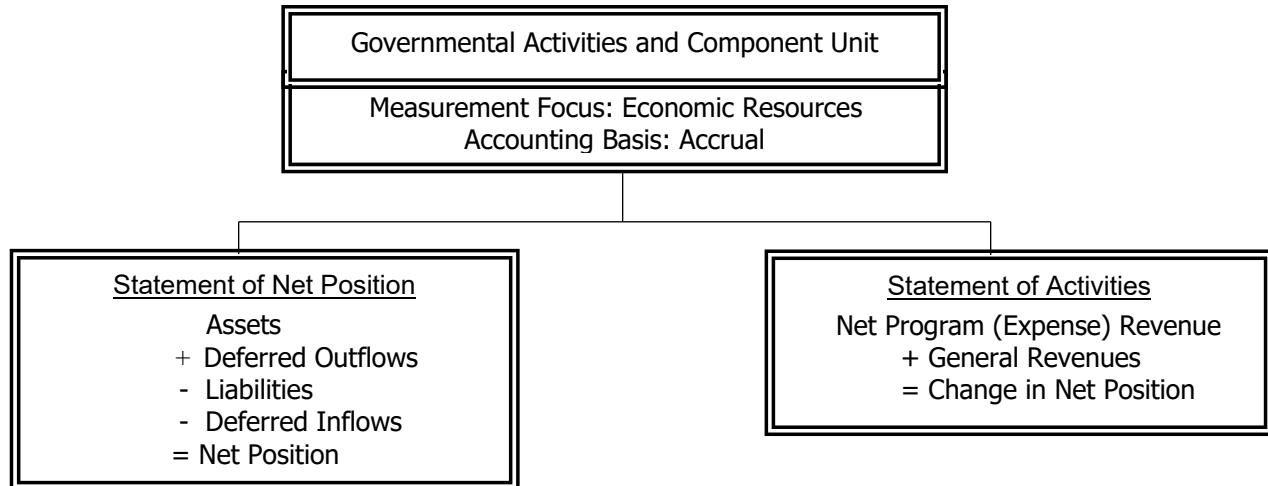
REPORTING THE BOROUGH AS A WHOLE

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

In the Statement of Activities, all of the current year’s revenues and expenses are accounted for regardless of when cash is received or paid. All of the Borough’s basic services are reported here, including the police, fire, general administration, public works, storm and sanitary sewers, code enforcement, and parks and recreation. Real estate taxes, earned income taxes, sewer user fees, grants, shared revenue from the State, and charges for services finance most of these activities. The Statement of Activities focuses on how the Borough’s net position changed during the year. Additional non-financial factors such as changes in the Borough’s real property tax base, earned income tax base and general economic conditions must

be considered to assess the overall position of the Borough. The primary features of government-wide financial statements are reflected in Figure A-3.

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



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

- *Governmental activities*—Most of the Borough's basic services are included here such as the police, fire, public works and code enforcement departments and general administration. Property and earned income taxes, charges for services and State grants finance most of these activities.
- *Component units*—The Borough includes the Fox Chapel Sanitary Authority in this report. The Borough created the Sanitary Authority in 1960 for the purpose of financing and constructing a sanitary sewage system throughout the Borough. The sewer system is operated and maintained by the Borough in accordance with the Agreement of Lease dated May 1, 1960, as supplemented, and principally serves the residents of the Borough. In 2018, Fox Chapel Borough amended the Articles of Incorporation of the Fox Chapel Sanitary Authority to extend the existence of the Authority and to grant it the additional power to perform storm water planning, management and project implementation and to collect fees to fund this work. These activities began 2019.

REPORTING THE BOROUGH'S FUNDS

The fund financial statements provide more detailed information about the Borough's individual funds, not the Borough as a whole. Funds are accounting groups that the Borough uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required to be established by State law. The Borough establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for money that is designated for a special purpose (e.g., Capital Projects Fund). The Borough has two kinds of funds:

- *Governmental funds* - Most of the Borough's basic services are included in governmental funds which focus on (1) how cash and other financial assets 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 less financial resources that can be spent in the near future to finance the Borough's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds (reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) is described in a reconciliation that follows the governmental fund financial statements.

- *Fiduciary funds* - The Borough is the trustee, or *fiduciary*, for two single-employer pension plans covering general employees and police employees. These plans cover all full-time employees. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Borough's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these fiduciary fund activities from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

DEFINITIONS

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

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

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

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

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

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

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

Deferred Inflows and Outflows for Pension Reporting

Accounting and reporting for pensions was dramatically changed by GASB Statement No. 68 effective in

2015 for the Borough. GASB 68 changed pension accounting from a funding-based approach to an accounting-based approach which changed the focus from an actuarially-required contribution to a net pension liability. Under GASB 68, the impacts of benefit changes are immediately recognized as pension expenses. However, differences between projected earnings and actual earnings on plan investments are recognized as deferred outflows or deferred inflows of resources and amortized into pension expenses over a 5-year period. This is somewhat similar to depreciation in that a fixed dollar amount is spread over a fixed period of time, beginning in the current measurement period. Changes in actuarial assumptions are similarly recognized as deferred outflows or deferred inflows and amortized into pension expenses over the average remaining service period for all employees.

THE BOROUGH AS A WHOLE

Net Position:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The government-wide financial statements are required to report three components of net position:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets.

Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Our government-wide financial analysis focuses on the net position and changes in net position of the Borough's governmental activities.

The following table shows how each component in the Statement of Net Position changed during 2019.

Summary of Statement of Net Position
December 31, 2019 and December 31, 2018

	Governmental Activities		
	2019	2018	Variance
Current and other assets:	\$ 15,814,104	\$ 10,602,400	\$ 5,211,704
Net pension asset - Police plan	2,442,095	974,094	1,468,001
Net pension asset - General plan	452,516	(508,780)	961,296
Capital assets	20,328,513	16,265,352	4,063,161
Total Assets	39,037,228	27,333,066	11,704,162
Deferred Outflows of Resources:			
Changes in pension assumptions	264,733	447,132	(182,399)
Net difference between projected and actual earnings on pension investments	713,574	1,131,574	(418,000)
Total Deferred Outflows of Resources	978,307	1,578,706	(600,399)
Current and other liabilities:	1,772,760	1,706,779	65,981
Bond Payable - Due within 1 year	140,000	-	140,000
Bond Payable - Due in more than 1 year	5,055,000	-	5,055,000
Bond Premium	291,813	-	291,813
Total Liabilities	7,259,573	1,706,779	5,552,794
Deferred Inflows of Resources:			
Differences between expected and actual pension experience	876,064	509,475	366,589
Difference between projected and actual earnings on pension plan investments	1,793,220	643,115	1,150,105
Total Deferred Inflows of Resources	2,669,284	1,152,590	1,516,694
Net Position:			
Invested in capital assets,	19,402,402	16,265,352	3,137,050
Restricted for:			
Pensions	1,203,634	891,430	312,204
Road Construction/Maintenance	1,994	2,664	(670)
Sewage Infrastructure	3,257,597	2,263,706	993,891
Stormwater management	307,867	-	307,867
Unrestricted	5,913,184	6,629,251	(716,067)
Total Net Position	\$ 30,086,678	\$ 26,052,403	\$ 4,034,275

Net Position:

In 2019, total net position of governmental activities increased by \$4,034,275 to \$30M, an increase of 15.5%. Investment in capital assets, net of related debt as of December 31, 2019, increased by \$3,137,050, or 19.3%, due to the incurrence of \$5,498,972 in debt for the construction of a new public works facility and purchase of parkland. The restricted portion of the Borough's net position that is subject to external restrictions on how the funds may be used increased by \$1,613,292 due to gains in the pension plans, sanitary sewers, and stormwater management. The unrestricted net position which identifies funds available to maintain operations or invest in additional capital assets decreased by \$716,067 to \$5.9M, a decrease of 10.8%.

Infrastructure Assets:

As of December 31, 2019, the Borough's total net position is \$30,086,678. Of this amount, \$20.3M is accounted for by capital assets that is reduced to \$19.4M when related debt is considered. Historically, infrastructure (roads, sewers, etc.) has not been reported or depreciated in governmental financial statements. GASB Statement No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, at least prospectively, from the time of adoption of GASB Statement No. 34. The Borough has chosen to report all infrastructure additions in excess of \$500,000 per system, per year, prospectively, beginning in 2004. Infrastructure additions first met the capitalization threshold and were first reported in 2012. The following chart presents the Borough's change in net position for the fiscal years ended December 31, 2019 and December 31, 2018:

Change in Net Position
Years Ended December 31, 2019 and 2018

Governmental Activities

	<u>2019</u>	<u>2018</u>	<u>Variance</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 2,987,317	\$ 2,709,998	\$ 277,319
Operating grants	830,107	1,578,701	(748,594)
Capital grants	1,295,416	74,824	1,220,592
General Revenues:			
Property taxes	3,501,132	2,939,783	561,349
Earned income taxes	3,291,346	3,176,820	114,526
Other taxes	444,787	472,973	(28,186)
Interest income	225,841	147,108	78,733
Other revenue	117,681	139,764	(22,083)
Total Revenues	<u>12,693,627</u>	<u>11,239,971</u>	<u>1,453,656</u>
Program Expenses:			
Administration	819,201	798,686	20,515
Tax collection	59,307	57,471	1,836
Borough building	160,222	173,084	(12,862)
Police	1,500,324	1,714,160	(213,836)
Fire & EMS	290,725	307,749	(17,024)
Code enforcement	120,899	115,530	5,369
Health and human services	1,740	1,680	60
Rubbish collection	828,233	808,771	19,462
Stormwater System	32,889	-	32,889
Sewer system	2,042,400	2,320,490	(278,090)
Public works	2,211,713	2,408,906	(197,193)
Library	390,000	390,000	-
Parks and recreation	43,309	41,452	1,857
Debt service	158,390	-	158,390
Total Expenses	<u>8,659,352</u>	<u>9,137,979</u>	<u>(478,627)</u>
Change in Net Position	4,034,275	2,101,992	1,932,283
Net position-beginning of year	26,052,403	23,950,411	2,101,992
Net position-end of year	<u>\$ 30,086,678</u>	<u>\$ 26,052,403</u>	<u>\$ 4,034,275</u>

Revenue Sources:

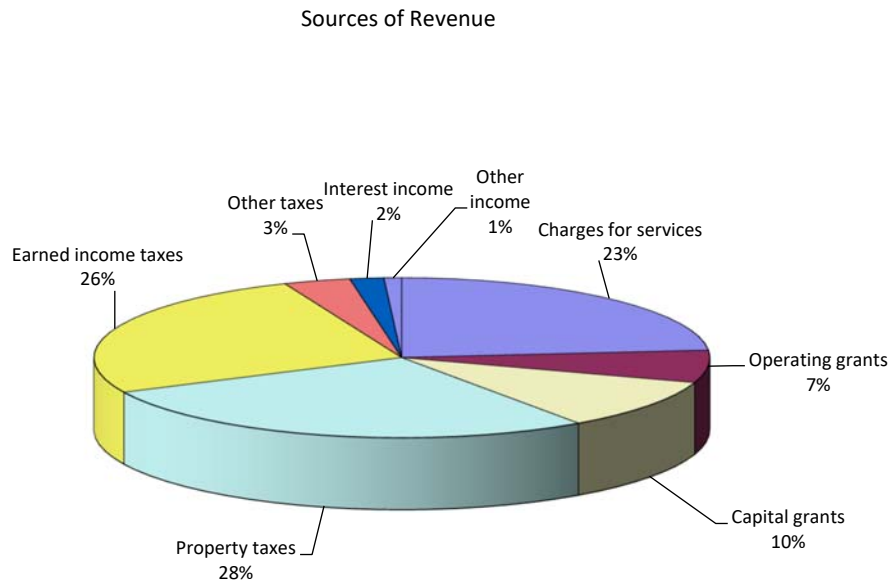
Total 2019 government-wide revenue of \$12.7M was \$1,453,656 greater than 2018 revenue, an increase of 12.9%. This increase in government-wide revenue is due primarily to the following:

- Capital grants increased \$1.2M due to contributions of \$722,285 for the purchase of parkland, along with \$573,131 in donated value of said parkland (appraised value of property in excess of purchase price).
- The property tax was increased .45 mills, from 2.50 to 2.95 mills, resulting in a real estate tax revenue increase of \$561,349.

