

TOWNSHIP OF SOUTH FAYETTE, PENNSYLVANIA

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017



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Independent Auditor's Report

To the Members of the Board of Commissioners
Township of South Fayette
Morgan, PA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of South Fayette, Pennsylvania as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of South Fayette, Pennsylvania, as of December 31, 2017, and the respective changes in financial position 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, budgetary comparison information, pension plan information, and schedule of funding progress for the retiree health plan on pages 4 through 11 and 42 through 47 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 Township of South Fayette, Pennsylvania's basic financial statements. The combining and individual nonmajor fund financial statements on pages 48 and 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McGill, Power, Bell & Associates, LLP

McGill, Power, Bell & Associates, LLP

Grove City, Pennsylvania

June 13, 2018

TOWNSHIP OF SOUTH FAYETTE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2017

The discussion and analysis of the Township of South Fayette's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the Township's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Township's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2017 are as follows:

Government-wide financial statements:

- The assets and deferred outflows of resources of the Township exceeded its total liabilities and deferred inflows of resources at December 31, 2017 by \$11,629,170 (net position). Of this amount, \$1,833,475 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net position increased by \$1,668,913 for the year ended December 31, 2017.

Fund financial statements:

- At the close of the current year, the Township's governmental funds reported combined ending fund balances of \$7,729,269, a decrease of \$731,327 in comparison with the prior year. Of this amount, \$720,953 is unassigned and available for spending.
- At the end of the current year, unassigned fund balance for the General Fund was \$720,953 or 6.7% of total General Fund budgeted expenditures for 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Position presents information on all of the Township's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The governmental activities of the Township include general government, public safety, public works and streets, culture and recreation, health and sanitation, and other activities.

Fund financial statements – The Township's fund financial statements, which begin on page 14, provide detailed information about the most significant funds – not the Township as a whole. Some funds are required by state law and bond requirements.

Governmental funds – Most of the Township's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The Township’s total net position was \$11,629,170 and \$9,960,257 at December 31, 2017 and 2016.

**Township of South Fayette’s Net Position
December 31, 2017 and 2016**

| | <i>Governmental Activities</i> | |
|----------------------------------|------------------------------------|----------------------------|
| | <u>2017</u> | <u>2016</u> |
| Current and other assets | \$ 8,045,981 | \$ 9,920,922 |
| Capital assets, net | 11,921,131 | 9,732,485 |
| | <u>19,967,112</u> | <u>19,653,407</u> |
| Deferred outflows of resources | <u>1,039,642</u> | <u>715,858</u> |
| Current and other liabilities | 522,070 | 1,517,261 |
| Long-term liabilities | 8,436,873 | 8,891,747 |
| | <u>8,958,943</u> | <u>10,409,008</u> |
| Deferred outflows of resources | <u>418,641</u> | <u>-</u> |
| NET POSITION | | |
| Net investment in capital assets | 5,761,352 | 3,149,950 |
| Restricted | 4,034,343 | 4,139,335 |
| Unrestricted | 1,833,475 | 2,670,972 |
| | <u>11,629,170</u> | <u>9,960,257</u> |
| TOTAL NET POSITION | <u>\$ 11,629,170</u> | <u>\$ 9,960,257</u> |

A portion of the Township’s net position (49.5%) reflects its investments in capital assets (e.g. land, buildings and improvements, furniture and equipment), less any debt used to acquire those assets that is still outstanding. Most of the unrestricted net position may be used to meet the government’s ongoing obligation to citizens and creditors.

Township of South Fayette's Changes in Net Position
Years ended December 31, 2017 and 2016

| | <i>Governmental</i> | |
|------------------------------------|-----------------------------|----------------------------|
| | <i>Activities</i> | |
| | <u>2017</u> | <u>2016</u> |
| REVENUES | | |
| Program revenues: | | |
| Charges for services | \$ 1,666,310 | \$ 1,506,691 |
| Operating grants and contributions | 1,324,065 | 982,180 |
| General revenues: | | |
| Property taxes | 5,854,326 | 5,579,694 |
| Other taxes | 4,481,303 | 4,294,594 |
| Other | 61,961 | 97,848 |
| | <u>13,387,965</u> | <u>12,461,007</u> |
| EXPENSES | | |
| General government | 1,862,306 | 1,742,837 |
| Public safety | 3,703,410 | 3,446,678 |
| Public works and streets | 3,925,957 | 3,286,505 |
| Culture and recreation | 818,678 | 608,397 |
| Health and sanitation | 1,122,836 | 993,964 |
| Insurance | 151,000 | 186,453 |
| Interest on long-term debt | 134,865 | 207,225 |
| | <u>11,719,052</u> | <u>10,472,059</u> |
| CHANGE IN NET POSITION | 1,668,913 | 1,988,948 |
| NET POSITION, | | |
| BEGINNING OF YEAR | <u>9,960,257</u> | <u>7,971,309</u> |
| NET POSITION, | | |
| END OF YEAR | <u>\$ 11,629,170</u> | <u>\$ 9,960,257</u> |

Governmental activities Governmental activities increased the Township's net position by \$1,668,913.

Township of South Fayette's Governmental Activities
Years ended December 31, 2017 and 2016

| | <i>Total Cost of Services</i> | | <i>Net Cost of Services</i> | |
|--|-----------------------------------|----------------------|---------------------------------|---------------------|
| | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| General government | \$ 1,862,306 | \$ 1,742,837 | \$ 1,158,325 | \$ 1,027,760 |
| Public safety | 3,703,410 | 3,446,678 | 3,136,914 | 2,949,344 |
| Public works and streets | 3,925,957 | 3,286,505 | 2,371,034 | 2,138,050 |
| Culture and recreation | 818,678 | 608,397 | 654,553 | 493,967 |
| Health and sanitation | 1,122,836 | 993,964 | 1,121,986 | 980,389 |
| Insurance | 151,000 | 186,453 | 151,000 | 186,453 |
| Interest on long-term debt | 134,865 | 207,225 | 134,865 | 207,225 |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 11,719,052 | \$ 10,472,059 | 8,728,677 | 7,983,188 |
| TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES | | | \$ 8,728,677 | \$ 7,983,188 |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds The purpose of the Township's governmental fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

At December 31, 2017 the Township's governmental funds reported combined ending fund balances of \$7,729,269, a decrease of \$731,327 in comparison to the prior year. Of this amount, \$720,953 is unassigned, which is available for spending at the government's discretion.

The General Fund is the Township's chief operating fund. In 2017, the General Fund's revenues exceeded expenditures by \$1,579,502. After adjustment for other financing sources and uses, such as the sales of fixed assets of \$875, the refund of prior year's receipts of \$27,096, and transfers to other funds of \$1,755,559 in 2017, the fund balance decreased by \$202,278.

General Fund Budgetary Highlights Revenues of the General Fund were 11.8% greater than budgeted for the year mainly because tax revenues were greater than anticipated. Expenditures were 2.1% less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At December 31, 2017, the Township had \$17,702,597 invested in a broad range of capital assets, including land, buildings, furniture and equipment, vehicles, infrastructure, and construction in progress. There was a total net increase (including additions, deletions, and depreciation) of \$2,188,646 or 22.5% from last year.