- Imposition of a new stormwater management fee that resulted in \$343,800 in new revenue.
- The Borough was awarded a performance grant of \$248,886 from the Allegheny County Sanitary Authority (ALCOSAN) for completion of a sanitary sewer project in 2018 that would reduce groundwater infiltration into the sanitary sewer system.

There was a decrease of \$748,594 in operating grants in 2019 because in 2018 two significant performance grants were awarded for multi-year efforts: a performance grant from ALCOSAN in the amount of \$651,833 for multi-year sewer lining along with a recycling grant from PA DEP of \$350,000 for multi-year recycling efforts were awarded. The 2019, a single GROW grant from ALCOSAN for \$248,886 for a single year's sewer elimination project.

The following chart graphically depicts the government-wide sources of revenues for the fiscal year ending December 31, 2019.

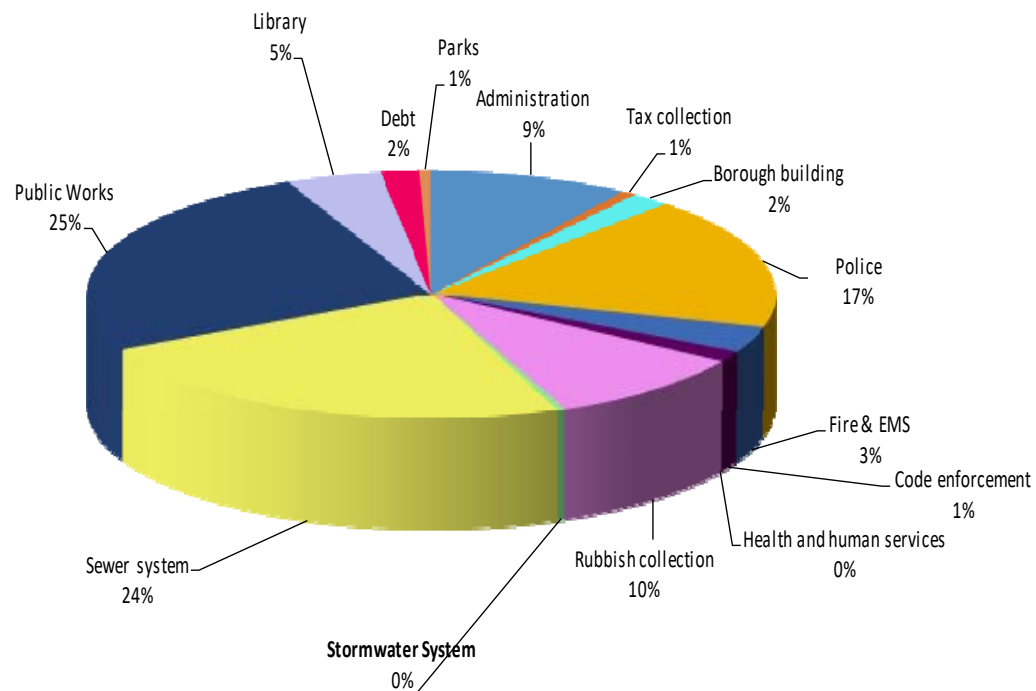


The 2019 revenue as shown on the Statement of Activities is derived primarily from real estate tax at 28%, earned income tax at 26%, and charges for services at 23%. This is followed by capital grants at 10%, operating grants at 7%, other taxes (real estate transfer, sales and local services tax) at 3%, interest income at 2\$, and other general revenue at 1% of total revenue. The Statement of Activities shows **accrued** 2019 earned income tax revenues of \$3,291,346, an increase of \$114,526, or 3.6%, from 2018 **accrued** tax. This **accrued** earned income tax revenue includes taxes collected in 2019 as well as taxes received at year-end which is **estimated** based on prior years' experience.

Program Expenses

Total expense for all programs in 2019 was \$8.7M, down \$478,627, or 5.2%, from 2018. The expenses reflect the delivery of a wide range of services with the largest being public works/sanitary sewers/stormwater management at 49% followed by public safety (police, fire/EMS, and code enforcement) at 21%, general government at 12%, rubbish collection at 10%, culture and recreation (library and parks) at 6%, and debt service at 2%. Sanitary sewer system expense was down \$278,090 but reflected a reduction to normal expense levels that were high in 2018 due to the costly installation of a new sewer line. Police expense was down \$213,836 due to reductions in pension expense per the actuarial roll-forward from January 1 to December 31, 2019. Public works expense was down \$197,193 when compared to 2018 during which a one-time expense was incurred for flood damage restoration after a 100-year storm event caused significant flooding along the flood plain of Squaw Run in the Borough and neighboring municipality. New in 2019, debt service expense of \$158,390 consisted of bond issuance costs and accrued interest expense related to the bonds.

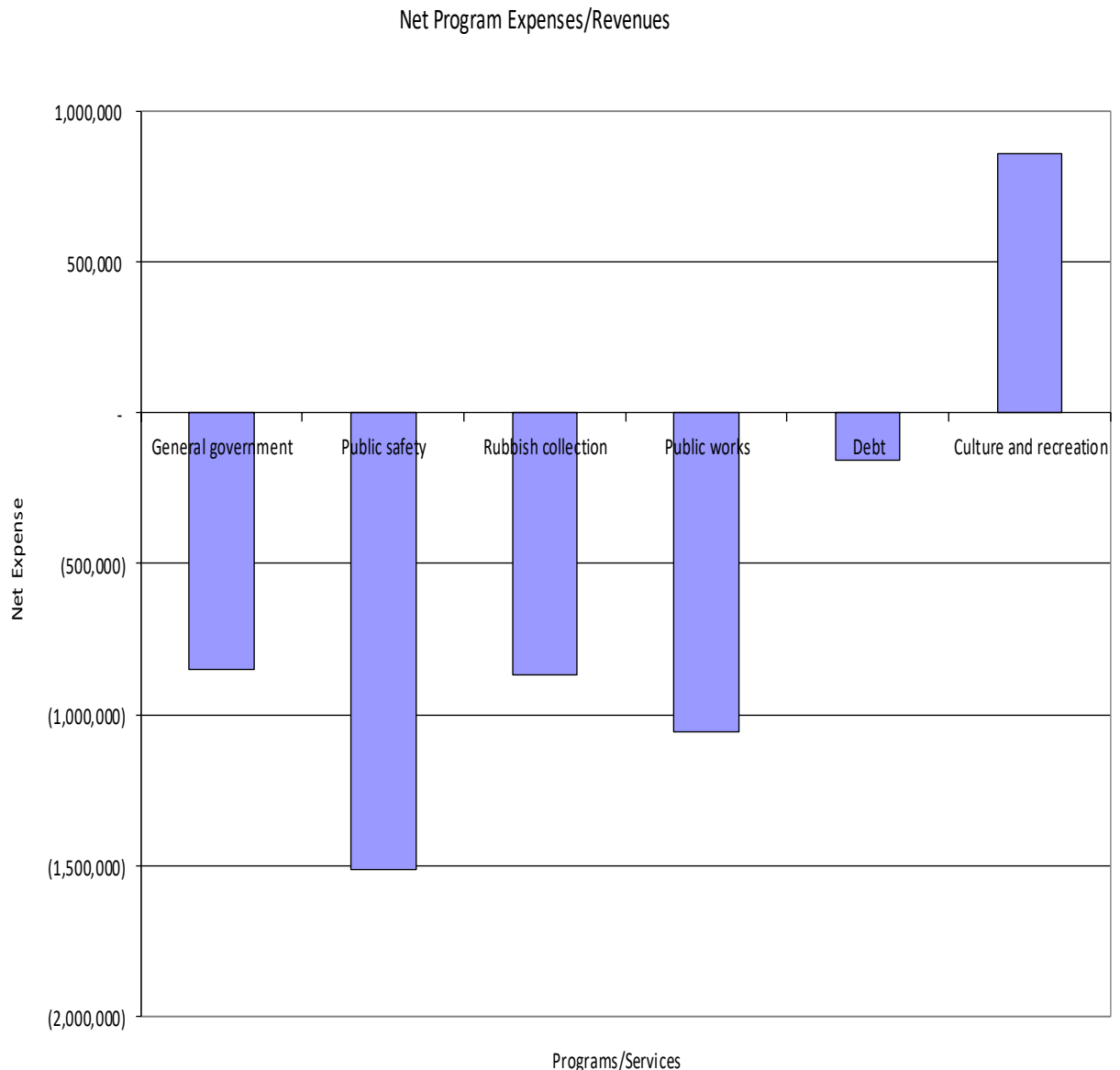
Program Expenses



NET PROGRAM EXPENSES/REVENUES:

Public safety, comprised of police, fire/EMS, health and human services, and code enforcement, required the most general revenue for support at \$1.5M. This is followed by public works including roads, storm sewers and sanitary sewers that required \$1.1M in support. General government (administration, tax collection, and building/grounds) followed at \$847,581 followed by rubbish collection (no separate fee is charged to residents for rubbish collection) required \$828,233. Debt service, new in 2019, required \$158,390 of general revenue for support. Culture and recreation (library and parks) required no support as revenue exceeded expense by \$862,107. This was due to a capital campaign to raise funds to offset the purchase cost of a major piece of park land.

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, 2019.



FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

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

Budget Amendments

The Borough does not typically amend the budget after adoption. Due to the issuance of over \$5M in general obligation bonds in 2019 that was originally planned for 2020, Borough Council chose to make budget amendments in December 2019 to better reflect the year's activity.

Fund Balance

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

- **Nonspendable** – This category represents funds that are not in spendable form. The Borough has no nonspendable fund balance.
- **Restricted** – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes all funds in the Sewer and Interceptor Fund since they are restricted for sewage infrastructure, all funds in the Highway Aid Fund since they are restricted for purposes of road construction/maintenance, and all funds in the Sanitary Authority Fund restricted to stormwater management.
- **Committed** – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by Borough Council. Such commitment is made via Borough Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Borough resolution. The Borough currently has no committed funds.
- **Assigned** – This category represents intentions of Borough Council to use the funds for specific purposes. Such assignment is jointly made by the Borough Manager and Finance Director. This category includes amounts set aside to balance the 2020 budget. At a minimum, all funds in the Capital Reserve, Land, Fire Truck, K-9 and Parks Funds are assigned to the capital purpose of the fund. Also, \$1,036,200 in the General Fund has been assigned for use in the 2020 budget.
- **Unassigned** – This category represents all other funds not otherwise defined and all negative fund balances. The portion of the General Fund balance that is not assigned for use in the 2020 budget is unassigned.

Balance Sheet and Actual Results Compared to Budget

As the Borough completed the year 2019, its governmental funds reported a combined fund balance of \$12.9M, an increase of \$5.9M from the combined fund balance at year-end 2018. A summary of each fund's activity follows:

General Fund

The General Fund is the chief operating fund of the Borough and is used to account for all financial transactions except those required to be accounted for in other funds. Council adopted a deficit budget of \$450,600 in 2019, choosing to spend down fund balance to continue with the increased scope of the road paving program. In December 2019, the 2019 budget was amended to reduce budgeted expenses (based on estimates of the final road paving contract costs) resulting in a budget where revenue was to exceed expense by \$295,100. After final road paving expenses and final road salt invoices were recorded, the actual gain was \$592,356.

Total 2019 revenue of \$8,290,520 was \$834,456, or 11.2% greater than 2018. Total revenue was \$292,620 greater than budgeted due to the following:

- \$118,627 more in earned income tax due to economic conditions.
- \$53,034 more in real estate transfer tax collected due to heavier than anticipated real estate sales.
- \$51,344 more in building permits due to a few expensive permits and economic conditions.
- \$38,055 more in street opening permits due to Comcast replacing their underground lines throughout the Borough.
- \$20,107 more in shared revenue from the State for pensions and firemen's relief aid.
- \$16,227 more in workers compensation and property/liability insurance dividends from the Trusts in which the Borough participates.
- \$10,964 in higher interest earnings due to a larger fund balance.

These increases were offset by a decrease of \$47,794 in a \$350,000 environmental grant due to some expenses previously approved by PA DEP, and budgeted in 2019, for recycling equipment being denied upon request for reimbursement.

In December 2019, a budget amendment reduced three expense line items in the public works department:

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Change</u>	<u>Reason</u>
Road Salt	\$ 173,400	\$ 119,700	\$ (53,700)	1.
Guide Rail	\$ 150,000	\$ 0	\$ (150,000)	2.
Road Rebuilding Contract	\$1,740,300	\$1,193,300	\$ (542,000)	3.

Reasons

1. Reduced road salt purchased due to public works facility sitework.
2. Project moved to 2020 due to contractor availability.
3. Favorable paving bid and a portion of the paving for the public works facility sitework was moved to the Land Fund to be paid from bond proceeds so that all construction costs would be paid from the same fund for better monitoring.

Actual expenses of \$7,695,571 were within \$1,500 of the revised budget. The fund balance on December 31, 2019 was \$2,900,566, of which \$1,036,200 was assigned for use in the 2020 budget in order to spend down fund balance and pay for projects deferred to 2020, and \$1,864,366 was unassigned and available to fund current and future projects.

Sanitary Authority Fund

The Sanitary Authority Special Revenue Fund reports the operations of the Sanitary Authority's General Fund. This Fund was deactivated in 2017 and reactivated in December 2018 when it was granted the power to perform stormwater planning, management and implementation and to levy and collect uniform rates for stormwater. This Fund was budgeted for the first time in 2019 when a stormwater fee was implemented to pay for a portion of mandated stormwater compliance activities.

In December 2019, a budget amendment increased revenue and decreased expense as follows:

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Change</u>	<u>Reason</u>
Stormwater Fees	\$291,500	\$340,800	\$ 49,300	1.
MS4 Compliance Activities	\$277,500	\$ 23,400	\$ (254,100)	2.

Reasons

1. Higher rate of stormwater user fee collection than anticipated.
2. Contracted MS4 compliance activities postponed until 2020 per engineers. A large project will be bid in 2020.

Actual net change in fund balance of \$307,867 was very close to the amended budget of \$303,400. The new user fee brought in \$46,600 more than originally calculated by the Borough engineers but is only expected to fund a portion of the MS4 program. Additional expense is charged in the General Fund. Expenditures for stormwater compliance and engineering fees totaled \$32,889. The Borough engineers delayed the 2019 compliance project until 2020 at which time they will bid a project covering both years' planned work. This fund has a balance of \$307,867 that will be used to fund a portion of mandated stormwater management projects going forward.

Sewer Fund

The Sewer Fund was established to account for the operations of the Borough's sanitary sewer facilities. Such operations include collection of sewer user fees and expenditures for the operation and maintenance of the system, as well as payments to ALCOSAN for treatment services provided. The sewer user fee revenue is based primarily on water consumption and, therefore, fluctuates with annual water usage and weather patterns. Billing service for sanitary sewage is contracted to Fox Chapel Authority which also provides and bills for water. In 2014, sewer consumption rates were doubled to pay for repairs mandated by the ALCOSAN Consent Order. In addition, a \$45 per account/per quarter/per equivalent

dwelling unit fee was implemented to raise funds in advance for a major upsizing of the sewer interceptor currently mandated by the ALCOSAN Consent Order (which is subject to change).

The Borough component of the sewer rate charge did not change in 2019. However, the ALCOSAN component increased 7%. In 2019, an ALCOSAN Grow Grant was received in the amount of \$651,833 for sewer lining completed from 2014-2017 that demonstrated a measurable reduction in groundwater infiltration. This was one of the largest grants ever awarded by ALCOSAN to a municipality. Another GROW Grant for \$248,886 was awarded the Borough in 2019, to be received in 2020, for sewer work completed in 2018.

In December 2019, a budget amendment reduced sewer expense in two line items:

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Change</u>	<u>Reason</u>
Materials	\$250,000	\$176,800	\$ (73,200)	1.
O&M Sewer Repair	\$386,000	\$301,700	\$ (84,300)	2.

Reason

1. The Borough undertook a major sewer project in 2019, known as the Windsor/West project, to separate a combined stormwater and sanitary sewer line into two separate lines. The biggest cost was material and equipment rental since Borough crews provided the labor. Extensive savings were realized because the road paving portion of the project was delayed until 2020.
2. The Borough portion of a joint sewerline installation project with O'Hara Township was budgeted in 2019. Due to a delay in obtaining the needed easements from residents, the project was delayed until 2020. A grant awarded to O'Hara Township will pay for the bulk of this project.

The original 2019 Sewer Fund budget projected revenue to exceed expense by \$311,100. In December 2019, a budget amendment decreased the projection for sewer system expense by \$157,500 which would result in revenue exceeding expense by 468,600. The actual result of \$585,947 was \$117,345 over the amended budget. The balance of \$1,052,748 in the Sewer Fund is restricted by law for sewer infrastructure.

The Sewer Fund gained \$585,947 in 2019, a fund balance increase of 125.5%. Total revenue exceeded budget by \$25,881 due to an increase of \$15,406 in interest earnings and \$10,000 in sewer fees. Sewer expenses were \$259,293 less than the original budget and \$93,733 less than the amended budget due to significant savings in sewer materials for the Windsor/West project and a delay in the joint project with O'Hara detailed above. The fund balance of the Sewer Fund was \$1,052,748 on December 31, 2019, all of which was restricted for sewer infrastructure.

Land Fund

In 2019, the Borough issued general obligation bonds and received bond proceeds of \$5,195,000 for bonds sold at par and \$303,972 for bonds sold at premium for a total of \$5,498,972. Of the fund balance of \$4,614,456, the remaining bond proceeds of \$4,560,702 are restricted for engineering, redesign, and construction of outdated, inefficient public works facilities along with security modifications to Borough offices and \$53,754 is assigned to capital purchases and construction.

The Land Fund was established for the accumulation of funds for future park and land acquisitions by the Borough. Over the years, the purpose of the fund has expanded to include financing capital construction projects. Due to the deteriorating condition of the Borough's public works facilities, plans were developed

to construct new facilities at a projected cost of \$5M in the present location behind the Borough building. Over \$900,000 in sitework alone was needed to meet current PA DEP and EPA mandates for stormwater control. These site improvements were needed even if new facilities were not constructed. The Borough also began design of some interior modifications to the municipal building to enhance security and create ADA accessible bathrooms.

In the 2019 Land Fund budget, \$1,150,000 was allocated to pay for the sitework previously described. In order to cover the shortfall of funds in the Land Fund, a transfer of \$296,789 from the Capital Reserve Fund was budgeted. The intent was to repay the Capital Reserve Fund when financing for the project was secured in 2020. However, the Borough was advised to do a bond issue in 2019 due to low interest rates and the pending retirement of the long-time Finance Director. After securing an “AA+” rating from Standard and Poor’s, the bond issue settled in August 2019 with \$5,195,000 in bonds sold at par and \$303,972 in bonds sold at premium for total revenue of \$5,498,972 into the Land Fund.

In December 2019, a budget amendment was done to account for the bond issue as follows:

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Change</u>	<u>Reason</u>
Transfer in from Capital Res.	\$ 296,789	\$ 0	\$ (296,789)	1.
Bond Proceeds	\$ 0	\$ 5,195,000	\$ 5,195,000	2.
Bond Premium	\$ 0	\$ 304,000	\$ 304,000	3.
PWD Facilities Construction	\$ 1,100,000	\$ 900,500	\$ (199,500)	4.
Bond Issuance Fees	\$ 0	\$ 93,800	\$ 93,800	5.

Reason

1. When the bond issue was done, there was no longer a need for short-term borrowing from the Capital Reserve Fund.
2. Adding bond proceeds to other financing sources of revenue.
3. Adding bond premium to other financing sources of revenue.
4. Budget change to reflect elimination of some items from sitework contract.
5. Adding bond issuance fees to expenses.

In 2019, Revenue exceeded budget by \$32,767 due to interest earned on the bond proceeds. Expenditures fell short of the amended budget by \$19,743 due to savings in the sitework. An \$800,000 transfer to the Parks Fund was unplanned and unbudgeted. When the 2019 Land Fund budget was adopted, it was planned that the \$800,000 balance along with a budgeted transfer of \$296,789 from the Capital Reserve Fund would pay for the sitework for the public works facilities. When the opportunity arose to purchase a prime piece of park land, the size of the bond issue was increased to cover the purchase price. However, the closing on the property was two months prior to the bond closing. To fill the time gap, \$900,000 was borrowed from the Sewer Interceptor Fund by way of an advance to the Parks Fund to purchase the property until such time as the Borough could raise the purchase cost via donations and grants. Since the Interceptor Fund is a restricted fund, the funds would have to be repaid at the rate of interest that would have been earned on the funds. When this interest began to accumulate quickly, the \$800,000 in the Land Fund was transferred to the Parks Fund so that the Parks Fund could repay the advance with interest prior to raising the funds. The bond proceeds would be used to pay for the sitework instead of the property.

Capital Reserve Fund

The Capital Reserve Fund was established to control funds designated for specific capital expenditures of

funds appropriated by Council to provide for additions to and replacements of operating equipment and other capital assets. Historically, the major revenue and other financing sources for the Capital Reserve Fund are transfers from the General Fund and Sewer Fund for depreciation, interest earnings, and sale of fixed assets. In December 2019, \$250,000 was transferred from the General Fund and \$18,500 from the Sewer Fund to fund future replacement of vehicles and equipment as budgeted. Revenues exceeded budget by \$26,740 due to gains of \$15,021 in interest and \$11,719 in the sale of fixed assets. Expenses were under budget by \$4,693. Capital purchases included:

- \$658,067 for the replacement of a pumper truck for the fire department of which \$325,000 was paid from the Capital Reserve Fund with the remainder paid from the Fire Truck Fund.
- \$37,900 for the replacement of an unmarked police vehicle.
- \$31,621 for the replacement of the code enforcement vehicle with a smaller, more efficient vehicle.
- \$18,620 for the purchase of security cameras to monitor the public works grounds and construction site.

The fund balance of the Capital Reserve Fund as of December 31, 2019 was \$1,206,723, all of which was assigned for capital purchases and improvements.

Highway Aid Fund

The Highway Aid Fund is used to account for the receipt of State aid revenue from Liquid Fuels Tax with disbursements restricted for use in building and maintaining roads and bridges in the Borough. Twenty percent of each year's allotment may be accumulated for the purchase of equipment. In 2019, the Borough received \$243,483 in State aid, \$3,783 over budget, and transferred \$247,407 to the General Fund to offset the cost of road salt and installation of catch basins and underdrains on the roads that were to be paved. The fund balance of the Highway Aid Fund on December 31, 2019 was \$1,994, all of which was restricted to road maintenance and other permitted uses of PA Liquid Fuels funds.