Township of South Fayette's Capital Assets December 31, 2017 and 2016

| | <i>Governmental Activities</i> | |
|--------------------------------|------------------------------------|-------------------------------|
| | <i>2017</i> | <i>2016</i> |
| Land and land improvements | \$ 4,869,288 | \$ 3,714,354 |
| Buildings and improvements | 5,268,762 | 5,268,762 |
| Furniture and equipment | 862,615 | 766,070 |
| Vehicles | 2,755,424 | 2,551,071 |
| Infrastructure | 2,130,876 | 1,910,410 |
| Construction in progress | 1,815,632 | 820,054 |
| | <hr/> 17,702,597 | <hr/> 15,030,721 |
| Less: Accumulated depreciation | (5,781,466) | (5,298,236) |
| TOTAL | <hr/><hr/>\$ 11,921,131 | <hr/><hr/>\$ 9,732,485 |

Major Capital Asset Additions

This year's major capital asset additions included:

- Multipurpose fields project (construction in progress), \$1,090,795
- Purchase of property, \$1,100,915
- Purchase of three police vehicles with related equipment, \$103,228
- Purchase of truck with accessories, \$80,454

Debt Administration

As of January 1, 2017, the Township had total outstanding debt of \$6,571,976. The loan activity for the current year consisted of payments totaling \$420,000 and amortization of the bond premium in the amount of \$2,756. Outstanding debt as of December 31, 2017 is \$6,149,220.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township prepares an operating budget for its General Fund. The Township's elected and appointed officials considered many factors when setting the 2018 budget, tax rates and fees that will be charged. The millage rate for 2018 will increase from 4.48 mills to 4.73 mills.

Economic Factors that occurred in 2017 included:

- Continued the annual \$1,000,000 dedicated road program, allowing us to complete improvements on 7.3 miles of roads in the Township, including repair of 100+ storm inlets.
- Completed Sygan Road grant project including replacing culvert, improving road and enhancing wetlands.
- Newbury Market continued to develop during 2017 including Top Golf scheduled to open in summer 2018 and Carvana with a planned opening of by year-end of 2018.
- Dunkin Donuts and Washington Financial Bank opened at South Fayette Commons.
- The Watson Institute opened in 2017 and is currently constructing an addition in summer 2018.
- Beacon 1, an 80,000-square foot office building at Abele Business Park opened late in 2017.
- Chartiers Bend retirement community which initiated planning and development in 2017 continues to progress with a planned opening in 2019.
- Preservation Park, a new multi-purpose fields complex, was under construction through out 2017 and opened in April 2018.
- Continued strong residential development in the Township.
- Charter Homes mixed use plan for the old Mayview site with mandatory commercial square footage of 75,000 to go along with apartments, townhomes, and single family homes opened residentially in April 2018 with 15 occupancies to date. Progress continues in 2018 with commercial development plans. Charter's development will also allow for a new entrance off of Mayview Road for Fairview Park as well as expanded Township park grounds.
- Horizon Properties terminated the signed sales agreement with The Township for the Star City Cinema property in September 2017. The Township demolished the building onsite in January 2017 and executed the Act 2 remediation work required during the second half of 2017. A Request for Proposal to purchase the property was created by the Township in December 2017. Two proposals were received and both were rejected by the Township at the February 2018 Board of Commissioners meeting.

- As the Township continues to grow the call for services will continue to expand. In order for the Township to provide quality services, a healthy balance between operating expenditures and current revenues must be maintained. Future initiatives, including a new community center, further development of our parks system, funding for annual storm water management and road paving, as well as long term legacy costs related to police and public works pensions and post retirement union benefits will have a significant impact on future budgets.

The comparison of the revenue and expenditure categories is as follows:

| BUDGETED REVENUES | | |
|------------------------------------|-------------|-------------|
| | <i>2018</i> | <i>2017</i> |
| PROGRAM REVENUES | | |
| Charges for services | 3.6% | 3.4% |
| Operating grants and contributions | 5.7% | 3.3% |
| GENERAL REVENUES | | |
| Property taxes | 54.2% | 38.1% |
| Other taxes | 32.4% | 51.3% |
| Other | 4.1% | 3.9% |
| BUDGETED EXPENDITURES | | |
| | <i>2018</i> | <i>2017</i> |
| General government | 13.2% | 13.1% |
| Public safety | 36.4% | 34.7% |
| Public works and streets | 26.6% | 28.3% |
| Culture and recreation | 6.2% | 5.8% |
| Health and sanitation | 10.5% | 10.7% |
| Insurance | 1.9% | 1.9% |
| Miscellaneous and debt service | 5.2% | 5.5% |

CONTACTING THE TOWNSHIP FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact the Township Manager at the Township of South Fayette, 515 Millers Run Road, Morgan, PA, (412) 221-8700.

TOWNSHIP OF SOUTH FAYETTE
STATEMENT OF NET POSITION
DECEMBER 31, 2017

| | <i>Governmental Activities</i> |
|---|------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 7,032,034 |
| Receivables: | |
| Taxes-delinquent and other | 889,836 |
| Accounts | 124,111 |
| | <u>8,045,981</u> |
| CAPITAL ASSETS | |
| Non-depreciable capital assets | 5,180,122 |
| Depreciable capital assets, net | 6,741,009 |
| | <u>11,921,131</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Relating to net pension liability, net of amortization | 153,733 |
| Relating to deferred costs of refinancing, net of amortization | 885,909 |
| | <u>1,039,642</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 21,006,754</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 15,226 |
| Accrued salaries and benefits | 71,285 |
| Current portion of long-term debt | 425,000 |
| Accrued interest payable | 10,559 |
| | <u>522,070</u> |
| NONCURRENT LIABILITIES | |
| Long-term debt, net of premium | 5,724,220 |
| Net pension liability | 2,131,484 |
| Compensated absences | 535,285 |
| Other post-employment benefits | 45,884 |
| | <u>8,436,873</u> |
| | <u>8,958,943</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Relating to net pension liability, net of amortization | 418,641 |
| NET POSITION | |
| Net investment in capital assets | 5,761,352 |
| Restricted | 4,034,343 |
| Unrestricted | 1,833,475 |
| | <u>11,629,170</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | <u>\$ 21,006,754</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

| <i>Functions/Programs</i> | <i>Expenses</i> | <i>Program Revenues</i> | | <i>Net (Expense) Revenue and Change In Net Position</i> |
|--|----------------------|---------------------------------|---|---|
| | | <i>Charges for Services</i> | <i>Operating Grants and Contributions</i> | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| General government | \$ 1,862,306 | \$ 423,534 | \$ 280,447 | \$ (1,158,325) |
| Public safety | 3,703,410 | 471,648 | 94,848 | (3,136,914) |
| Public works and streets | 3,925,957 | 606,153 | 948,770 | (2,371,034) |
| Culture and recreation | 818,678 | 164,125 | - | (654,553) |
| Health and sanitation | 1,122,836 | 850 | - | (1,121,986) |
| Insurance | 151,000 | - | - | (151,000) |
| Interest on long-term debt | 134,865 | - | - | (134,865) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 11,719,052 | \$ 1,666,310 | \$ 1,324,065 | (8,728,677) |
| GENERAL REVENUES | | | | |
| Property taxes, levied for general purposes, net | | | | 5,854,326 |
| Other taxes, primarily income taxes | | | | 4,481,303 |
| Investment income | | | | 31,329 |
| Other | | | | 29,757 |
| Gain from the disposal of capital assets | | | | 875 |
| TOTAL GENERAL REVENUES | | | | 10,397,590 |
| CHANGE IN NET POSITION | | | | 1,668,913 |
| NET POSITION, BEGINNING OF YEAR | | | | 9,960,257 |
| NET POSITION, END OF YEAR | | | | \$ 11,629,170 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | <i>General Fund</i> | <i>Parks and Recreation Fund</i> | <i>Capital Projects</i> | <i>Traffic Impact Fee Fund</i> | <i>Other Governmental Funds</i> | <i>Total Governmental Funds</i> |
|--|-------------------------|--|-----------------------------|--|---|---|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 1,627,370 | \$ 274,046 | \$ 3,826,915 | \$ 1,091,931 | \$ 211,772 | \$ 7,032,034 |
| Receivables: | | | | | | |
| Taxes-delinquent and other | 889,836 | - | - | - | - | 889,836 |
| Accounts | 116,611 | - | 7,500 | - | - | 124,111 |
| Interfund | 628 | - | - | - | - | 628 |
| TOTAL ASSETS | \$ 2,634,445 | \$ 274,046 | \$ 3,834,415 | \$ 1,091,931 | \$ 211,772 | \$ 8,046,609 |
| LIABILITIES | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 4,010 | \$ 11,216 | \$ 15,226 |
| Accrued salaries and benefits | 71,285 | - | - | - | - | 71,285 |
| Interfund payable | - | - | 628 | - | - | 628 |
| | 71,285 | - | 628 | 4,010 | 11,216 | 87,139 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenues - taxes | 230,201 | - | - | - | - | 230,201 |
| FUND BALANCES | | | | | | |
| Fund balances: | | | | | | |
| Restricted: | | | | | | |
| Capital projects | - | - | 3,833,787 | - | - | 3,833,787 |
| Street expenditures | - | - | - | - | 200,556 | 200,556 |
| Assigned: | | | | | | |
| Capital projects | 1,612,006 | - | - | - | - | 1,612,006 |
| Parks and recreation | - | 274,046 | - | - | - | 274,046 |
| Traffic impact fees | - | - | - | 1,087,921 | - | 1,087,921 |
| Unassigned | 720,953 | - | - | - | - | 720,953 |
| | 2,332,959 | 274,046 | 3,833,787 | 1,087,921 | 200,556 | 7,729,269 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 2,634,445 | \$ 274,046 | \$ 3,834,415 | \$ 1,091,931 | \$ 211,772 | \$ 8,046,609 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE SHEET TO
STATEMENT OF NET POSITION
DECEMBER 31, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 7,729,269

Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets are not financial resources and therefore are not reported in governmental funds. The cost of assets is \$17,702,597 and accumulated depreciation is \$5,781,466. 11,921,131

Property and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable revenues in the funds. 230,201

Deferred outflows and inflows of resources relating to the net pension liability and deferred costs of refinancing are not reported in the funds. 621,001

Some liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Those liabilities at year end consist of:

| | | |
|--------------------------------|----------------|-------------|
| Bonds payable | \$ (6,149,220) | |
| Net pension liability | (2,131,484) | |
| Accrued interest on the bonds | (10,559) | |
| Compensated absences | (535,285) | |
| Other post-employment benefits | (45,884) | (8,872,432) |

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 11,629,170

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

| | <i>General Fund</i> | <i>Parks and Recreation Fund</i> | <i>Capital Projects</i> | <i>Traffic Impact Fee Fund</i> | <i>Other Governmental Funds</i> | <i>Total Governmental Funds</i> |
|---|-------------------------|--|-----------------------------|--|---|---|
| REVENUES | | | | | | |
| Taxes | \$ 10,479,052 | \$ - | \$ - | \$ - | \$ - | \$ 10,479,052 |
| Licenses and permits | 462,908 | - | - | - | - | 462,908 |
| Fines and violations | 31,777 | - | - | - | - | 31,777 |
| Government grants and subsidies | 375,295 | 395,000 | 70,532 | - | 483,238 | 1,324,065 |
| Charges for services | 683,496 | 30,800 | - | 419,864 | - | 1,134,160 |
| Interest earnings and rentals | 13,288 | 22,515 | 27,918 | 4,222 | 851 | 68,794 |
| Miscellaneous | 29,757 | - | - | - | - | 29,757 |
| | <u>12,075,573</u> | <u>448,315</u> | <u>98,450</u> | <u>424,086</u> | <u>484,089</u> | <u>13,530,513</u> |
| EXPENDITURES | | | | | | |
| General government | 1,316,291 | - | 196,630 | - | - | 1,512,921 |
| Public safety | 3,545,526 | 6,000 | 13,075 | - | - | 3,564,601 |
| Public works and streets | 3,028,114 | - | 169,798 | 75,103 | 340,231 | 3,613,246 |
| Culture and recreation | 614,705 | - | 13,198 | - | - | 627,903 |
| Health and sanitation | 1,122,836 | - | - | - | - | 1,122,836 |
| Insurance | 151,000 | - | - | - | - | 151,000 |
| Miscellaneous | 40,357 | - | - | - | - | 40,357 |
| Debt service: | | | | | | |
| Principal | 420,000 | - | - | - | - | 420,000 |
| Interest and issuance costs on long-term debt | 125,240 | - | - | - | - | 125,240 |
| Capital outlay | 132,002 | 1,211,594 | 1,912,552 | - | - | 3,256,148 |
| | <u>10,496,071</u> | <u>1,217,594</u> | <u>2,305,253</u> | <u>75,103</u> | <u>340,231</u> | <u>14,434,252</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>1,579,502</u> | <u>(769,279)</u> | <u>(2,206,803)</u> | <u>348,983</u> | <u>143,858</u> | <u>(903,739)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sales of capital assets | 875 | - | 198,633 | - | - | 199,508 |
| Refund of prior year's receipts | (27,096) | - | - | - | - | (27,096) |
| Transfers from (to) other funds | (1,755,559) | (29,191) | 1,803,935 | 10,936 | (30,121) | - |
| | <u>(1,781,780)</u> | <u>(29,191)</u> | <u>2,002,568</u> | <u>10,936</u> | <u>(30,121)</u> | <u>172,412</u> |
| NET CHANGES IN FUND BALANCES | <u>(202,278)</u> | <u>(798,470)</u> | <u>(204,235)</u> | <u>359,919</u> | <u>113,737</u> | <u>(731,327)</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>2,535,237</u> | <u>1,072,516</u> | <u>4,038,022</u> | <u>728,002</u> | <u>86,819</u> | <u>8,460,596</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 2,332,959</u> | <u>\$ 274,046</u> | <u>\$ 3,833,787</u> | <u>\$ 1,087,921</u> | <u>\$ 200,556</u> | <u>\$ 7,729,269</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (731,327)

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

Capital outlays are reported in governmental funds 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 (\$2,870,509) are greater than depreciation (\$483,230) in the period. 2,387,279

Because some property and earned income taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues changed by this amount this year. (143,423)

Governmental funds report issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt related items. (9,625)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 420,000

Gross proceeds from capital assets are reported as revenues in the governmental funds. The governmental activities reflect the actual gain or loss from the sale. This is the amount by which the proceeds (\$199,508) exceeds the gain (\$875). (198,633)

In the Statement of Activities, certain operating expenses 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. (55,358)

TOTAL CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 1,668,913

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017

| | <i>Police Employees Pension Trust Fund</i> | <i>Non-uniformed Employees Pension Trust Fund</i> | <i>Total Trust Funds</i> | <i>Agency Funds</i> | |
|---|--|---|------------------------------|--|--------------------------------|
| | | | | <i>Developers' Escrow Fund</i> | <i>Tax Escrow Fund</i> |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 655,786 | \$ 750 | \$ 656,536 | \$ 105,416 | \$ 208,374 |
| Investments | 8,764,438 | 578,630 | 9,343,068 | - | - |
| TOTAL ASSETS | \$ 9,420,224 | \$ 579,380 | \$ 9,999,604 | \$ 105,416 | \$ 208,374 |
| LIABILITIES | | | | | |
| Due to other organizations | - | - | - | \$ 105,416 | \$ 208,374 |
| NET POSITION | | | | | |
| Restricted for pension benefits | 9,420,224 | 579,380 | 9,999,604 | - | - |
| TOTAL LIABILITIES AND NET POSITION | \$ 9,420,224 | \$ 579,380 | \$ 9,999,604 | \$ 105,416 | \$ 208,374 |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017