Interceptor Fund

The Interceptor Fund was established in 2014 to accumulate funds for a future capital improvement to the Squaw Run Sewer Interceptor as mandated by the PA Department of Environmental Protection and the Allegheny County Health Department. A special quarterly fee of \$45/quarter/EDU was adopted in 2014 to fund the project. In 2019, the Interceptor Fund gained \$407,944 in the form of sewer fees and interest earnings. The balance of \$2,204,849 is restricted by law for sewer infrastructure.

The billing of sewer user fees is contracted to Fox Chapel Authority for efficiency by piggy-backing with water billing. When fees are received from Fox Chapel Authority, they are deposited in full into the Sewer Fund. At the end of each month, the fees collected from the special interceptor charge are transferred to the Interceptor Fund. In 2019, \$364,967 was collected and transferred. Total revenue exceeded budget by \$20,244 due to greater investment earnings than expected. There were no expenses in this fund in 2019. The balance in the Interceptor Fund was \$2,204,849 on December 31, 2019, all of which is assigned for capital improvements.

Fire Truck Fund

The Fire Truck Fund was established in 2015 to accumulate donations for the purchase of fire-fighting vehicles and equipment through an annual appeal to Borough residents and institutions. In 2019, \$71,760 was raised in the solicitation. Also in 2019, a pumper truck was replaced at a cost of \$658,067 with \$333,067 being paid from the Fire Truck Fund and \$325,000 from the Capital Reserve Fund. This fund drive will continue annually as the replacement of a rescue truck is scheduled for 2023. Total revenue exceeded budget by \$4,325 and expense was under budget by \$16,873 due to savings in the cost of the pumper. The balance of the Fire Truck Fund on December 31, 2019, was \$37,125, all of which was assigned for capital purchases.

K-9 Fund

The K-9 fund was established in 2016 and is funded solely by donations from residents and civic groups with the intention of using the funds to replace the K-9, equipment in the K-9 car, as needed, or the annual cost of K-9 insurance. As of December 31, 2019, the fund contained \$5,575 all of which is assigned for capital use related to the K-9 program.

Parks Fund

The Parks Fund was established in 2019 for donations for the purchase and development of a prime piece of park land that would complete the Borough's trail-way, park and open space system. The opportunity to purchase the coveted property came quickly, before the Borough had an opportunity to solicit donations. This land was purchased for \$891,870 in June. As of December 31, 2019, \$722,285 had been raised to offset the purchase cost and improvements to this property. Multiple grant applications have also been filed. In order to pay for the land prior to the fundraising campaign, funds were temporarily borrowed from the Interceptor Fund and repaid with interest of \$1,748 a few months later. As of December 31, 2019, the fund balance was \$628,828 and is assigned for capital parks use only.

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. On December 31, 2019, there were 14 vested and 2 non-vested participants in the General Employees Plan and 9 vested and 2 non-vested participants in the Police Plan. Employee contribution rates were set at 5% for employees in both plans.

In 2014, Borough Council closed the General Employees Defined Benefit Pension Plan to new members and created a defined contribution sub-plan for all new hires. Plan participants contribute 5% of wages and the Borough contributes an equal amount. By Pennsylvania law, all police pension plans must be defined benefit plans so no similar changes can be made to the Police Plan.

During 2019, combined total net position of all plans increased by \$2,511,457, or 17.9%. Net investment gains of \$2,623,805 and contributions of \$316,612 were offset by benefit payments of \$416,014 and administrative expense of \$12,946. On the Statement of Net Position on page 1 of the financial statements, the Police Plan shows a net pension asset of \$2,442,095, an increase of \$1,468,001, and the General Employees Defined Benefit Plan a net pension asset of \$452,516, an increase of \$961,296. In

2009, the Borough adopted asset smoothing instead of market value as the asset valuation method. It is believed that this methodology will “smooth” the market’s highs and lows in the long-term valuation of the plans.

During 2019, the General Employees Plan had a required minimum municipal contribution (MMO) of \$184,217 to the defined benefit plan and a required contribution of \$12,079 to the defined contribution plan. The Police Plan had a required MMO of \$0. State aid accounted for \$189,608 of the Borough’s total required contribution of \$196,296, with a net pension outlay of \$6,688 from Borough funds. In addition, the employees contributed \$120,316. The pension plan fiduciary net position as a percentage of the total pension liability for the defined benefit General Employees and Police Plans was 106.49% and 136.85%, respectively, which represented an increase of 13.94 % in the General Plan and 22.36% in the Police Plan compared to 2018 due primarily to investment gains.

The required supplementary information located at the conclusion of the Notes to Financial Statements provides more details on the plans’ funding progress.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets consist primarily of land, buildings and improvements, machinery, equipment, infrastructure and vehicles. Capital assets are recorded and depreciated using the straight-line method over the useful lives of the assets. Maintenance and repairs are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. The following is a summary of capital assets at December 31, 2019 and 2018:

Summary of Capital Assets

	Balance at December 31, 2019	Balance at December 31, 2018	Variance
Land	\$ 10,290,586	\$ 8,825,586	\$ 1,465,000
Construction in Progress	1,031,888	153,763	878,125
Infrastructure	7,336,403	5,702,327	1,634,076
Buildings and improvements	2,194,836	2,194,836	-
Furniture and equipment	389,209	400,576	(11,367)
Machinery and equipment	1,212,512	1,307,396	(94,884)
Vehicles	3,522,606	2,885,491	637,115
Total capital assets	<u>25,978,040</u>	<u>21,469,975</u>	<u>4,508,065</u>
Less accumulated depreciation for:			
Infrastructure	1,492,644	1,111,527	381,117
Building and improvements	1,379,831	1,337,418	42,413
Furniture and equipment	308,296	329,743	(21,447)
Machinery and equipment	684,918	711,215	(26,297)
Vehicles	1,783,838	1,714,720	69,118
Total accumulated depreciation	<u>5,649,527</u>	<u>5,204,623</u>	<u>444,904</u>
Total assets less accumulated depreciation	<u>\$ 20,328,513</u>	<u>\$ 16,265,352</u>	<u>\$ 4,063,161</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

In 2019, the Borough issued general obligation bonds for the acquisition and development of land for a public park; construction of a public works garage; renovation of existing facilities; reimbursement of related site improvements, including stormwater management; and paying the costs of issuing the bonds. Prior to the bond issue, the Borough had no debt. The bond details are as follows:

General Obligation Bonds, Series of 2019
Credit Rating "AA+" (Stable Outlook) from Standard and Poor's
Bank Qualified
Last Maturity 7/15/2044 25 years
Average Life (years) 14.639
Average Coupon 3.668467%
All-in True Interest Cost 3.286002%
Arbitrage Yield 2.286653%

Bond Proceeds

Par Amount	\$5,195,000
Premium Amount	<u>\$ 303,972</u>
	\$5,498,972
Total Debt Service	\$7,984,799
Maximum Annual Debt Service	\$ 321,600
Average Annual Debt Service	\$ 320,210

Annual debt service payments will be made from the General Fund. A bond repayment schedule can be found in Notes to the Financial Statements – Footnote 7.

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. Financial statements can be found on our website at www.fox-chapel.pa.us in the Finance Department section.

If you have questions about this report or need additional financial information, please contact:

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

BOROUGH OF FOX CHAPEL

STATEMENT OF NET POSITION

DECEMBER 31, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 13,639,530
Receivables:	
Recycling Development and Implementation Grant	294,701
ALCOSAN GROW Grant	347,649
Taxes	1,154,349
Other	377,875
Net pension asset - Police Plan	2,442,095
Net pension asset - General Plan	452,516
Capital assets, not depreciated	11,322,474
Capital assets net of accumulated depreciation	9,006,039
Total Assets	39,037,228
Deferred Outflows of Resources	
Related to pensions	978,307
Liabilities	
Accounts payable	1,294,639
Escrow deposits	166,717
Accrued Interest	76,934
Noncurrent liabilities:	
Accumulated compensated absences	234,470
Bonds payable - due within one year	140,000
Bonds payable - due in more than one year	5,055,000
Bond premium	291,813
Total Liabilities	7,259,573
Deferred Inflows of Resources	
Related to pensions	2,669,284
Net Position	
Net investment in capital assets	19,402,402
Restricted for:	
Pensions	1,203,634
Road construction/maintenance	1,994
Sewage infrastructure	3,257,597
Stormwater management	307,867
Unrestricted	5,913,184
Total Net Position	\$ 30,086,678

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Administration	\$ 819,201	\$ 153,104	\$ 38,045	\$ -	\$ (628,052)
Tax collection	59,307	-	-	-	(59,307)
Borough building	160,222	-	-	-	(160,222)
Police department	1,500,324	6,781	113,473	-	(1,380,070)
Fire department	290,725	-	133,778	-	(156,947)
Code enforcement	120,899	139,786	5,120	-	24,007
Health and human services	1,740	-	-	-	(1,740)
Rubbish collection	828,233	-	-	-	(828,233)
Stormwater System	32,889	343,800	-	-	310,911
Sewer system	2,042,400	2,311,242	258,443	-	527,285
Public works	2,211,713	32,604	281,248	-	(1,897,861)
Library	390,000	-	-	-	(390,000)
Parks and recreation	43,309	-	-	1,295,416	1,252,107
Debt service	158,390	-	-	-	(158,390)
Total governmental activities	<u>\$ 8,659,352</u>	<u>\$ 2,987,317</u>	<u>\$ 830,107</u>	<u>\$ 1,295,416</u>	<u>(3,546,512)</u>
General revenues:					
Taxes:					
Real estate					3,501,132
Earned income					3,291,346
Other					444,787
Interest income					225,841
Miscellaneous income					<u>117,681</u>
Total general revenues					<u>7,580,787</u>
Change in Net Position					4,034,275
Net Position:					
Beginning of year					<u>26,052,403</u>
End of year					<u>\$ 30,086,678</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2019

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	Parks Fund	K-9 Fund	Total Governmental Funds
Assets											
Cash and cash equivalents	\$ 3,391,872	\$ 1,994	\$ 1,077,277	\$ 308,647	\$ 1,206,723	\$ 4,805,258	\$ 2,176,231	\$ 37,125	\$ 628,828	\$ 5,575	\$ 13,639,530
Receivables:											
Taxes	1,154,349	-	-	-	-	-	-	-	-	-	1,154,349
Other	471,254	-	294,220	5,865	-	-	-	-	-	-	771,339
Due from other funds	-	-	-	-	-	-	28,618	-	-	-	28,618
Total Assets	\$ 5,017,475	\$ 1,994	\$ 1,371,497	\$ 314,512	\$ 1,206,723	\$ 4,805,258	\$ 2,204,849	\$ 37,125	\$ 628,828	\$ 5,575	\$ 15,593,836
Liabilities											
Accounts payable	\$ 812,761	\$ -	\$ 290,131	\$ 945	\$ -	\$ 190,802	\$ -	\$ -	\$ -	\$ -	\$ 1,294,639
Due to other funds	-	-	28,618	-	-	-	-	-	-	-	28,618
Escrow liability	166,717	-	-	-	-	-	-	-	-	-	166,717
Total Liabilities	979,478	-	318,749	945	-	190,802	-	-	-	-	1,489,974
Deferred Inflows of Resources											
Unavailable revenue - stormwater fees	-	-	-	5,700	-	-	-	-	-	-	5,700
Unavailable revenue - earned income tax	1,017,669	-	-	-	-	-	-	-	-	-	1,017,669
Unavailable revenue - real estate taxes	119,762	-	-	-	-	-	-	-	-	-	119,762
Total Deferred Inflows of Resources	1,137,431	-	-	5,700	-	-	-	-	-	-	1,143,131
Fund Balance											
Restricted:											
Road construction/maintenance	-	1,994	-	-	-	-	-	-	-	-	1,994
Sewage infrastructure	-	-	1,052,748	-	-	-	2,204,849	-	-	-	3,257,597
Stormwater management	-	-	-	307,867	-	-	-	-	-	-	307,867
Capital purchases/construction	-	-	-	-	-	4,560,702	-	-	-	-	4,560,702
Assigned:											
Use in 2020 budget	1,036,200	-	-	-	-	-	-	-	-	-	1,036,200
Capital purchases/construction	-	-	-	-	1,206,723	53,754	-	37,125	628,828	-	1,926,430
K-9 program	-	-	-	-	-	-	-	-	-	5,575	5,575
Unassigned	1,864,366	-	-	-	-	-	-	-	-	-	1,864,366
Total Fund Balance	2,900,566	1,994	1,052,748	307,867	1,206,723	4,614,456	2,204,849	37,125	628,828	5,575	12,960,731
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,017,475	\$ 1,994	\$ 1,371,497	\$ 314,512	\$ 1,206,723	\$ 4,805,258	\$ 2,204,849	\$ 37,125	\$ 628,828	\$ 5,575	\$ 15,593,836

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, 2019

Total Fund Balance - Governmental Funds \$ 12,960,731

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. 20,328,513

Property taxes, earned income taxes, and stormwater fees 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	\$ 1,017,669	
Real estate tax	119,762	
Stormwater fees	<u>5,700</u>	1,143,131

The actuarially accrued net pension asset, and deferred inflows and outflows of resources for pensions are not recorded on the fund financial statements. 1,203,634

Grants receivable that are not available to pay for current period expenditures are not recorded in the funds. 248,886

Noncurrent liabilities, including compensated absences and bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.

Accumulated compensated absences	(234,470)	
Bond payable	\$ (5,055,000)	
Bond due within 1 year	(140,000)	
Bond premium	(291,813)	
Accrued interest	<u>(76,934)</u>	<u>(5,798,217)</u>

Total Net Position - Governmental Activities \$ 30,086,678

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, 2019

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	Parks Fund	K-9 Fund	Total Governmental Funds
Revenues:											
Taxes:											
Real estate	\$ 3,484,127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,484,127
Earned income	3,243,627	-	-	-	-	-	-	-	-	-	3,243,627
Other	444,787	-	-	-	-	-	-	-	-	-	444,787
Licenses and permits	191,505	-	-	-	-	-	-	-	-	-	191,505
Fines and related costs	5,466	-	-	-	-	-	-	-	-	-	5,466
Interest, rents, and royalties	85,964	3,254	21,406	2,656	27,021	36,767	42,977	6,475	1,161	47	227,728
Intergovernmental revenues	573,514	243,483	651,833	-	-	-	-	-	-	-	1,468,830
Charges for services	135,303	-	36,070	-	-	-	-	-	-	-	171,373
Stormwater fees	-	-	-	338,100	-	-	-	-	-	-	338,100
Sanitary sewer fees	-	-	2,275,172	-	-	-	-	-	-	-	2,275,172
Contributions	-	-	-	-	-	-	-	71,760	722,285	670	794,715
Miscellaneous	126,227	-	-	-	41,719	-	-	-	-	-	167,946
Total revenues	8,290,520	246,737	2,984,481	340,756	68,740	36,767	42,977	78,235	723,446	717	12,813,376
Expenditures:											
Current:											
Administration	755,357	-	-	-	-	2,191	-	60	-	12	757,620
Tax collection	59,307	-	-	-	-	-	-	-	-	-	59,307
Borough building	88,341	-	-	-	-	487	-	-	-	-	88,828
Police department	1,662,061	-	-	-	-	-	-	-	-	1,347	1,663,408
Fire & EMS department	156,180	-	-	-	-	-	-	-	-	-	156,180
Code enforcement	103,957	-	-	-	-	-	-	-	-	-	103,957
Health and human services	1,740	-	-	-	-	-	-	-	-	-	1,740
Rubbish collection	828,119	-	-	-	-	-	-	-	-	-	828,119
Stormwater system	-	-	-	32,889	-	-	-	-	-	-	32,889
Sewer system	-	-	2,011,696	-	-	-	-	-	-	-	2,011,696
Public works	1,678,771	-	-	-	-	-	-	-	-	-	1,678,771
Library	390,000	-	-	-	-	-	-	-	-	-	390,000
Parks and recreation	40,367	-	-	-	-	-	-	-	1,000	-	41,367
Employee benefits	196,296	-	-	-	-	-	-	-	-	-	196,296
Insurance	99,112	-	-	-	-	-	-	-	-	-	99,112
Debt service - interest paid	-	-	-	-	-	-	-	-	1,748	-	1,748
Bond issue fees	-	-	-	-	-	93,754	-	-	-	-	93,754
Miscellaneous (refunds and judgments)	1,887	-	-	-	-	-	-	-	-	-	1,887
Capital outlay	1,634,076	-	3,371	-	425,807	878,125	-	333,067	891,870	-	4,166,316
Total expenditures	7,695,571	-	2,015,067	32,889	425,807	974,557	-	333,127	894,618	1,359	12,372,995
Excess (Deficiency) of Revenues Over Expenditures	594,949	246,737	969,414	307,867	(357,067)	(937,790)	42,977	(254,892)	(171,172)	(642)	440,381

(Continued)

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, 2019

(Continued)

	General Fund	Highway Aid Fund	Sewer Fund	Sanitary Authority	Capital Reserve	Land Acquisition	Interceptor Fund	Fire Truck Fund	Parks Fund	K-9 Fund	Total Governmental Funds
Other Financing Sources (Uses):											
Bond proceeds	-	-	-	-	-	5,195,000	-	-	-	-	5,195,000
Bond premium	-	-	-	-	-	303,972	-	-	-	-	303,972
Operating transfers in	247,407	-	-	-	268,500	-	364,967	-	800,000	-	1,680,874
Operating transfers out	(250,000)	(247,407)	(383,467)	-	-	(800,000)	-	-	-	-	(1,680,874)
Total other financing sources (uses)	(2,593)	(247,407)	(383,467)	-	268,500	4,698,972	364,967	-	800,000	-	5,498,972
Net Change in Fund Balance	592,356	(670)	585,947	307,867	(88,567)	3,761,182	407,944	(254,892)	628,828	(642)	5,939,353
Fund Balance:											
Beginning of year	2,308,210	2,664	466,801	-	1,295,290	853,274	1,796,905	292,017	-	6,217	7,021,378
End of year	<u>\$ 2,900,566</u>	<u>\$ 1,994</u>	<u>\$ 1,052,748</u>	<u>\$ 307,867</u>	<u>\$ 1,206,723</u>	<u>\$ 4,614,456</u>	<u>\$ 2,204,849</u>	<u>\$ 37,125</u>	<u>\$ 628,828</u>	<u>\$ 5,575</u>	<u>\$ 12,960,731</u>

(Concluded)

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, 2019

Net Change in Fund Balance - Governmental Funds \$ 5,939,353

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.

Contributed value of land (Hardie property)	\$	573,131	
Capital outlays		4,166,316	
Less: Depreciation expense		<u>(667,816)</u>	4,071,631

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	\$	47,888	
Real estate tax		18,892	
Prepaid tax		(169)	
Stormwater fees		<u>5,700</u>	72,311

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

Compensated absences	\$	(36,060)	
Pension expense		<u>312,204</u>	276,144

(Continued)

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, 2019

(Continued)

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position. (8,470)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (752,947)

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal on long-term obligations consumes the current financial resources of governmental funds.

Bond payable	\$	(5,055,000)	
Bond due within one year		(140,000)	
Bond premium		<u>(291,813)</u>	(5,486,813)

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due. Accrued interest changed by this amount during the year. (76,934)

Change in Net Position of Governmental Activities \$ 4,034,275

(Concluded)

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, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes:				
Real estate	\$ 3,475,100	\$ 3,475,100	\$ 3,484,127	\$ 9,027
Earned income	3,125,000	3,125,000	3,243,627	118,627
Other	386,000	386,000	444,787	58,787
Licenses and permits	152,000	152,000	191,505	39,505
Fines and related costs	6,000	6,000	5,466	(534)
Interest, rents, and royalties	75,000	75,000	85,964	10,964
Intergovernmental revenues	607,900	607,900	573,514	(34,386)
Charges for services	60,900	60,900	135,303	74,403
Miscellaneous	110,000	110,000	126,227	16,227
Total revenues	<u>7,997,900</u>	<u>7,997,900</u>	<u>8,290,520</u>	<u>292,620</u>
Expenditures:				
Current:				
Administration	671,700	671,700	755,357	(83,657)
Tax collection	62,700	62,700	59,307	3,393
Borough building	93,200	93,200	88,341	4,859
Police department	1,679,600	1,679,600	1,662,061	17,539
Fire department	133,200	133,200	117,199	16,001
EMS	39,000	39,000	38,981	19
Code enforcement	110,600	110,600	103,957	6,643
Health and human services	2,000	2,000	1,740	260
Rubbish collection	834,200	834,200	828,119	6,081
Public works	4,039,000	3,293,300	3,312,847	(19,547)
Library	390,000	390,000	390,000	-
Parks and recreation	86,400	86,400	40,367	46,033
Employee benefits	195,200	195,200	196,296	(1,096)
Insurance	100,000	100,000	99,112	888
Miscellaneous	3,000	3,000	1,887	1,113
Total expenditures	<u>8,439,800</u>	<u>7,694,100</u>	<u>7,695,571</u>	<u>(1,471)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(441,900)</u>	<u>303,800</u>	<u>594,949</u>	<u>291,149</u>
Other Financing Sources (Uses):				
Operating transfers in	241,300	241,300	247,407	6,107
Operating transfers out	(250,000)	(250,000)	(250,000)	-
Total other financing sources (uses)	<u>(8,700)</u>	<u>(8,700)</u>	<u>(2,593)</u>	<u>6,107</u>
Net Change in Fund Balance	<u>\$ (450,600)</u>	<u>\$ 295,100</u>	<u>\$ 592,356</u>	<u>\$ 297,256</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

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

HIGHWAY AID FUND

YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents and royalties	\$ 1,800	\$ 1,800	\$ 3,254	\$ 1,454
Intergovernmental revenues	<u>239,700</u>	<u>239,700</u>	<u>243,483</u>	<u>3,783</u>
Total revenues	241,500	241,500	246,737	5,237
Expenditures:				
Public works	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	241,500	241,500	246,737	5,237
Other Financing Sources (Uses):				
Operating transfers out	<u>(241,300)</u>	<u>(241,300)</u>	<u>(247,407)</u>	<u>(6,107)</u>
Net Change in Fund Balance	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ (670)</u>	<u>\$ (870)</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, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 6,000	\$ 6,000	\$ 21,406	\$ 15,406
Intergovernmental revenue	657,500	657,500	657,743	243
Sewer fees	2,295,100	2,295,100	2,305,332	10,232
Total revenues	2,958,600	2,958,600	2,984,481	25,881
Expenditures:				
Administration	35,000	35,000	43,060	(8,060)
Sewer system	2,231,300	2,073,800	1,972,007	101,793
Total expenditures	2,266,300	2,108,800	2,015,067	93,733
Excess (Deficiency) of Revenues Over Expenditures	692,300	849,800	969,414	119,614
Other Financing Sources (Uses):				
Operating transfers out	(381,200)	(381,200)	(383,467)	(2,267)
Net Change in Fund Balance	\$ 311,100	\$ 468,600	\$ 585,947	\$ 117,347