| | <i>Police Employees Pension Trust Fund</i> | <i>Non-uniformed Employees Pension Trust Fund</i> | <i>Total</i> |
|--|--|---|----------------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ 585,123 | \$ 78,838 | \$ 663,961 |
| Employee | 78,884 | - | 78,884 |
| | <u>664,007</u> | <u>78,838</u> | <u>742,845</u> |
| Investment income (loss): | | | |
| Interest and dividends | 165,872 | 122 | 165,994 |
| Net realized and unrealized gains and losses | 944,368 | 76,237 | 1,020,605 |
| Less investment expense | (81,064) | - | (81,064) |
| Net investment income | <u>1,029,176</u> | <u>76,359</u> | <u>1,105,535</u> |
| | <u>1,693,183</u> | <u>155,197</u> | <u>1,848,380</u> |
| DEDUCTIONS | | | |
| Administration | 7,128 | - | 7,128 |
| Benefit payments | 447,830 | 151,780 | 599,610 |
| | <u>454,958</u> | <u>151,780</u> | <u>606,738</u> |
| CHANGES IN NET POSITION RESTRICTED FOR PENSION BENEFITS | | | |
| | 1,238,225 | 3,417 | 1,241,642 |
| NET POSITION, BEGINNING OF YEAR | <u>8,181,999</u> | <u>575,963</u> | <u>8,757,962</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 9,420,224</u></u> | <u><u>\$ 579,380</u></u> | <u><u>\$ 9,999,604</u></u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOUTH FAYETTE

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF THE TOWNSHIP AND REPORTING ENTITY

The Township of South Fayette (the Township) was incorporated in 1911 under the provisions of Article 9, Section 1 of the Constitution of the Commonwealth of Pennsylvania, as amended. The Township operates under a Commissioner form of government.

Reporting Entity

A reporting entity consists of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Township consists of all funds and departments that are not legally separate from the Township. For the Township, this includes various services including police protection, recreation (including parks), planning and zoning, street maintenance and repair, sanitation, and general and administrative services. The operation of each of these activities is directly controlled by the Board through the budgetary process.

Component units are legally separate organizations for which the Township is financially accountable. The Township has no component units.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The Township's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. The Township reports no business-type activities.

The Statement of Net Position presents the financial condition of the Township at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore are clearly identifiable to a particular function. 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. Revenues which are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

TOWNSHIP OF SOUTH FAYETTE

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Fund Financial Statements During the year, the Township segregates transactions to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. The Township has no enterprise funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary. The Township has no proprietary funds.

Governmental Funds Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund: The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund unassigned fund balance is available to the Township for any purpose provided it is expended or transferred according to the Township Code of the Commonwealth of Pennsylvania.

Parks and Recreation: Fund The Parks and Recreation Fund is used for the parks and recreation expenses and improvements. It is considered a special revenue fund.

Capital Projects Fund: The Capital Projects Fund accounts for resources to be used for the acquisition or construction of major capital facilities or equipment.

Traffic Impact Fee Fund: The Traffic Impact Fee Fund accounts for the fees charged to developers that are to be used for future infrastructure and other traffic costs.

The Other Governmental Funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

TOWNSHIP OF SOUTH FAYETTE

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The following are the Township's fiduciary funds:

Pension Trust Funds: The Pension Trust Funds account for the activities of the police and non-uniform pension plans, which accumulate resources for pension benefit payments to covered employees.

Agency Funds: These funds represent a developer's escrow fund and a tax escrow fund.

Measurement Focus

Government-wide Financial Statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operating of the Township are included on the Statement of Net Position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is reported on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is reported in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Township, available means expected to be received within sixty days of year end.

TOWNSHIP OF SOUTH FAYETTE

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Non-exchange transactions, in which the Township receives value without directly giving equal value in return, include earned income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from earned income taxes is recognized in the period in which the taxpayer earns income. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note E). Revenue from grants, entitlements, and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenue from a nonexchange transaction must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: earned income taxes, delinquent real estate taxes, interest and grants.

Unavailable Revenue: Unavailable revenues arise when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that will not be collected within the available period also have been reflected as deferred revenue.

Expenses/Expenditures: On the accrual basis of accounting, expenses are recorded at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Cash and Cash Equivalents

Investments with an original maturity of one year or less at the time of purchase are presented on the financial statements as cash equivalents. The Township's policy is to maintain cash balances in interest-bearing accounts such as money market or flex funds. The market values of the funds approximate cost.

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed and are reported in the Statement of Net Position as construction in progress.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u><i>Asset Category</i></u> | <u><i>Estimated Lives</i></u> |
|------------------------------|-------------------------------|
| Building Improvements | 25 - 30 |
| Buildings | 50 |
| Equipment | 10 |
| Furniture | 20 |
| Infrastructure | 50 |
| Land Improvements | 20 |
| Vehicles | 8 |

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources affecting the Statement of Net Position in the current year relate to the net pension liability and deferred costs of refinancing.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Township has two items that qualify for reporting in this category. They are delinquent taxes, reported in the Balance Sheet of the governmental funds statement, and deferred inflows related to the pension, reported on the Statement of Net Position.

Net Position

Net position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy the Township's obligations. Net position is classified as follows:

Net Investment in Capital Assets: This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of debt that is attributable to the acquisition, construction, and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted Net Position: This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted: This consists of all other net position that does not meet the definition of net investment in capital assets or restricted net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Township's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Fund Equity

The Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* with the intention of providing a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Township's financial statements. The reporting standard established a hierarchy for fund balance classifications and the constraints imposed on the users of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted: This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Township's board, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Township's board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification reflects the amounts constrained by the Township's "intent" to be used for specific purposes, but are neither restricted nor committed. The Township's Manager has the authority to assign the amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned: This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the Township considers the restricted funds to have been used first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Township's pension plan and additions to/deductions from the Township's fiduciary net position have been determined on the same basis as they are reported by the Township. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Impact of Recently Issued Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by governments for postemployment benefits other than pensions (OPEB). It also improves information provided by governmental employers about financial support for OPEB that is provided by other entities. Management is currently evaluating the impact of the adoption of this Statement on the Township's financial statements.

GASB 85 addresses practice issues identified during implementation and application of certain other GASB Statements. Specifically, the Statement addresses the timing and measurement of pension or OPEB liabilities and expenditures in the fund financial statements, OPEB supplementary information, and simplifying certain aspects of the OPEB alternative measurement method. This statement is effective for fiscal years beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the Township's financial statements.

TOWNSHIP OF SOUTH FAYETTE

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

GASB Statement No. 84, *Fiduciary Activities*, is effective for periods beginning after December 15, 2018. The primary objective of this standard is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management is currently evaluating the impact of the adoption of this Statement on the Township's financial statements.

GASB Statement No. 87, *Leases*, is effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is currently evaluating the impact of the adoption of this Statement on the Township's financial statements.

Subsequent Events

Management has evaluated subsequent events through June 13, 2018, the date on which the financial statements were available to be issued.

NOTE C – CASH AND CASH EQUIVALENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposits. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The deposit and investment policy of the Township adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Township. Cash and cash equivalents consist of demand deposits at various financial institutions and cash on hand of \$400.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a formal deposit policy for custodial credit risk. As of December 31, 2017, the carrying amount of the Township's deposits at year-end with financial institutions was \$7,032,034 with the corresponding bank balance of \$7,087,040.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE C – CASH AND CASH EQUIVALENTS

Additionally, the Township had cash and cash equivalents maintained as fiduciary funds. As of December 31, 2017, the carrying amount of these deposits was \$970,326 with the corresponding bank balance of \$971,262.

Of the bank balances at year end, \$500,000 was covered by federal depository insurance and \$7,558,302 was held in collateral by the depository’s agent but not in the Township’s name in accordance with Act 72 of the Pennsylvania state legislature. Act 72 requires financial institutions to pool collateral for all governmental deposits and have collateral held by an approved custodian in the institution’s name.

NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments made by the Police and Non-uniformed Pension Plan Trust Funds are held by investment firms in trust for the Township. The Plans are authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. As of December 31, 2017, the Township’s Police Pension Plan and Non-Uniformed Pension Plan invested in equity mutual funds, stocks, and money market funds. These assets have a market value of \$8,764,438 and \$578,630, respectively, at December 31, 2017. The Police Pension Plan and Non-Uniformed Pension Plan also have cash deposits with local financial institutions in the amount of \$655,786 and \$750, respectively, at December 31, 2017.

Credit risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Township has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

The Plans categorizes there fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plans have the following recurring fair value measurements as of December 31, 2017:

| | <u>12/31/2017</u> | <u>Fair Value Measurements Using</u> | | |
|--|---------------------|---|--|--|
| | | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| INVESTMENTS BY FAIR VALUE LEVEL | | | | |
| Police Pension Fund | | | | |
| investments | \$ 8,764,438 | \$ 8,764,438 | \$ - | \$ - |
| Non-Uniformed Pension | | | | |
| Fund investments | 578,630 | 578,630 | - | - |
| TOTAL | \$ 9,343,068 | \$ 9,343,068 | \$ - | \$ - |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

NOTE E – TAXES

The Elected Tax Collector collects property taxes on behalf of the Township. The Elected Tax Collector periodically remits to the Township its portion of the taxes collected. The Township rate levied on January 1 was 4.48 mills (\$4.48 per \$1,000 of assessed valuation). Property taxes receivable represents real estate taxes and outstanding delinquencies measurable as of December 31, 2017, and for which there is an enforceable legal claim. Taxes are levied on January 1 and payable at 2% discount to May 31, at face from June 1 to July 31 and at a penalty of 10% thereafter. In the governmental funds, the portion of the collectible taxes that is collected beyond sixty days is reported as deferred tax revenue. On a full accrual basis, delinquent property taxes have been recorded as revenue.

The Township also levies a \$10 per capita tax based on the census of residents in the Township, and under Act 511 of the 1965 Local Tax Enabling Act, as amended a \$47 local service tax, .5 tax rate on earned income, 1% tax rate on earned income of nonresidents, and 1% realty transfer tax. The earned income tax of one-half of one percent is levied on all earned income arising from the income of Township residents.

The balances at December 31, 2017 are as follows:

| | <u>Collectible</u> | <u>Recognized</u> | <u>Unavailable Taxes</u> |
|----------------------|---------------------------------|---------------------------------|---------------------------------|
| Real Estate | \$ 237,688 | \$ 7,487 | \$ 230,201 |
| Real Estate Transfer | 50,223 | 50,223 | - |
| Earned Income | 601,925 | 601,925 | - |
| TOTAL | <u><u>\$ 889,836</u></u> | <u><u>\$ 659,635</u></u> | <u><u>\$ 230,201</u></u> |

Per capita taxes receivable at year end is insignificant and recognized as revenue when collected.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE F – CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

| | <i>Beginning Balance</i> | <i>Additions</i> | <i>Reductions</i> | <i>Ending Balance</i> |
|---------------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|
| GOVERNMENTAL ACTIVITIES: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,209,556 | \$ 1,353,567 | \$ (198,633) | \$ 3,364,490 |
| Construction in progress | 820,054 | 995,578 | - | 1,815,632 |
| | <u>3,029,610</u> | <u>2,349,145</u> | <u>(198,633)</u> | <u>5,180,122</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,504,798 | - | - | 1,504,798 |
| Buildings and improvements | 5,268,762 | - | - | 5,268,762 |
| Furniture and equipment | 766,070 | 96,545 | - | 862,615 |
| Vehicles | 2,551,071 | 204,353 | - | 2,755,424 |
| Infrastructure | 1,910,410 | 220,466 | - | 2,130,876 |
| | <u>12,001,111</u> | <u>521,364</u> | <u>-</u> | <u>12,522,475</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (686,627) | (46,567) | - | (733,194) |
| Buildings and improvements | (1,713,194) | (233,280) | - | (1,946,474) |
| Furniture and equipment | (497,312) | (44,788) | - | (542,100) |
| Vehicles | (2,013,087) | (114,507) | - | (2,127,594) |
| Infrastructure | (388,016) | (44,088) | - | (432,104) |
| | <u>(5,298,236)</u> | <u>(483,230)</u> | <u>-</u> | <u>(5,781,466)</u> |
| | <u>6,702,875</u> | <u>38,134</u> | <u>-</u> | <u>6,741,009</u> |
| GOVERNMENTAL ACTIVITIES | | | | |
| CAPITAL ASSETS, NET | <u>\$ 9,732,485</u> | <u>\$ 2,387,279</u> | <u>\$ (198,633)</u> | <u>\$ 11,921,131</u> |

Depreciation expense was charged to functions/programs of the Township as follows:

| | |
|-----------------------------------|--------------------------|
| Governmental Activities: | |
| General government | \$ 235,483 |
| Public safety | 59,898 |
| Public works and streets | 144,161 |
| Culture and recreation | 43,688 |
| | <u>483,230</u> |
| TOTAL DEPRECIATION EXPENSE | <u>\$ 483,230</u> |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE G – NONCURRENT LIABILITIES

During the year ended December 31, 2017, the Township’s long-term debt changed as follows:

| | <i>Outstanding January 1,</i> | <i>Additions</i> | <i>Reductions</i> | <i>Outstanding December 31,</i> | <i>Due Within One Year</i> |
|--------------------------------|-----------------------------------|-------------------------|----------------------------|-------------------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| General Obligation Bonds | \$ 6,535,000 | \$ - | \$ (420,000) | \$ 6,115,000 | \$ 425,000 |
| Plus: Bond Premium | 36,976 | - | (2,756) | 34,220 | - |
| Total Bonds Payable | <u>6,571,976</u> | <u>-</u> | <u>(422,756)</u> | <u>6,149,220</u> | <u>425,000</u> |
| Compensated Absences | 594,601 | - | (59,316) | 535,285 | - |
| Other Post Employment Benefits | 34,125 | 11,759 | - | 45,884 | - |
| GOVERNMENTAL ACTIVITIES | | | | | |
| LONG-TERM LIABILITIES | <u><u>\$ 7,200,702</u></u> | <u><u>\$ 11,759</u></u> | <u><u>\$ (482,072)</u></u> | <u><u>\$ 6,730,389</u></u> | <u><u>\$ 425,000</u></u> |

General Obligation Bonds, Series of 2016

During 2016, the Township issued general obligation bonds in the amount of \$6,670,000. The purpose of the bonds was to refund General Obligation Bonds, Series of 2009, pay the costs of the issuance of the bond, and take advantage of more favorable interest rates. The bond bears interest of 0.70% - 2.05% and matures June 1, 2030. At December 31, 2017, the balance outstanding on this bond was \$6,115,000.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE G – NONCURRENT LIABILITIES (CONTINUED)

The future annual payments required to amortize the outstanding debt as of December 31, 2017 are as follows:

| <i>Year Ended</i> <i>December 31,</i> | <i>Principal</i> | <i>Interest</i> | <i>Total</i> |
|--|----------------------------|--------------------------|----------------------------|
| 2018 | \$ 425,000 | \$ 119,520 | \$ 544,520 |
| 2019 | 435,000 | 110,920 | 545,920 |
| 2020 | 445,000 | 102,120 | 547,120 |
| 2021 | 450,000 | 93,170 | 543,170 |
| 2022 | 465,000 | 84,020 | 549,020 |
| 2023-2027 | 2,460,000 | 274,734 | 2,734,734 |
| 2028-2030 | 1,435,000 | 41,051 | 1,476,051 |
| TOTAL | <u>\$ 6,115,000</u> | <u>\$ 825,535</u> | <u>\$ 6,940,535</u> |

Compensated Absences

The Township allows public works and police employees to accumulate their unused sick leave. Employees accumulate sick days based on contractual provisions and upon retirement may receive payment up to a stipulated maximum number of days. Payment is \$175 per day for public works employees. Police employees are paid their standard hourly rate based on an eight-hour day for the first 120 days and their standard hourly rate based on a four-hour day for the next 30 days.

Compensated absences totaled \$535,285 at December 31, 2017. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employee leaving service) and, therefore, timing of future payments of such are not readily determinable. For governmental fund statements, compensated absences are recorded only when payment is due. For governmental activities, the amount is accrued in the government-wide Statement of Net Position as a noncurrent liability.

NOTE H - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2017 is as follows:

| <i>Receivable Fund</i> | <i>Payable Fund</i> | <i>Purpose</i> | <i>Amount</i> |
|------------------------|---------------------|----------------|---------------|
| General Fund | Capital Projects | Utilities | \$ 628 |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE I – INTERFUND TRANSFERS

The composition of and purpose of transfers between funds during the December 31, 2017 year-end is as follows:

| <u>Recipient Fund</u> | <u>Payor Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-----------------------|---------------------------|------------------|---------------------|
| General Fund | Capital Projects | Utilities | \$ 498 |
| Traffic Impact | Parks and Recreation Fund | Reimbursement | 10,936 |
| Capital Projects | General Fund | Capital projects | 1,756,057 |
| Capital Projects | Parks and Recreation Fund | Capital projects | 18,255 |
| Capital Projects | Hickory Heights | Capital projects | 30,121 |
| TOTAL | | | \$ 1,815,867 |

On the government-wide Statement of Activities, all interfund transfers have been eliminated.

NOTE J – PENSION PLANS

A. Police Pension Plan

Plan Description

The Township Police Employees’ Pension Plan is a single-employer defined benefit pension trust fund. Any person employed on a full-time basis by the Township as a member of the police force is eligible to participate in the Plan.

Retirement Benefits A participant is entitled to receive retirement benefits after completing 25 years of service and attaining age 55. The scheduled retirement monthly benefit is 50% of the participant’s final monthly average salary earned during the last 36 months of employment.

Significant Accounting Policies

The pension plan is maintained using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The investments are reported at fair value based on published securities data. The actuarial method for valuing the assets is the 4-year smoothing technique.

As allowed by GASB No. 68, the Township is reporting on its government-wide financial statements its net pension liabilities and related deferred outflows and inflows of resources measured as of January 1, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that same date.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – PENSION PLANS (CONTINUED)

Membership of the Plan consisted of the following at January 1, 2017, the date of the latest actuarial valuation:

| | |
|--|------------------|
| Active participants | 15 |
| Retired and beneficiaries currently receiving benefits | 13 |
| Terminated employees entitled to benefits but not yet receiving them | <u>0</u> |
| TOTAL | <u>28</u> |

Investments For the year ended December 31, 2017, the annual money weighted rate of return on pension plan investments, net of investment expense was 13.76%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions Total pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to the reporting date, utilizing the Entry Age Normal actuarial funding method and the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---------------------------|------------------------------|
| Inflation | 2.75% |
| Salary increases | 5.5% including inflation |
| Investment rate of return | 7.25% applied to all periods |

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and rates set forward five years for disabled members.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the Minimum Municipal Obligation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

| <u>Asset Class</u> | <i>Long-term Expected Real Rate of Return</i> |
|---------------------------|---|
| Equities | 6.30% |
| Fixed income | 2.00% |
| Cash and cash equivalents | 0.00% |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – PENSION PLANS (CONTINUED)

Funding The Plan is funded on an annual basis pursuant to the provisions of the Municipal Pension Plan Funding Standard and Recovery Act of December 18, 1984, P.L. 1005 no. 205, as amended, 53 P.S. 895 101, et seq. (“Act 205”). Act 205 requires that annual employer contributions be based upon the plan’s Minimum Municipal Obligation (MMO). The MMO is based upon the plan’s most recent biennial actuarial valuation. The MMO includes normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state contributions must be funded by the employer.

Employees are required to contribute 5% of covered payroll to the Plan. This contribution is governed by the Plan’s governing ordinances and collective bargaining. The actuarial determined contribution to the plan for 2017 was \$585,123 computed through an actuarial valuation performed January 1, 2017 and represented 37.84% of covered payroll.

Net pension liability of the pension plan The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of December 31, 2017 is as follows:

| | |
|------------------------------|-----------------------------------|
| Total pension liability | \$ 11,547,267 |
| Pension plan net position | (9,415,783) |
| NET PENSION LIABILITY | <u><u>\$ 2,131,484</u></u> |

The pension plan’s net position as a percentage of total pension liability is 81.54%.

Discount Rate The discount rate used to measure the total pension liability was 7.25%. 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 Township contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan’s 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 payment to determine the total pension liability.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – PENSION PLANS (CONTINUED)

Schedule of Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a) - (b) |
| BALANCES AT 12/31/2016 | \$ 10,289,101 | \$ 8,178,056 | \$ 2,111,045 |
| Changes for the year: | | | |
| Service cost | 317,459 | - | 317,459 |
| Interest | 795,998 | - | 795,998 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | 55,304 | - | 55,304 |
| Changes of assumptions | 537,585 | - | 537,585 |
| Contributions - employer | - | 585,123 | (585,123) |
| Contributions - employee | - | 78,736 | (78,736) |
| Net investment income | - | 1,110,240 | (1,110,240) |
| Benefit payments | (448,180) | (448,180) | - |
| Administrative expense | - | (88,192) | 88,192 |
| Other changes | - | - | - |
| Net changes | <u>1,258,166</u> | <u>1,237,727</u> | <u>20,439</u> |
| BALANCES AT 12/31/2017 | \$ 11,547,267 | \$ 9,415,783 | \$ 2,131,484 |

Sensitivity of the net pension liability to change in the discount rate The following presents the net pension liability of the plan, calculated using the discount rate of 7.25% as well as what the plan's net position liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| | <i>1.0% Decrease</i> <i>6.25%</i> | <i>Current Rate</i> <i>7.25%</i> | <i>1.0% Increase</i> <i>8.25%</i> |
|-----------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| Net pension liability | \$ 3,623,231 | \$ 2,131,483 | \$ 886,634 |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – PENSION PLANS (CONTINUED)

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

For the year ended December 31, 2017, the Township recognized pension expense of \$688,038. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 76,534 | \$ - |
| Changes of assumptions | 461,869 | - |
| Net difference between projected and actual earnings on pension plan investments | 347,506 | 418,641 |
| TOTAL | <u>\$ 885,909</u> | <u>\$ 418,641</u> |

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

| <i>Year ended December 31:</i> | |
|--------------------------------|------------|
| 2018 | \$ 152,064 |
| 2019 | 152,062 |
| 2020 | 7,998 |
| 2021 | (20,220) |
| 2022 | 83,505 |
| Thereafter | 91,859 |

B. Non-Uniformed Pension Plan

Non-Union Employees' Pension Plan

The Township contributes to the Township's Non-Union Employees' Pension Plan, a defined contribution plan. The Plan is governed by the Township's Board of Commissioners which is responsible for the management of the Plan and has appointed the Township Manager as Chief Administrative Officer of the Plan. Any person regularly employed by the Township, other than police or members of a collective bargaining unit and attainment of 18 years of age and completion of a 90 day probationary period is eligible to participate in the Plan. Normal retirement age is when an employee attains age 65. The amount of retirement benefits is determined by the monies accumulated in the individual accounts at retirement. The Plan's total current membership consists of thirteen employees.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – PENSION PLANS (CONTINUED)

The Township is required to contribute to the Pension Fund an amount equivalent to 8.6% of the compensation paid to each employee. Employees are not required to contribute to the Plan.