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

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

SANITARY AUTHORITY

YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 1,000	\$ 1,000	\$ 2,656	\$ 1,656
Miscellaneous	291,500	340,800	338,100	(2,700)
Total revenues	292,500	341,800	340,756	(1,044)
Expenditures:				
Stormwater	292,500	38,400	32,889	5,511
Total expenditures	292,500	38,400	32,889	5,511
Excess (Deficiency) of Revenues Over Expenditures	-	303,400	307,867	4,467
Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ -	\$ 303,400	\$ 307,867	\$ 4,467

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

STATEMENT OF PLAN NET POSITION FIDUCIARY FUNDS - PENSION TRUST FUNDS

DECEMBER 31, 2019

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Assets				
Cash and cash equivalents	\$ 541,603	\$ 465,285	\$ -	\$ 1,006,888
Investments:				
Corporate bonds	1,424,708	1,209,828	-	2,634,536
Municipal bonds	1,444,493	1,172,783	-	2,617,276
Treasury bonds	99,973	-	-	99,973
Registered investment companies	-	-	71,088	71,088
Equities	5,523,889	4,550,723	-	10,074,612
Other:				
Accrued income receivable	34,268	28,450	-	62,718
Total Assets	9,068,934	7,427,069	71,088	16,567,091
Liabilities				
Pension benefits payable	-	-	-	-
Net Position Restricted For Pension Benefits	\$ 9,068,934	\$ 7,427,069	\$ 71,088	\$ 16,567,091

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, 2019

	Police Pension Fund	General Employees DB Pension Fund	General Employees DC Pension Fund	Total Pension Funds
Additions:				
Contributions:				
Employer (including state aid)	\$ -	\$ 184,217	\$ 12,079	\$ 196,296
Employee	53,470	54,767	12,079	120,316
Total contributions	53,470	238,984	24,158	316,612
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	1,223,947	1,017,201	10,436	2,251,584
Interest and dividends	229,021	188,295	-	417,316
Asset exchange	22,261	17,837	-	40,098
Total investment income	1,475,229	1,223,333	10,436	2,708,998
Less investment expense	46,539	38,618	36	85,193
Net investment income (loss)	1,428,690	1,184,715	10,400	2,623,805
Total additions	1,482,160	1,423,699	34,558	2,940,417
Deductions:				
Benefits	102,482	313,532	-	416,014
Administrative expense	6,698	6,248	-	12,946
Total deductions	109,180	319,780	-	428,960
Change in Net Position	1,372,980	1,103,919	34,558	2,511,457
Net position - beginning	7,695,954	6,323,150	36,530	14,055,634
Net position - ending	<u>\$ 9,068,934</u>	<u>\$ 7,427,069</u>	<u>\$ 71,088</u>	<u>\$ 16,567,091</u>

See accompanying notes to financial statements.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 Sanitary Authority, which is governed by a five-member Board appointed by the Council, principally serves the residents of the Borough. Although the Sanitary Authority was deactivated at the end of 2017, it was reactivated on December 17, 2018, and granted the additional power to perform stormwater planning, management and implementation, and to levy and collect uniform rates as set forth in the PA Municipality Authorities Act.

Government-Wide and Fund Financial Statements

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

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

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

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. Expenditures are generally recorded when a liability is incurred, under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, 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.

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,

BOROUGH OF FOX CHAPEL

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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, which currently consists of stormwater operations.

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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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 future capital improvement to the Squaw Run Interceptor as will be mandated by the Pennsylvania Department of Environmental Protection and the Allegheny County Health Department. A special quarterly sewer fee was adopted in 2014 to fund the project.

Fire Truck Fund

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

K-9 Fund

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

Parks Fund

The Parks Fund was established in 2019 to receive donations to repay the loan from the Borough used to purchase a 17-acre property on Old Mill Road that was the missing link in the Borough's trailway system.

Fiduciary Funds:

Pension Trust Funds

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

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

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, Land Acquisition, Fire Truck, and Sanitary Authority Special Revenue Fund. The K-9 and Parks Funds had no legally adopted budget in 2019.

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

1. The fiscal year shall coincide with the calendar year.
2. The budget for the following year must be adopted by the Council by December 31 of the current year.
3. Preparation of the budget must begin at least thirty (30) days prior to its adoption.
4. The proposed budget must be available for public inspection ten (10) working days prior to its adoption.
5. After January 1, the budget may not be amended, nor may the tax rates be changed except that amendments are permitted up to February 15 in the years following municipal elections.
6. Council may, in its reasonable discretion, modify the budget after its final adoption provided such modifications are within the current year's revenues or such additional monies as required therefore are promptly made available through borrowing as allowed by law. Minor modifications were made to the 2019 budget.

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

Investments

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

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

Fair Value Measurements

The Borough categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Inventory

Inventory, consisting of mainly road department materials, is recorded as an expenditure when purchased. The inventory balance at December 31, 2019 was not material.

Interfund Receivables, Payables and Transfers

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

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The balances at December 31, 2019 are as follows:

	Due To	Due From
Sewer Fund	\$ -	\$ 28,618
Interceptor Fund	28,618	-
	<u>\$ 28,618</u>	<u>\$ 28,618</u>
	Transfer In	Transfer Out
General Fund	\$ 247,407	\$ 250,000
Sewer Fund	-	383,467
Interceptor Fund	364,967	-
Capital Reserve Fund	268,500	-
Land Acquisition Fund	-	800,000
Parks Fund	800,000	-
Highway Aid	-	247,407
	<u>\$ 1,680,874</u>	<u>\$ 1,680,874</u>

Compensated Absences

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

Net Position

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition,

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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, stormwater management, 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.

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

- 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 2020 budget, capital purchases and construction, and the K-9 program.
- Unassigned – This category represents all other funds not otherwise defined.

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

Capital Assets

Capital assets, which include land, buildings and improvements, furniture, machinery, equipment, infrastructure, and vehicles, are recorded at cost. To the extent the Borough's capitalization threshold of \$5,000 for non-infrastructure depreciable assets and \$500,000 per system for depreciable infrastructure assets is met, capital outlays are recorded and depreciated using the straight-line method over the following estimated useful lives:

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

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums are deferred and amortized over the life of the bonds.

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the net difference between projected and actual investment earnings, changes in assumptions and the difference between expected and actual experience are recorded as a deferred inflow or outflow of resources related to pensions on the government-wide financial statements. These amounts are

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

determined based on the actuarial valuations performed for the Borough. Note 6 presents additional information about the Pension Plans.

Estimates

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

Adoption of Pronouncements

The following Governmental Accounting Standards Board (GASB) statements were adopted for the year ended December 31, 2019: Statement Nos. 84 (Fiduciary Activities) and 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements). These statements had no significant impact on the Borough's financial statements for the year ended December 31, 2019.

Pending Pronouncements

GASB has issued several statements that will become effective in future years, including Statement Nos. 87 (Leases), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), 91 (Conduit Debt Obligations), and 92 (Omnibus 2020). Management has not yet determined the impact of these statements on the Borough's financial statements.

2. Cash, Cash Equivalents, and Investments

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

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YEAR ENDED DECEMBER 31, 2019

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, 2019, \$346,610 of the Borough's \$686,962 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$340,352 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 \$586,923 as of December 31, 2019.

Investments

The Borough's cash equivalent investments in PLGIT are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The Borough's position in the external investment pool is the same as the value of the pool shares and is reported at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. The net asset value per share for the purpose of calculating the price at which shares are issued and redeemed is determined by the Administrator each banking day. Such determination is made by subtracting the liabilities from the value of the assets and dividing the remainder by the number of shares outstanding. PLGIT activities are invested directly in a portfolio of securities, which are held by a third-party custodian. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. PLGIT annual audit is available on their website. The Borough can withdraw funds from the external investment pools. However, there are certain limitations placed on these withdrawals. For PLGIT-Class accounts, there is a one-day holding period. For PLGIT/Arm accounts, there is a minimum investment period of one day. For PLGIT/Prime accounts, there is a one-day holding period and a penalty for more than two withdrawals in a calendar month.

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YEAR ENDED DECEMBER 31, 2019

As of December 31, 2019, the PLGIT bank balances totaled \$11,107,147, and book balances totaled \$11,088,609, which are considered to be a cash equivalent for presentation on the statement of net position and governmental funds balance sheet.

In addition, the Borough has purchased \$1,964,000 in fully insured Certificates of Deposit (CDs) through the PLGIT CD placement program. The CDs are purchased from banks in the country in amounts less than \$250,000 within any one institution such that the CDs are fully insured.

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

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Borough has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2019, investments in PLGIT have received a AAA rating from Standard & Poor's.

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

Pension Trust Fund

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

The Pension Trust Funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near-term and that such a change could materially affect the amount reported on the combined statement of net position.

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

As of December 31, 2019, the Borough had the following investments in its Pension Trust Funds:

Cash or Investment Type	Fair Value	Investment Maturities from December 31, 2019			
		Less Than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Corporate bonds	\$ 2,634,536	\$ 60,266	\$ 1,432,213	\$ 1,142,057	\$ -
Treasury bonds	99,973	99,973	-	-	-
Municipal bonds	2,617,276	243,619	867,627	1,271,169	234,861
Total fixed income investments	5,351,785	\$ 403,858	\$ 2,299,840	\$ 2,413,226	\$ 234,861
Money market funds	1,006,888				
Corporate common stocks:					
Health Care	1,753,442				
Industrials	1,167,658				
Information technology	1,644,562				
Consumer staples	1,405,579				
Financial	1,074,209				
Energy	395,273				
Materials	477,869				
Telecommunication services	1,244,144				
Consumer discretionary	911,876				
Total corporate common stocks	10,074,612				
Registered investment companies	71,088				
Total cash and other investments	11,152,588				
Total cash and investments reported on the statement of plan net position	\$ 16,504,373				

The Borough's pension trust funds categorize its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The Borough's investments are all valued using quoted market prices (Level 1).

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

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds formal investment policy limits its fixed income investment choices to a rating of median or better based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2019, 100% of the Pension Trust Funds' investments in money market funds received an AAAM rating from Standard & Poor's as of the latest rating available.

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

As of December 31, 2019, the Borough had the following credit quality distribution for fixed income investments with credit exposure:

Rating (1)	Percentage of Total Fixed Income Investments with Credit Exposure
AAA	7.0%
AA1	9.0%
AA2	8.0%
AA3	7.0%
A1	2.0%
A2	2.0%
A3	2.0%
BAA1	17.0%
BAA2	19.0%
BAA3	8.0%
BA1	1.0%
Not rated	18.0%
Subtotal	100.0%

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 money market funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2019, the Borough's entire pension cash, cash equivalents, and investment balance of \$16,504,373 (bank and book balance) was exposed to custodial credit risk. All of the Borough's Pension Trust Fund investments were uninsured and held by the counterparty. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up to \$250,000 in cash, in the event the counterparty fails, owing the Borough cash and securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

BOROUGH OF FOX CHAPEL

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YEAR ENDED DECEMBER 31, 2019

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.