The contributions to the Plan for the year ending December 31, 2017 consisted of employer contributions of \$78,838. The Plan is a money purchase plan, qualified under Section 401(a) of the Internal Revenue Code.

Union Employees' Pension Plan (Public Works)

The Township's Union Employees' Pension Plan is a defined benefit plan. In a defined benefit plan, participants receive benefits as defined in the plan documents, upon meeting eligibility requirements. The Plan is administered by the Western Pennsylvania Teamsters and Employer's Pension Fund. The Township has no responsibility or authority for the operation and administration of the pension program. Contributions required of the Township are based upon an agreement between the Township and Teamsters Local Union No. 205. The contribution to the plan for the year 2017 was \$95,143. There are no required employee contributions.

NOTE K – POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The Township administers a single-employer defined benefit healthcare plan. The plan provides medical, dental, and vision for eligible Township employees. Benefits provisions are mostly established through negotiations between the Township and union representing the employees. The plan does not issue a publicly available financial report.

Funding Policy

Police become eligible for the post-retirement benefit upon attaining age 55 with at least 25 years of service. Public works employees become eligible for the post-retirement benefit upon attaining age 60 with at least ten years of service.

The benefits are as follows:

Police Policemen who retire are eligible to receive an additional amount equal to \$300 per month which is to be used to purchase healthcare coverage. The amount is payable provided the spouse of the retiree does not have healthcare coverage in which the retiree would be eligible to enroll. The retiree must provide documentation that they have enrolled in a healthcare plan. The amount is payable up to the age of 65 or until the retiree becomes eligible for Medicare.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Public Works Public Works employees who retire are eligible to receive an additional amount equal to \$200 per month which is to be used to purchase healthcare coverage. The amount is payable provided the spouse of the retiree does not have healthcare coverage in which the retiree would be eligible to enroll. The retiree must provide documentation that they have enrolled in a healthcare plan. The amount is payable up to the age of 65 or until the retiree becomes eligible for Medicare.

Annual OPEB Cost and Net OPEB Obligation

The Township’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (funding excess) over a period not to exceed 30 years. The following table shows the components of the Township’s annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Township’s net OPEB obligation.

| | |
|--|-------------------------|
| Annual Required Contribution | \$ 46,220 |
| Interest on Net OPEB Obligation | 1,365 |
| Adjustment to Annual Required Contribution | <u>(4,207)</u> |
| Annual OPEB Cost (Expense) | 43,378 |
| Contributions Made | <u>(31,619)</u> |
| | 11,759 |
| NET OPEB OBLIGATION - BEGINNING OF YEAR | <u>34,125</u> |
| NET OPEB OBLIGATION - END OF YEAR | <u>\$ 45,884</u> |

The Township’s OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

| <i>Year Ended</i> | <i>Annual OPEB Cost</i> | <i>Percentage of Annual OPEB Cost Contributed</i> | <i>Net OPEB Obligation</i> |
|-----------------------|-----------------------------|---|------------------------------------|
| 12/31/2012 | \$ 23,160 | 62.18% | \$ 23,888 |
| 12/31/2013 | 22,724 | 117.57% | 19,896 |
| 12/31/2014 | 22,923 | 106.23% | 18,468 |
| 12/31/2015 | 44,682 | 85.63% | 24,887 |
| 12/31/2016 | 44,147 | 79.07% | 34,125 |
| 12/31/2017 | 43,378 | 72.90% | 45,884 |

TOWNSHIP OF SOUTH FAYETTE
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funded Status and Funding Progress

As of January 1, 2015, the actuarial accrued liability for benefits was \$346,444, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,239,297 and the ratio of unfunded actuarial accrued liability to the covered payroll was 10.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Multi-year information will be presented in future years.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 4%. The method used to determine the actuarial value of assets is not applicable since there were no plan assets. The unfunded actuarial accrued liability is being amortized using the level dollar method. The amortization period for the most recent actuarial valuation is ten years. The period is open.

NOTE L – COMMITMENTS AND CONTINGENCIES

The Township participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF SOUTH FAYETTE

SCHEUDLE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

| | <i>Original and Final Budget</i> | <i>Actual</i> | <i>Variance Favorable (Unfavorable)</i> | <i>Budgetary Basis to GAAP Basis</i> | <i>Actual Amounts GAAP Basis</i> |
|---|--|---------------------|---|--|--|
| REVENUES | | | | | |
| Taxes | \$ 9,660,575 | \$ 10,479,052 | \$ 818,477 | \$ (143,423) | \$ 10,335,629 |
| Licenses and permits | 377,000 | 462,908 | 85,908 | - | 462,908 |
| Fines and violations | 30,000 | 31,777 | 1,777 | - | 31,777 |
| Government grants and subsidies | 361,031 | 375,295 | 14,264 | - | 375,295 |
| Charges for services | 367,500 | 683,496 | 315,996 | - | 683,496 |
| Interest earnings | 2,800 | 13,288 | 10,488 | - | 13,288 |
| Miscellaneous | - | 29,757 | 29,757 | - | 29,757 |
| | <u>10,798,906</u> | <u>12,075,573</u> | <u>1,276,667</u> | <u>(143,423)</u> | <u>11,932,150</u> |
| EXPENDITURES | | | | | |
| General government | 1,400,404 | 1,323,390 | 77,014 | 252,551 | 1,575,941 |
| Public safety | 3,720,376 | 3,551,521 | 168,855 | 107,945 | 3,659,466 |
| Highways and streets | 3,031,510 | 3,029,101 | 2,409 | 131,523 | 3,160,624 |
| Culture and recreation | 624,895 | 732,626 | (107,731) | 46,569 | 779,195 |
| Health and sanitation | 1,142,429 | 1,122,836 | 19,593 | - | 1,122,836 |
| Insurance | 209,000 | 151,000 | 58,000 | - | 151,000 |
| Miscellaneous | 46,272 | 40,357 | 5,915 | - | 40,357 |
| Debt service: | | | | | |
| Principal | 420,000 | 420,000 | - | (420,000) | - |
| Interest and issuance costs on long-term debt | 125,240 | 125,240 | - | 9,625 | 134,865 |
| | <u>10,720,126</u> | <u>10,496,071</u> | <u>224,055</u> | <u>128,213</u> | <u>10,624,284</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>78,780</u> | <u>1,579,502</u> | <u>1,500,722</u> | <u>(271,636)</u> | <u>1,307,866</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from sales of capital assets | 2,000 | 875 | (1,125) | - | 875 |
| Refund of prior year's receipts | (5,000) | (27,096) | (22,096) | - | (27,096) |
| Transfers to other funds | (75,780) | (1,755,559) | (1,679,779) | - | (1,755,559) |
| | <u>(78,780)</u> | <u>(1,781,780)</u> | <u>(1,703,000)</u> | <u>-</u> | <u>(1,781,780)</u> |
| NET CHANGES IN FUND BALANCES | <u>-</u> | <u>(202,278)</u> | <u>(202,278)</u> | <u>(271,636)</u> | <u>(473,914)</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>-</u> | <u>2,535,237</u> | <u>2,535,237</u> | <u>271,636</u> | <u>2,806,873</u> |
| FUND BALANCES, END OF YEAR | <u>\$ -</u> | <u>\$ 2,332,959</u> | <u>\$ 2,332,959</u> | <u>\$ -</u> | <u>\$ 2,332,959</u> |

See accompanying notes.

TOWNSHIP OF SOUTH FAYETTE

SCHEDULE OF CHANGES IN POLICE EMPLOYEES' PENSION FUND
NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------------------|-----------------------------|----------------------------|----------------------------|
| TOTAL PENSION LIABILITY: | | | | |
| Service cost | \$ 317,459 | \$ 223,381 | \$ 211,736 | \$ 200,338 |
| Interest | 795,998 | 734,892 | 712,440 | 684,399 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | 55,304 | - | 57,102 | - |
| Changes of assumptions | 537,585 | - | - | - |
| Benefit payments, including refunds of employee contributions | (448,180) | (480,023) | (787,351) | (378,741) |
| NET CHANGE IN TOTAL PENSION LIABILITY | <u>1,258,166</u> | <u>478,250</u> | <u>193,927</u> | <u>505,996</u> |
| TOTAL PENSION LIABILITY, BEGINNING | <u>10,289,101</u> | <u>9,810,851</u> | <u>9,616,924</u> | <u>9,110,928</u> |
| TOTAL PENSION LIABILITY, ENDING (a) | <u>\$ 11,547,267</u> | <u>\$ 10,289,101</u> | <u>\$ 9,810,851</u> | <u>\$ 9,616,924</u> |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions - employer | \$ 585,123 | \$ 540,372 | \$ 488,219 | \$ 474,992 |
| Contributions - employee | 78,736 | 77,345 | 67,581 | 60,298 |
| Net investment income | 1,110,240 | 466,851 | (135,345) | 439,329 |
| Benefit payments, including refunds of employee contributions | (448,180) | (480,023) | (787,351) | (378,741) |
| Administrative expense | (88,192) | (72,219) | (78,265) | (78,040) |
| Other | - | - | 18,074 | - |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | <u>1,237,727</u> | <u>532,326</u> | <u>(427,087)</u> | <u>517,838</u> |
| PLAN FIDUCIARY NET POSITION, BEGINNING | <u>8,178,056</u> | <u>7,645,730</u> | <u>8,072,817</u> | <u>7,554,979</u> |
| PLAN FIDUCIARY NET POSITION, ENDING (b) | <u>\$ 9,415,783</u> | <u>\$ 8,178,056</u> | <u>\$ 7,645,730</u> | <u>\$ 8,072,817</u> |
| TOWNSHIP'S NET PENSION LIABILITY, ENDING (a) - (b) | <u>\$ 2,131,484</u> | <u>\$ 2,111,045</u> | <u>\$ 2,165,121</u> | <u>\$ 1,544,107</u> |
| Plan fiduciary net position as a percentage of total pension liability | 81.54% | 79.48% | 77.93% | 83.94% |
| Covered employee payroll | \$ 1,546,352 | \$ 1,654,191 | \$ 1,425,129 | \$ 1,193,858 |
| Net liability as a percentage of covered payroll | 137.84% | 127.62% | 151.92% | 129.34% |

The Township is required to present the information for the last ten fiscal years. Additional years will be displayed as they become available.

TOWNSHIP OF SOUTH FAYETTE

SCHEDULE OF POLICE EMPLOYEES' PENSION FUND EMPLOYER CONTRIBUTION

LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------|------------------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 585,123 | \$ 540,026 | \$ 488,219 | \$ 474,992 |
| Contributions in relation to the actuarially determined contribution | <u>585,123</u> | <u>540,372</u> | <u>488,219</u> | <u>474,992</u> |
| CONTRIBUTION DEFICIENCY (EXCESS) | <u>\$ -</u> | <u>\$ (346)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll | \$ 1,546,352 | \$ 1,654,191 | \$ 1,425,129 | \$ 1,193,858 |
| Contributions as a percentage of covered employee payroll | 37.84% | 32.67% | 34.26% | 39.79% |

The Township is required to present the information for the last ten fiscal years.
Additional years will be displayed as they become available.

See accompanying notes.

TOWNSHIP OF SOUTH FAYETTE
SCHEUDLE OF POLICE EMPLOYEES' PENSION FUND
INVESTMENT RETURNS
LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 13.76% | 6.13% | -1.48% | 5.56% |

The Township is required to present the information for the last ten fiscal years. Additional years will be displayed as they become available.

See accompanying notes.

TOWNSHIP OF SOUTH FAYETTE

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

DECEMBER 31, 2017

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets</i> | <i>Actuarial Accrued Liability (AAL)</i> | <i>Unfunded AAL (UAAL)</i> | <i>Funded Ratio</i> | <i>Covered Payroll</i> | <i>UAAL as a Percentage of Covered Payroll</i> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 1/1/2009 | \$ - | \$ 222,870 | \$ 222,870 | 0.0% | \$ 2,883,309 | 7.73% |
| 1/1/2012 | - | 225,083 | 225,083 | 0.0% | 2,795,003 | 8.05% |
| 1/1/2015 | - | 346,444 | 346,444 | 0.0% | 3,239,297 | 10.70% |

Notes:

1. The Township is required to present the above information for the three most recent actuarial studies.

See accompanying notes.

TOWNSHIP OF SOUTH FAYETTE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE A – BUDGETARY INFORMATION

Budget Process

The General Fund is legally required to be budgeted and appropriated. All funds, except the fiduciary funds, prepare budgets on the budgetary basis of accounting. The budget demonstrates a need for existing or increased tax rates and user fees. The Board's final adoption of the budget is the authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board.

Excess of expenditures over appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in one function by approximately \$108,000. This over-expenditure was funded by greater than anticipated revenues, mainly tax revenue.

NOTE B – PENSION INFORMATION – ACTUARIAL METHODS AND ASSUMPTIONS

Methods and assumptions used to determine contribution rates for the Police Pension Fund under Act 205 for the year ended December 31, 2017 are as follows:

| | |
|-------------------------------|--|
| Valuation date | January 1, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 9 years (aggregate) |
| Asset valuation method | 4-year smoothing |
| Inflation | 3.00% |
| Salary increases | 5.50% including inflation |
| Investment rate of return | 7.50% net of investment expenses not funded through the MMO, and including inflation |
| Mortality | RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and rates set forward 5 years for disabled members |

SUPPLEMENTARY INFORMATION

TOWNSHIP OF SOUTH FAYETTE
COMBINING SCHEDULE OF BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | <i>Fuel Tax</i> | <i>Hickory Heights</i> | <i>Total Nonmajor Funds</i> |
|--|---------------------|----------------------------|-------------------------------------|
| ASSETS | | | |
| CASH AND CASH EQUIVALENTS | \$ 211,772 | \$ - | \$ 211,772 |
| LIABILITIES | | | |
| Accounts payable | \$ 11,216 | \$ - | \$ 11,216 |
| FUND BALANCES | | | |
| Restricted: | | | |
| Street expenditures | 200,556 | - | 200,556 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 211,772 | \$ - | \$ 211,772 |

TOWNSHIP OF SOUTH FAYETTE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2017

| | <i>Fuel Tax</i> | <i>Hickory Heights</i> | <i>Total Nonmajor Funds</i> |
|---|--------------------------|----------------------------|-------------------------------------|
| REVENUES | | | |
| Government grants and subsidies | \$ 483,238 | \$ - | \$ 483,238 |
| Charges for services | - | - | - |
| Interest earnings | 821 | 30 | 851 |
| | <u>484,059</u> | <u>30</u> | <u>484,089</u> |
| EXPENDITURES | | | |
| Public works and streets | <u>340,231</u> | <u>-</u> | <u>340,231</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 143,828 | 30 | 143,858 |
| OTHER FINANCING USES | | | |
| Transfer to other funds | <u>-</u> | <u>(30,121)</u> | <u>(30,121)</u> |
| NET CHANGES IN FUND BALANCES | 143,828 | (30,091) | 113,737 |
| FUND BALANCES, BEGINNING OF YEAR | <u>56,728</u> | <u>30,091</u> | <u>86,819</u> |
| FUND BALANCES, END OF YEAR | <u><u>\$ 200,556</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 200,556</u></u> |