3. Capital Assets

A summary of capital asset transactions during 2019 is as follows:

	January 1, 2019	Reclass	Additions	Disposals	December 31, 2019
Capital assets, not being depreciated:					
Land	\$ 8,825,586	\$ -	\$ 1,465,000	\$ -	\$ 10,290,586
Construction in progress	153,763	-	878,125	-	1,031,888
Total capital assets, not being depreciated	8,979,349	-	2,343,125	-	11,322,474
Capital assets, being depreciated:					
Buildings and improvements	2,194,836	-	-	-	2,194,836
Furniture and equipment	400,576	-	31,283	42,650	389,209
Machinery and equipment	1,307,396	-	3,371	98,255	1,212,512
Vehicles	2,885,491	-	727,592	90,477	3,522,606
Infrastructure	5,702,327	-	1,634,076	-	7,336,403
Total capital assets, being depreciated	12,490,626	-	2,396,322	231,382	14,655,566
Less accumulated depreciation for:					
Buildings and improvements	1,337,418	-	42,413	-	1,379,831
Furniture and equipment	329,743	-	17,202	38,649	308,296
Machinery and equipment	711,215	-	67,489	93,786	684,918
Vehicles	1,714,720	-	159,595	90,477	1,783,838
Infrastructure	1,111,527	-	381,117	-	1,492,644
Total accumulated depreciation	5,204,623	-	667,816	222,912	5,649,527
Total capital assets, being depreciated, net	7,286,003	-	1,728,506	8,470	9,006,039
Total capital assets, net	\$ 16,265,352	\$ -	\$ 4,071,631	\$ 8,470	\$ 20,328,513

BOROUGH OF FOX CHAPEL

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

Administration	\$ 10,078
Borough building	44,623
Police department	45,898
Fire department	40,494
Code enforcement	5,797
Rubbish collection	114
Public works	512,343
Sewer system	6,527
Parks and recreation	1,942
Total depreciation expense	<u>\$ 667,816</u>

4. Real Estate Taxes

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

The Borough is permitted by the Borough Code of Pennsylvania to levy real estate taxes, not exceeding 30 mills for general Borough purposes. For 2019, Borough real estate taxes were levied at the rate of 2.95 mills for general purposes. The millage is applied to assessed market valuation as determined periodically by Allegheny County. Total assessed valuation, which approximates 100% of market value of assessed properties within the Borough, was \$1,208,968,741 for 2019.

5. Compensated Absences

The following is a summary of the change in compensated absences of the Borough for the year ended December 31, 2019:

	Amount Payable as of January 1, 2019	Change in Payable	Amount Payable as of December 31, 2019
Compensated absences	<u>\$ 198,410</u>	<u>\$ 36,060</u>	<u>\$ 234,470</u>

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YEAR ENDED DECEMBER 31, 2019

6. Pension Plans

Summary of Significant Accounting Policies

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

Plan Descriptions

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

At December 31, 2019, Plan membership consisted of the following:

	General Employees DB	General Employees DC	Police
Inactive plan members or beneficiaries currently receiving benefits	11	-	5
Inactive plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	12	4	9
Total plan members	23	4	14

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Benefits Provided – General Employees Defined Benefit Plan

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

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

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

Death Benefit – If a participant's death occurs before retirement eligibility, the participant's beneficiary receives a refund of contributions made by the participant, plus interest. If a participant shall die as a direct result and in the service of employment, a survivor benefit shall be paid to the surviving spouse in an amount equal to 50% of the participant's salary as of the date of death. If a participant shall die after completing at least three years of service, a survivor benefit shall be paid to the surviving spouse in an amount equal to the survivor portion of the participant's accrued benefit, reduced for early commencement, converted to a joint and fifty percent annuity. This survivor benefit shall be paid monthly until the death of the spouse shall occur. If a participant shall die after the participant is eligible to retire but before the retirement benefits commence, a survivor benefit shall be paid to the beneficiary as if the participant had retired and was receiving a normal retirement benefit. Such benefit shall be paid monthly until the earlier of the payment of 120 monthly payments have been paid or the death of the beneficiary shall occur.

Benefits Provided - General Employees Defined Contribution Plan

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

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

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

The General Employees Defined Contribution Plan had assets of \$71,088 at December 31, 2019.

Benefits Provided – Police Plan

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

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

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

Death Benefit – If a participant's death occurs before retirement eligibility, the participant's beneficiary receives a refund of contributions made by the participant, plus interest, reduced by the amount of any disability benefits the participant may have received. If a participant shall die after commencement of benefit payments or after becoming eligible to receive benefit payments, a survivor benefit shall be paid to the surviving spouse or dependent children of the participant equal to 50% of the benefit the participant was receiving or was eligible to receive as of the date of death. The survivor benefit shall be paid to the surviving spouse until the date of death of the surviving spouse. Upon the death of the surviving spouse, the survival benefit shall be paid monthly in equal shares to the surviving dependent children of the deceased participant until attainment of age 18 or if attending college, until attaining the age of 23.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

During 2019, two eligible plan members participated in the DROP program and, under the terms of the Resolution, were considered retired for pension purposes. The monthly pension benefit was calculated and is being created to a separate ledger account, with interest. Included in the cash and cash equivalents on the Statement of Net Position Pension Trust Funds is \$104,267 in DROP accounts.

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 2019. Contributions for the General Employees Plan were also 5% for 2019 for both the DB and DC plans.

During 2019, the required MMOs for the Police Plan and General Employees Defined Benefit Plan were zero and \$184,217, respectively. The Borough contributed the funds necessary to meet the required MMOs. During 2019, the Borough contributed \$12,079 to the General Employees Defined Contribution Plan.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 were as follows:

	General Employees	Police
Total pension liability	\$ 6,974,553	\$ 6,626,839
Plan fiduciary net position	(7,427,069)	(9,068,934)
Net pension liability (asset)	<u>\$ (452,516)</u>	<u>\$ (2,442,095)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	<u>106.49%</u>	<u>136.85%</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the Borough's Plans for the year ended December 31, 2019 were as follows:

General Employees DB Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2018	\$ 6,831,930	\$ 6,323,150	508,780
Changes for the year:			
Service cost	127,949	-	127,949
Interest	466,708	-	466,708
Differences between expected and actual	(138,502)	-	(138,502)
Changes of assumptions	-	-	-
Contributions - employer	-	184,217	(184,217)
Contributions - employee	-	54,767	(54,767)
Net investment income	-	1,223,333	(1,223,333)
Benefit payments, including refunds	(313,532)	(313,532)	-
Administrative expense	-	(44,866)	44,866
Other changes	-	-	-
Net changes	142,623	1,103,919	(961,296)
Balances at December 31, 2019	<u>\$ 6,974,553</u>	<u>\$ 7,427,069</u>	<u>\$ (452,516)</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Police Pension Plan

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2018	\$ 6,721,860	\$ 7,695,954	(974,094)
Changes for the year:			
Service cost	161,053	-	161,053
Interest	436,940	-	436,940
Differences between expected and actual	(590,532)	-	(590,532)
Changes of assumptions	-	-	-
Contributions - employer	-	-	-
Contributions - employee	-	53,470	(53,470)
Net investment income	-	1,475,229	(1,475,229)
Benefit payments, including refunds	(102,482)	(102,482)	-
Administrative expense	-	(53,237)	53,237
Other changes	-	-	-
Net changes	(95,021)	1,372,980	(1,468,001)
Balances at December 31, 2019	<u>\$ 6,626,839</u>	<u>\$ 9,068,934</u>	<u>\$ (2,442,095)</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2019, and rolled forward to December 31, 2019, using the following actuarial assumptions, applied to all periods in the measurement:

	General Employees DB	Police
Actuarial assumptions:		
Investment rate of return	7.0%	7.0%
Projected salary increases	4.5%	5.0%
Underlying inflation rate	2.75%	2.75%

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

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019:

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

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2019, the annual money-weighted rate of return on the General Employees and Police Pension Plan investments, net of investment expense, was 19.64% and 19.29%, respectively.

Concentrations – There were no individual investments that constituted more than 5% of plan net position as of December 31, 2019.

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
General Employees Plan	\$ 212,216	\$ (452,516)	\$ (1,029,985)
Police Plan	\$ (1,645,980)	\$ (2,442,095)	\$ (3,110,898)

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

For the year ended December 31, 2019, the Borough recognized pension expense of \$127,987. At December 31, 2019, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>General Employees</u>	<u>Police</u>
<u>Deferred Outflow of Resources:</u>		
Changes in assumption	\$ 160,155	\$ 104,578
Net difference between projected and actual earnings on pension plan investments	<u>324,912</u>	<u>388,662</u>
Total deferred outflows of resources	<u>\$ 485,067</u>	<u>\$ 493,240</u>
	<u>General Employees</u>	<u>Police</u>
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 181,593	\$ 694,471
Net difference between projected and actual earnings on pension plan investments	<u>814,437</u>	<u>978,783</u>
Total deferred inflows of resources	<u>\$ 996,030</u>	<u>\$ 1,673,254</u>

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

<u>Year Ending December 31:</u>	
2020	\$ (519,074)
2021	(465,799)
2022	(266,162)
2023	<u>(439,942)</u>
Total	<u>\$ (1,690,977)</u>

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

7. Long-Term Debt

In 2019, the Borough issued General Obligation Bonds, Series 2019 to acquire land for a public park and its development, construct a Public Works garage, renovate existing facilities, reimburse related site improvements including stormwater management, and pay the cost of issuing the bonds.

Issue: General Obligation Bonds of 2019
Date: August 8, 2019
Proceeds: \$5,195,000
Bond premium: \$303,972
Bond term: 25 years
Interest rate: 1.34% - 2.58%
Maximum annual debt service: \$321,600
Average annual debt service: \$320,210

Long-term debt activity for the year ended December 31, 2019 was as follows:

	Amounts Payable as of January 1, 2019	Increases	Decreases	Amounts Payable as of December 31, 2019	Due Within One Year
G.O. Bond	\$ -	\$ 5,195,000	\$ -	\$ 5,195,000	\$ 140,000

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Annual debt service requirements to maturity for the General Obligation Bonds of 2019 are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 140,000	\$ 179,499	\$ 319,499
2021	135,000	184,750	319,750
2022	140,000	178,000	318,000
2023	150,000	171,000	321,000
2024	155,000	163,500	318,500
2025-2029	875,000	727,750	1,602,750
2030-2034	1,005,000	589,000	1,594,000
2035-2039	1,175,000	421,500	1,596,500
2040-2044	1,420,000	174,800	1,594,800
	<u>\$ 5,195,000</u>	<u>\$ 2,789,799</u>	<u>\$ 7,984,799</u>

8. Contingent Liabilities

Various claims and lawsuits are pending against the Borough. The ultimate outcome of these claims and lawsuits cannot presently be determined and, accordingly, no provision for amounts arising from settlements has been made in these financial statements. In the opinion of management and legal counsel, the effect on the financial statements of potential losses or gains 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; environmental and cyber liability; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

In June 2013, Borough Council adopted the Administrative Consent Order (ACO) Feasibility Study Report (Report) which was then submitted to the Allegheny County Health Department (ACHD), PA DEP, and the Allegheny County Sanitary Authority (ALCOSAN). The report concluded a need for 2.6 miles of repairs of sewer pipe in the upper reaches of the sanitary sewer system and 2.5 miles of sewer main upsizing. The cost of these repairs totals \$10.7 million. The report determined that construction of the sewer main should commence in late 2024. Borough Council concluded that work on the repairs to the sewer

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

pipes should begin in 2014 and progress until completed. Borough Council has calculated the sewer rates needed to fund these projects and increased the rates accordingly. ACHD has verified that the Feasibility Study Report meets the criteria required.

A part of the ALCOSAN Consent Decree negotiations relates to “Regionalization” in which ALCOSAN proposes to assume ownership, operation, maintenance and potential future wet weather capacity, augmentation responsibilities “multi-municipal conveyance sewers greater than 10” in diameter”. The current “Regionalization” scope of work includes a significant amount of trunk sewers in Fox Chapel including those referenced in the June 2013 report. Therefore, the Borough may need to revise its Feasibility Study Report. In December 2014, Fox Chapel asked the ACHD for an extension to the ACO. In response to several requests from municipalities for an ACO extension, ACHD/PADEP concluded that the ACO has lapsed and required the municipalities to sign a Phase 1 Consent Order and Agreement (Phase 1 COA) with the ACHD. Fox Chapel signed the Phase 1 COA in December 2015. The Phase 1 COA, following specific provisions outlined therein, requires a “Source Flow Reduction Study” be conducted in the municipal collection/conveyance system in fiscal years 2016/2017 with submittal to the ACHD by December 2017. On November 30, 2016, the Borough submitted a progress report describing actions taken toward achieving compliance with the Phase 1 COA. The ACHD, by letter dated January 13, 2017, determined that the progress report met the minimum requirements of the COA. In November 2017, Borough Council adopted Resolution No. 617 approving Phase 1 Consent Order and Agreement Source Flow Adoption Study and the Borough submitted the same to the regulators.

DEP has issued a series of approvals of the Borough's corrective action plan since 2018. The most recent extension, dated January 7, 2020, expires June 2020. Because the Borough is following the mandates of the COA, we expect extensions to be provided by DEP until a Phase II COA is developed.

9. Cooper-Siegel Community Library

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

As part of an agreement dated April 15, 2010, the Borough agreed to contribute to CLA the sum of not less than \$350,000 per year for the operation of the library. In the year 2018,

BOROUGH OF FOX CHAPEL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

the minimum amount increased to \$390,000. The Borough's commitment may be reduced in the event contributions by other municipalities result in the Borough's appointees to the Board of CLA having less than a majority vote on the Board of CLA.

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

10. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on the Borough's operational and financial performance is currently uncertain and cannot be predicted.

**REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN DISCLOSURES**

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

GENERAL EMPLOYEES PLAN

YEARS ENDED DECEMBER 31

	2019	2018	2017	2016	2015
Total Pension Liability:					
Service cost	\$ 127,949	\$ 135,290	\$ 147,234	\$ 144,762	\$ 138,528
Interest	466,708	457,378	439,568	413,239	396,681
Differences between expected and actual experience	(138,502)	-	(175,699)	-	(47,630)
Changes of assumptions	-	-	301,572	-	259,303
Benefit payments, including refunds of member contributions	(313,532)	(313,532)	(327,107)	(293,887)	(315,537)
Net Changes in Total Pension Liability	142,623	279,136	385,568	264,114	431,345
Total Pension Liability - Beginning	6,831,930	6,552,794	6,167,226	5,903,112	5,471,767
Total Pension Liability - Ending (a)	\$ 6,974,553	\$ 6,831,930	\$ 6,552,794	\$ 6,167,226	\$ 5,903,112
Plan Fiduciary Net Position:					
Contributions - employer	\$ 184,217	\$ 178,298	\$ 168,878	\$ 167,392	\$ 198,297
Contributions - member	54,767	54,803	52,444	54,893	55,140
Net investment income	1,223,333	(90,353)	811,249	488,228	(55,569)
Benefit payments, including refunds of member contributions	(313,532)	(313,532)	(327,107)	(293,887)	(315,537)
Administrative expense	(44,866)	(40,087)	(41,525)	(35,874)	(6,522)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	1,103,919	(210,871)	663,939	380,752	(124,191)
Plan Fiduciary Net Position - Beginning	6,323,150	6,534,021	5,870,082	5,489,330	5,613,521
Plan Fiduciary Net Position - Ending (b)	\$ 7,427,069	\$ 6,323,150	\$ 6,534,021	\$ 5,870,082	\$ 5,489,330
Net Pension Liability (Asset) - Ending (a-b)	\$ (452,516)	\$ 508,780	\$ 18,773	\$ 297,144	\$ 413,782
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	106.49%	92.55%	99.71%	95.18%	92.99%
Covered Payroll	\$ 1,096,049	\$ 1,159,521	\$ 1,023,960	\$ 1,077,766	\$ 1,096,317
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-41.29%	43.88%	1.83%	27.57%	37.74%

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

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

POLICE PLAN

YEARS ENDED DECEMBER 31

	2019	2018	2017	2016	2015
Total Pension Liability:					
Service cost	\$ 161,053	\$ 154,474	\$ 147,118	\$ 134,755	\$ 143,036
Interest	436,940	443,250	411,974	400,442	376,262
Differences between expected and actual experience	(590,532)	-	(378,701)	-	(496,451)
Changes of assumptions	-	-	146,700	-	286,185
Benefit payments, including refunds of member contributions	(102,482)	(105,285)	(133,544)	(167,505)	(163,733)
Net Changes in Total Pension Liability	(95,021)	492,439	193,547	367,692	145,299
Total Pension Liability - Beginning	6,721,860	6,229,421	6,035,874	5,668,182	5,522,883
Total Pension Liability - Ending (a)	<u>\$ 6,626,839</u>	<u>\$ 6,721,860</u>	<u>\$ 6,229,421</u>	<u>\$ 6,035,874</u>	<u>\$ 5,668,182</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ -	\$ 4,161	\$ 39,632	\$ 35,992	\$ 56,643
Contributions - member	53,470	57,892	56,826	55,385	53,762
Net investment income	1,475,229	(98,843)	979,577	598,625	(67,563)
Benefit payments, including refunds of member contributions	(102,482)	(105,285)	(133,544)	(167,505)	(163,733)
Administrative expense	(53,237)	(50,581)	(48,835)	(41,966)	(6,495)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	1,372,980	(192,656)	893,656	480,531	(127,386)
Plan Fiduciary Net Position - Beginning	7,695,954	7,888,610	6,994,954	6,514,423	6,641,809
Plan Fiduciary Net Position - Ending (b)	<u>\$ 9,068,934</u>	<u>\$ 7,695,954</u>	<u>\$ 7,888,610</u>	<u>\$ 6,994,954</u>	<u>\$ 6,514,423</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ (2,442,095)</u>	<u>\$ (974,094)</u>	<u>\$ (1,659,189)</u>	<u>\$ (959,080)</u>	<u>\$ (846,241)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>136.85%</u>	<u>114.49%</u>	<u>126.63%</u>	<u>115.89%</u>	<u>114.93%</u>
Covered Payroll	<u>\$ 1,093,127</u>	<u>\$ 1,136,519</u>	<u>\$ 1,107,694</u>	<u>\$ 1,075,239</u>	<u>\$ 1,052,638</u>
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-223.40%	-85.71%	-149.79%	-89.20%	-80.39%

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

BOROUGH OF FOX CHAPEL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULES OF BOROUGH'S CONTRIBUTIONS AND INVESTMENT RETURNS

LAST TEN YEARS

GENERAL EMPLOYEES PLAN:

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Schedule of Borough's Contributions										
Actuarially determined contribution	\$ 184,217	\$ 178,298	\$ 168,878	\$ 167,392	\$ 158,297	\$ 154,546	\$ 142,096	\$ 140,641	\$ 112,908	\$ 107,744
Contributions in relation to the actuarially determined contribution	184,217	178,298	168,878	167,392	198,297	154,546	142,096	140,641	179,643	107,744
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (40,000)	\$ -	\$ -	\$ -	\$ (66,735)	\$ -
Covered payroll	\$ 1,096,049	\$ 1,159,521	\$ 1,023,960	\$ 1,077,766	\$ 1,096,317	\$ 1,060,144	\$ 1,016,534	\$ 1,006,620	\$ 1,034,125	\$ 991,006
Contributions as a percentage of covered payroll	16.81%	15.38%	16.49%	15.53%	18.09%	14.58%	13.98%	13.97%	17.37%	10.87%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	19.64%	-1.40%	14.07%	9.03%	-0.42%	8.38%	n/a	n/a	n/a	n/a

POLICE PLAN:

Schedule of Borough's Contributions										
Actuarially determined contribution	\$ -	\$ 4,161	\$ 39,632	\$ 35,992	\$ 56,643	\$ 50,760	\$ 42,196	\$ 42,815	\$ 44,214	\$ 40,342
Contributions in relation to the actuarially determined contribution	-	4,161	39,632	35,992	56,643	50,760	42,196	42,815	44,214	40,342
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,093,127	\$ 1,136,519	\$ 1,107,694	\$ 1,075,239	\$ 1,052,638	\$ 1,019,032	\$ 1,120,451	\$ 1,062,076	\$ 999,493	\$ 968,911
Contributions as a percentage of covered payroll	0.00%	0.37%	3.58%	3.35%	5.38%	4.98%	3.77%	4.03%	4.42%	4.16%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	19.29%	-1.26%	14.11%	9.25%	-0.45%	8.37%	n/a	n/a	n/a	n/a

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

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

BOROUGH OF FOX CHAPEL

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2019

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

	<u>General Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2017	1/1/2017
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Open
Asset valuation method	4 year Smoothing	4 year Smoothing
Amortization period	12 years	N/A
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	2.75%	2.75%

Benefit Changes

General Employees Plan

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

Police Plan

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

BOROUGH OF FOX CHAPEL

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2019

Change in Actuarial Assumptions

General Employees Plan

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

Police Plan

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

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, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 12,000	\$ 12,000	\$ 27,021	\$ 15,021
Miscellaneous	30,000	30,000	41,719	11,719
Total revenues	42,000	42,000	68,740	26,740
Expenditures:				
Capital outlay:				
Borough building	30,000	30,000	31,282	(1,282)
Police department	37,900	37,900	37,904	(4)
Fire department	325,000	325,000	325,000	-
Code enforcement	28,000	28,000	31,621	(3,621)
Public works	9,600	9,600	-	9,600
Total expenditures	430,500	430,500	425,807	4,693
Excess (Deficiency) of Revenues Over Expenditures	(388,500)	(388,500)	(357,067)	31,433
Other Financing Sources (Uses):				
Operating transfers in	268,500	268,500	268,500	-
Operating transfers out	(296,789)	-	-	-
Total other financing sources (uses)	(28,289)	268,500	268,500	-
Net Change in Fund Balance	\$ (416,789)	\$ (120,000)	\$ (88,567)	\$ 31,433

BOROUGH OF FOX CHAPEL

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

LAND ACQUISITION FUND

YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 4,000	\$ 4,000	\$ 36,767	\$ 32,767
Expenditures:				
Administration	-	-	2,191	(2,191)
Borough building	1,150,000	900,500	878,612	21,888
Bond issue fees	-	93,800	93,754	46
Total expenditures	1,150,000	994,300	974,557	19,743
Excess (Deficiency) of Revenues Over Expenditures	(1,146,000)	(990,300)	(937,790)	52,510
Other Financing Sources (Uses):				
Operating transfers in	269,789	-	-	-
Operating transfers out	-	-	(800,000)	(800,000)
Bond proceeds	-	5,195,000	5,195,000	-
Bond premium	-	304,000	303,972	(28)
Total other financing sources (uses)	269,789	5,499,000	4,698,972	(800,028)
Net Change in Fund Balance	\$ (876,211)	\$ 4,508,700	\$ 3,761,182	\$ (747,518)

BOROUGH OF FOX CHAPEL

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

INTERCEPTOR FUND

YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 25,000	\$ 25,000	\$ 42,977	\$ 17,977
Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	25,000	25,000	42,977	17,977
Other Financing Sources (Uses):				
Operating transfers in	362,700	362,700	364,967	2,267
Net Change in Fund Balance	\$ 387,700	\$ 387,700	\$ 407,944	\$ 20,244

BOROUGH OF FOX CHAPEL

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

FIRE TRUCK FUND

YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Interest, rents, and royalties	\$ 4,000	\$ 4,000	\$ 6,475	\$ 2,475
Donations from private sources	70,000	70,000	71,760	1,760
Total revenues	74,000	74,000	78,235	4,235
Expenditures:				
Administration	-	-	60	(60)
Capital purchases	350,000	350,000	333,067	16,933
Total expenditures	350,000	350,000	333,127	16,873
Excess (Deficiency) of Revenues Over Expenditures	(276,000)	(276,000)	(254,892)	21,108
Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ (276,000)	\$ (276,000)	\$ (254,892)	\$ 21,108